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Post-Programme Surveillance Report

Greece, Autumn 2022

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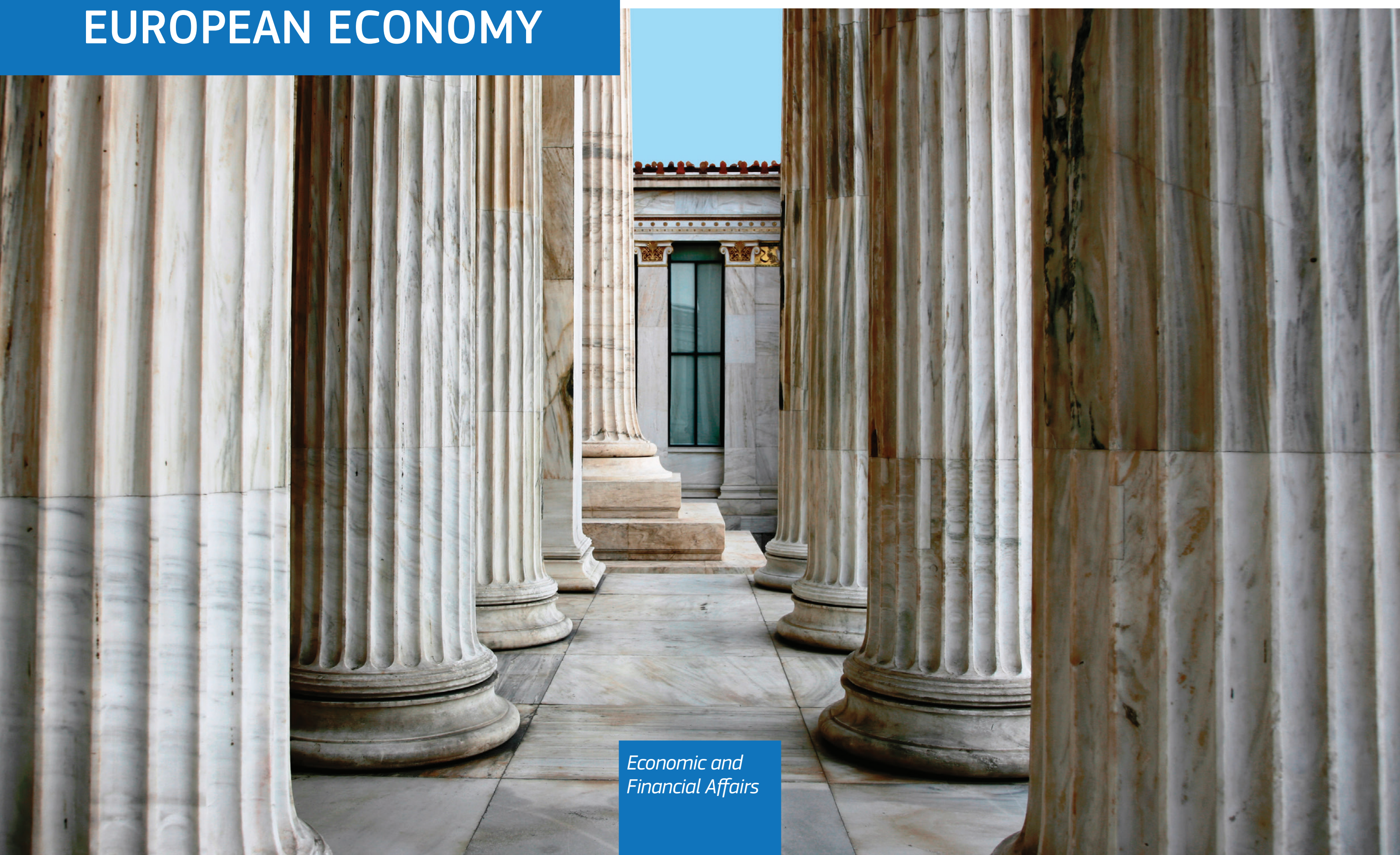

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Greece, Autumn 2022

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Institutional Paper 191

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This report reflects information available and policy developments that have taken place until 31 October 2022. The macroeconomic and budgetary projections, including those underlying the debt sustainability analysis, are in line with the Commission 2022 Autumn Forecast released on 11 November 2022.

([1]) The executive summary of this report was adopted as Commission Communication C(2022)8553. The rest of the report reflects the findings of the staff working document SWD(2022)373 accompanying that Communication.

([2]) European Central Bank (ECB) Staff participated in this mission, and in the drafting of this report, in accordance with the ECB's competences and thus provided expertise on financial sector policies and macro-critical issues, such as headline fiscal targets and sustainability and financing needs.

ABBREVIATIONS

DEPA: Public Gas Corporation

DSA: Debt Sustainability Analysis

ECB: European Central Bank

EFSF: European Financial Stability Facility

EKAPY: National Centralised Health Procurement Authority

ESM: European Stability Mechanism

ETAD: Public Real Estate Company

GDP: gross domestic product

HCAP: Hellenic Corporation of Assets and Participations

HICP: harmonised index of consumer prices

IAS: International Accounting Plus

IFRS: International Financial Reporting Standards

IT: information technology

MREL: Minimum Requirement for own fund and Eligible Liabilities

MWh: megawatt hour

NBG: National Bank of Greece, a commercial bank

NPL: non-performing loan

OAKA: Olympic Athletic Centre of Athens

OECD: Organisation for Economic Co-operation and Development

pp(s): percentage point(s)

PPS: post programme surveillance

RRF: Recovery and Resilience Facility

SOE: state-owned enterprise

SPB: structural primary balance

TLTRO: targeted longer-term refinancing operations

EXECUTIVE SUMMARY

This is the first post-programme surveillance (PPS) ([3]) report for Greece. It provides an assessment of the country's capacity to repay its public debt, by looking at the main economic, fiscal and financial developments. *It follows the end of the enhanced surveillance for Greece in August 2022. The report presents the findings of the first PPS mission of Commission staff, in liaison with staff of the European Central Bank, to Athens between 4 and 11 October 2022. The staff of the International Monetary Fund also participated in the meetings, while the European Stability Mechanism participated in the context of its Early Warning System.*

This report could serve as a basis for the Eurogroup to take a decision on the release of a final tranche of policy-contingent debt measures agreed in June 2018. *These measures consist of the transfer of the eighth and last tranche of income equivalent amounts stemming from central banks' holdings of Greek government bonds under the Securities Markets Programme and the Agreement on Net Financial Assets, a waiver for the step-up interest margin for certain loans provided by the European Financial Stability Facility as for the second half of 2022, and a permanent reduction of the step-up interest margin as of 2023 until 2049 (total undiscounted value EUR 6 billion).*

The recovery of the Greek economy continued at a solid pace in the first half of 2022, but growth is expected to decrease in the coming quarters as a consequence of the energy crisis and the ensuing inflationary shock. *According to the Commission 2022 autumn forecast, growth is expected to reach 6% in 2022, 1% in 2023 and 2% in 2024. Amidst the lingering energy crisis, investments have already started to decelerate, but private consumption and a strong tourist season provided support to growth in the first half of 2022. In the coming quarters the economy is expected to slow down, as households' disposable income is eroded by inflation, increased financing costs, uncertainties inhibit investments, and external demand is set to decrease. The implementation of the recovery and resilience plan remains an important vehicle to support the economy under these dire circumstances.*

Fiscal policy remains supportive in 2022, but despite some permanent tax cuts, it is expected to turn contractionary in 2023. *In its Draft Budgetary Plan, the government plans to reach a primary deficit of 1.7% of GDP in 2022 and a primary surplus of 0.7% of GDP in 2023. The projected 2022 outcome is better than expected in the Stability Programme in spring, as increasing state revenues, on the back of higher-than-expected nominal growth, more than offset the higher fiscal spending on energy measures. For 2023, fiscal consolidation is driven by the phasing out of the remaining pandemic-related support measures, and the introduction of new revenue measures that are expected to cover a large part of the fiscal cost of the energy support measures; these revenue measures include the tax on wholesale electricity revenues above a certain threshold, while keeping the growth of public wages and social benefits muted. This consolidation is however partly offset by the permanent tax cuts which were partially announced already in the Stability Programme. The Commission 2022 autumn forecast expects that the primary balance will show a deficit of 1.6% of GDP in 2022 and a surplus of 1.1% of GDP in 2023 and 2.2% in 2024. The*

([3]) Regulation (EU) No 472/2013 of the European Parliament and the Council of 21 May 2013 on the strengthening of economic and budgetary surveillance of Member States in the euro area experiencing or threatened with serious difficulties with respect to their financial stability, OJ L140, 27.5.2013, p. 1.

difference in the forecast for 2023 between the authorities and the Commission is mainly explained by the higher growth of the tax base on the back of higher inflation projected in the Commission forecast.

Despite improving fundamentals, banks face challenges looking ahead. *The reduction in the banks' stock of non-performing loans continued in the first half of 2022, as securitisations under the Hellenic Asset Protection Scheme (also known as "Hercules") are nearly complete. Net inflows of non-performing loans remain modest so far, but there are early signs of increasing arrears. The workout of the legacy non-performing debt, increasingly in the hands of credit servicers, continues at a slow pace. A recent ruling of the Supreme Court regarding servicers' right to carry out enforcement and liquidation proceedings could further hinder the process. These legal uncertainties should be addressed as a matter of urgency so as to avoid further undue delays in the resolution of non-performing debt. The profitability of banks is improving, boosted by one-off gains, sustained growth in fees and commissions and effective cost control, and could be supported by the banks' credit expansion plans and rising interest rates. However, downside risks prevail as profitability will be affected by the rising cost of funding and is exposed to a potential deterioration in asset quality and fall in credit demand as the economy slows down. Overall, the banks' capital position is gradually being restored but the quality of capital remains a concern.*

Greece retains the capacity to service its debt. *The general government debt ratio is expected to fall sharply from 194.5% of GDP in 2021 to 171.1% in 2022, and remain on a downward trajectory based on Greece moving into a primary surplus position in 2023. Greece has a large cash buffer and has maintained its presence on the sovereign bond market, even though interest rates have increased considerably in recent months. However, the long-term sustainability of the Greek public debt crucially hinges on the full delivery of the projected structural improvement in the primary balance. Overall, according to the debt sustainability analysis, Greece is assessed to face low fiscal sustainability risks in the short-term, high risks in the medium term, while long-term risks appear to be medium.*

The authorities have, across various areas, implemented the specific reform commitments that have been agreed between the European institutions and the Greek authorities to be completed by autumn this year. *These specific commitments were set out in the fourteenth enhanced surveillance report published on 23 May 2022.*

- ***The end-to-end IT tax collection system is fully operational across the Independent Authority for Public Revenue, extending across its local tax offices (incl. Attica and Thessaloniki), thereby completing the commitment.*** *The new IT system ('EISPRAKSIS'), which was co-financed by EU funds, will allow the Independent Authority to have a complete overview of the tax and customs obligations of each individual taxpayer and each business entity. This information will facilitate the audits and is also expected to improve the service to citizens and businesses.*

- ***The enhanced functionality of the e-filing platform in administrative courts has become fully available in line with the commitment.*** *The platform enables the electronic filing of all kinds of procedural documents in the context of pending judicial procedures. Regarding the uptake of the available functionality, the platform is already fully used by the Council of State, while the remaining administrative* *courts are expected to commence using the platform for the full range of documents as of the beginning of 2023.*

- ***The commitments on cadastral mapping and forest maps have been met.*** *The 65% target for cadastral mapping has been overachieved with 70% of the cadastre having been completed (rights in operation or publicly presented) and the transition to the new entity Hellenic Cadastre has also progressed satisfactorily. The cadastral mapping is expected to be fully completed by end-2023 and ensuring the necessary financing will be key. Forest maps were drawn for the entire country with 95% of them having been ratified and thus become definitive.*

- ***In the financial sector, the use of electronic platforms under the new insolvency framework is slowly gaining traction.*** *The implementation of the sale-and-leaseback entity, the only remaining outstanding element of the insolvency framework, has progressed and the commitment to launch the competitive dialogue with interested investors was achieved on 10 November 2022.*

- ***The targets for the collection of the health-care clawback*** *(i.e. spending over and above the legislated ceiling for public spending on pharmaceuticals and other healthcare services that is due to be collected back from pharmaceutical suppliers and healthcare providers)* ***and for centralised health-care procurement have been met.*** *The process of collection has kept a regular pace and this translated into a smooth achievement of the targets set by October both for providers and for pharmaceuticals, thanks to a new system allowing for the upfront collection of the providers' clawbacks. In parallel, EKAPY, the national agency for health care procurements, launched tenders to centrally procure goods amounting to the agreed 40% share of hospitals' budget. The award of the contracts is expected by end-2022.*

- ***Transactions managed by the Hellenic Republic Asset Development Fund have progressed.*** *In line with the agreed commitments, the financial closing for the Public Gas Corporation Infrastructure and the selection of the preferred investor for the acquisition of a majority shareholding in the Port of Igoumenitsa have been completed. Several prerequisite conditions for the Egnatia motorway concession agreement have been completed and various other infrastructure projects have seen progress according to the foreseen timeline. Continuous support from line Ministries remains crucial for smoothly concluding the respective transactions. The pending transaction for the Port of Alexandroupolis was cancelled at short notice due to strategic geopolitical considerations in the context of Russia's war of aggression against Ukraine.*

- ***The new law on the governance of state-owned enterprises has been adopted.*** *This law applies to state-owned entities both within and outside the Hellenic Corporation of Assets and Participations. For enterprises within the Corporation, the additional flexibility under the new law is expected to support the Corporation in delivering substantial improvements in products and services of these enterprises and improve their financial performance. This reform is a major step towards enabling state-owned enterprises to operate along private sector lines and the reforms should continue in this direction as the implementation of the new law shows results.*

- ***Other agreed actions related to the Hellenic Corporation of Assets and Participations have also been met, and are expected to be duly followed up in the coming months.*** *A first stage of the identification of the eligible portion of the 2018 package of public real estate assets and its transfer to the Public Real Estate Company has been concluded. This has resulted in a very low number of transferable assets; at the same time, the process has led to a significant improvement in the available data, based on which the authorities plan to continue the process while also focussing on improving the Company's performance and results. The overall performance of the Company remains below expectations, and the Corporation and the authorities have confirmed their intention to develop proposals to remedy this. The preparation of a detailed feasibility study and business plan for the Athens Olympic Centre has progressed, albeit at a slow pace. The call for tenders is expected to be launched in November 2022, and to be completed in the third quarter of 2023.*

There has been a tangible acceleration of the clearance of arrears and backlogs, although further work remains to be done to fully eliminate the legacy stocks.

- ***The stock of arrears has declined since last enhanced surveillance report, but both the pension and the non-pension arrears have remained above their respective targets.*** *Despite the timely completion of all the agreed actions, the stock of non-pension and pension arrears remained above the target by EUR 318 million and EUR 70 million in August 2022. These deviations stem mainly from the accumulation of new arrears due to the persistently high energy costs and inflationary pressures resulting in higher spending as well as the higher-than-expected inflow of pension applications and some remaining structural weaknesses. The authorities have taken additional actions targeting especially the entities that continue to hold high arrears with a view to reaching the target by December 2022 for non-pension arrears and by February 2023 for pension arrears.*

- ***The clearance of the backlog of household insolvency cases has continued at a steady pace and the targets for final court decisions of heard cases and for the share of cases to be heard by end-2022 have been met****; the setting of hearing dates is lagging slightly behind schedule and the authorities are planning to reach the target by end-2022.*

- ***The processing of the backlog of called state guarantees progressed strongly reaching the interim target in the third quarter.*** *However, actual payments remain behind schedule and would need to speed up substantially to achieve the agreed targets; this, however, depends in some cases on the timing and outcome of pending court cases or on the timely submission of supporting documents by banks.*

Work will also need to continue in the following areas:

- ***Primary health-care****: Following the adoption of secondary legislation in June 2022, the implementation of the primary-health-care reform has started and the target for patient registration has been overachieved; at the same time, the number of available doctors could create bottlenecks, an issue that the authorities need to resolve swiftly to ensure full and equal access to primary health care and to allow for the incentive-based gatekeeping system to become effective as from September 2023.*

- ***The legislative codification of the labour legislation:*** *The Ministry of Labour and Social Affairs has prepared a draft codification of labour laws covering more than 100 years with the support of a scientific committee. The codification of the Individual Labour Law, i.e. part of the labour legislation, is close to completion and is expected to be adopted through a Presidential Decree in the coming weeks. At the same time, the codification of the remaining labour legislation will require some additional work and is planned to be completed by end-March 2023.*

Overall, this report concludes that Greece has taken the necessary actions to complete its specific commitments, despite the challenging circumstances due to Russia's war of aggression against Ukraine. *The authorities delivered on their commitments across various areas, notably fiscal policy, tax administration, justice, financial sector reforms, cadastre and privatisation. In certain areas, progress has been made, but further steps are needed to fully achieve the objectives; this is notably the case for the implementation of the primary health care reform, the labour law codification, as well as the clearance of arrears and backlogs related to the functioning of the financial sector. The European institutions welcome the authorities' close and constructive engagement in all areas.*

CONTENTS

1. INTRODUCTION

Enhanced surveillance of Greece ended on 20 August 2022. The successful delivery of the bulk of the policy commitments and the effective reform implementation have improved the resilience of the Greek economy and strengthened its financial stability. This significantly reduced the risks of adverse spill-over effects on other Member States in the euro area. Therefore, the Commission did not prolong enhanced surveillance, which ended on 20 August 2022. The Eurogroup took note of this intention on 16 June 2022.

Greece is now under post-programme surveillance (PPS). ([4]) Under PPS, the Commission assesses the economic, fiscal and financial situation to ensure the Member State maintains its capacity to service its debt to the European Stability Mechanism (ESM), the European Financial Stability Facility (EFSF) and bilateral lenders. Greece's monitoring is also carried out under the European Semester, and its fiscal policy is subject to the Stability and Growth Pact.

The European institutions and the Greek authorities agreed on specific reform commitments to be completed by autumn 2022. While there is no policy conditionality under post-programme surveillance, by way of exception, the current report assesses the implementation of the specific reform steps that have been agreed between the European institutions and the Greek authorities to be completed by the autumn of this year, as set out in the fourteenth enhanced surveillance report. Annex 1 of this report provides an assessment of specific reform commitments.

([4]) PPS is foreseen by Article 14 of the two-pack Regulation (EU) N°472/2013. It starts automatically after the expiry of the programme and lasts at least until 75% of the financial assistance has been repaid, which is expected in 2059.

This assessment could serve as a basis for the Eurogroup to take a decision on the release of a final tranche of policy-contingent debt relief measures. On 16 June 2022 the Eurogroup agreed that the assessment of the outstanding specific reform commitments carried out in this report could serve as a basis for a decision on the release of a final tranche of debt measures. This covers the transfer of the eighth and last tranche of income equivalent amounts stemming from central banks' holdings of Greek government bonds under the Securities Markets Programme and the Agreement on Net Financial Assets (EUR 644 million) a waiver for the step-up interest margin for certain loans provided by the European Financial Stability Facility as for the second half of 2022 (EUR 123 million), and a permanent reduction of the step-up interest margin as of 2023 until 2049 (undiscounted value EUR 5.2 billion).

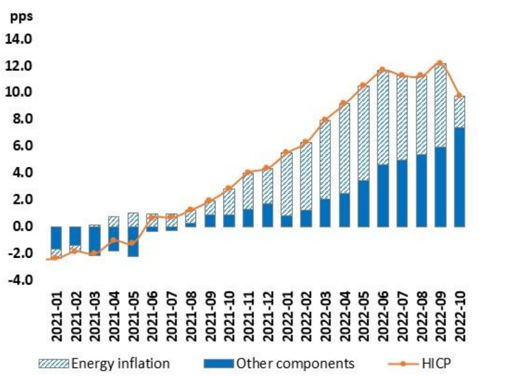
The report presents the findings of a mission of staff from the European Commission, in liaison with staff from the European Central Bank, that visited Athens from 4 to 11 October 2022 for the first post-programme surveillance mission. The International Monetary Fund also participated in the meetings, while the European Stability Mechanism participated in the context of its Early Warning System. Under post-programme surveillance, the Commission carries out regular review missions to EU Member States that have had an EU-supported financial assistance programme. The report summarises the mission's assessment of progress and challenges in macroeconomic adjustment, fiscal policies, financial stability, and sovereign financing and capacity to repay public debt.

2. MACROECONOMIC DEVELOPMENTS

Despite rising inflationary pressures and the lingering energy crisis, the Greek economy grew at a solid pace in the first half of 2022. Real GDP grew by 7.8% in the first two quarters of the year, largely driven by private consumption, goods exports and a positive tourist season, while investment has started to slow down already in the second quarter. The unemployment rate declined further to 11.8% in September, down by 1.5 percentage points compared to the same month a year ago. However, employment growth in the previous months showed already signs of a deceleration.

Consumer price inflation continues to rise to levels not seen since the early 1990s. For the first three quarters of the year, inflation was driven by the surge in energy prices (see graph 2.1 below), and has started to pass through to other prices, especially services.

Graph 2.1: **Contribution of energy inflation to HICP**



Source: Eurostat.

According to the Commission's 2022 autumn forecast, economic activity is expected to slow down significantly. Starting from the second half of the current year, both domestic and external demand is set to weaken. Private consumption growth is forecast to come to a halt and remain feeble until the first quarter of 2023, as the gradual phasing out of the pandemic-related fiscal policy support, but most importantly the further intensifying price pressures which, are trimming real disposable income growth.

Policy measures help mitigate the impact of high inflation on household incomes. The slowing growth of real disposable incomes due to high inflation is cushioned by the measures that Greece adopted to address the energy crisis, as well as tax cuts which ease households' tax burden (see also section on fiscal developments below). Despite the headwinds, the recovery and resilience plan is expected to support the economy in a period of heightened uncertainty and international slowdown. The implementation of the plan ([5]), both for its grant component, as well as the private-sector investments through the loan facility, is expected to provide a notable boost to both private and public investment over the entire forecast horizon. On the other hand, increased uncertainty, as well as tighter financial conditions, is expected to delay investments outside the recovery and resilience plan. On the external side, export growth is forecast to decelerate, in line with the projected slowdown of growth in Greece's major trading partners in the second half of 2022

([5]) Greece stands to benefit from a total envelope of EUR 30.16 billion (EUR 17.43 billion in grants and EUR 12.73 billion in loans) under the Recovery and Resilience Facility, 25% of which have already been disbursed in pre-financing and the first regular instalment in April 2022. Greece's second payment request, is currently under assessment by the Commission. Conditional to the satisfactory fulfilment of these milestones and targets, a further amount of EUR 3.57 billion (EUR 1.72 billion in grants and EUR 1.85 billion in loans (net of pre-financing)) is expected to be disbursed to Greece in early 2023.

and in 2023. With the external environment slowly improving towards the end of 2023, and inflation declining stronger as of the second half of the same year, economic growth is expected to record a broad-based uptick towards the end of 2023, driven by private consumption, investment and net exports. This outlook is also expected to provide a positive base for 2024. Overall, real GDP growth is forecast to reach 6.0% in 2022 and to decrease to 1.0% in 2023, before rebounding at 2.0% in 2024.

The inflation rate is forecast to peak in the last quarter of 2022, but to remain elevated thereafter. Headline HICP inflation is projected to average at average 10.0% in 2022 and to decline only gradually afterwards. Falling energy prices, implying strong negative base effects, are expected to decrease inflation as of the second half of 2023, implying an annual average inflation rate of 6.0% in 2023, and 2.4% in 2024.

The country is currently not expected to face energy supply shortages in the near term. The recent deals for the supply of liquified natural gas resources which could complement natural gas imports and adjustment in demand due to higher prices are expected to help contain the risk of supply side shortages.

Employment growth is set to weaken in view of the deteriorating economic outlook. This year, the labour market is expected to benefit from the post-pandemic dynamics of the economy and the recovery of tourism, but the projected deterioration of the growth outlook is set to affect job creation. The high share of employment in the service sector, which is somewhat less energy-intensive ([6]), cushions the immediate impact of the energy price shock on the labour market. However, the higher energy costs which have already started to gradually pass through to the different sectors of the economy, a process which is forecast to accelerate further over the following period, is expected to contribute to the deceleration of employment in 2023. Overall, employment is expected to grow by 1.9% in 2022. For 2023, employment is set to decelerate to 0.4% in 2023 and rebound somewhat, to 0.6% in 2024. On an annual basis, the unemployment rate is forecast to drop to 12.6% this year and to 12.1% by 2024.

Despite the deterioration of the international environment and the projected slowdown in growth, cost competitiveness is forecast to improve. Unit labour costs ([7]) are forecast to increase at a slower pace than in the euro area on average, also due to the relatively high slack in the labour market ([8]) containing wage growth. According to the Commission's 2022 autumn forecast, unit labour costs are expected to increase by 2.3% on average per year in 2023 and 2024. The projected increase in unit labour costs is among the lowest across the euro area for the same

([6]) Final energy consumption in the service sector stood around 17% less compared to the industry in 2019. Source: *Energy efficiency trends and policies in Greece*, Centre for Renewable Energy Sources and Saving, November 2021.

([7]) The unit labour cost here is defined as the ratio of the nominal compensation per employee to the real GDP per person employed.

([8]) Labour market slack is the shortfall between the volume of work desired by workers and the actual volume of work available in the economy.

period (3.7% on average). In this regard, future adjustments of the minimum wage will need to strike an appropriate balance between protecting workers against unduly low pay and poverty on the one hand and avoiding adverse employment and competitiveness effects on the other.

Uncertainty remains high amid downside risks to the growth outlook. The unpredictable developments regarding Russia's war against Ukraine and the repercussions of the price shock in global energy markets could spur further inflationary pressures and curb economic activity. These downside risks also affect the outlook for the upcoming tourist season, in view of the lower purchasing power of potential tourists and a possibly lower attractiveness as a tourist destination due to increased geopolitical tensions in the region.

Table 2.1: **Summary of main macroeconomic variables (%)**

	2021	2022	2023	2024
Real GDP growth	8.4	6.0	1.0	2.0
Employment growth	2.7	1.9	0.4	0.6
Unemployment rate	14.7	12.6	12.6	12.1
Harmonized index of consumer prices growth	0.6	10.0	6.0	2.4

Source: European Commission.

3. FISCAL DEVELOPMENTS

3.1. FISCAL OUTLOOK

The Commission 2022 autumn forecast expects the headline deficit to narrow from 7.5% of GDP in 2021 to 4.1% of GDP in 2022. This corresponds to a decline of the primary deficit to 1.6% of GDP in 2022, down from 5% in 2021 ([9]). The government's Draft Budgetary Plan for 2023 ([10]) projects a headline deficit of 4.2% of GDP for 2022, which corresponds to a primary deficit of 1.7% of GDP. The improvement in the fiscal position reflects the phasing out of the pandemic-related emergency and support measures, the economic recovery, and inflation. At the same time, the fiscal balance is impacted by the temporary measures taken in response to surging energy prices. For 2022, the tax and social contribution revenues are likely to exceed expectations, partly due to better-than-expected economic growth and labour market developments and partly due to inflation. In addition, the current forecast includes the revenues from the debt relief measures disbursed in July 2022. At the same time, in response to persistently high energy prices, the authorities have taken additional support measures to households and businesses since May 2022, increasing the fiscal impact from 1.1% of GDP estimated in spring to 2.3% of GDP (see analysis below).

The Commission autumn forecast expects the headline deficit to decrease further to 1.8% of GDP in 2023, bringing the primary balance to a surplus of 1.1% of GDP. This is broadly aligned with the authorities' Draft Budgetary Plan which plans a primary surplus of 0.7% of GDP. The difference between the two forecasts for 2023 is mainly explained by the higher growth of the tax base on the back of higher inflation projected in the Commission forecast. This is partially offset by the different statistical recording of the revenues from the extraordinary levy on windfall profits of energy producers for the period October 2021-June 2022 (0.2% of GDP). These revenues will be assessed in 2022 but collected in 2023. In the Commission forecast they are accrued in 2022 whereas the Draft Budgetary Plan accrues them to 2023. The forecast factors in the new measures announced by the Prime Minister at the Thessaloniki Fair on 10 September 2022 as well as the energy support measures planned for 2023. The improvement of the primary balance is driven by the reduction in the net fiscal cost of the energy measures in 2023 (see below), the full phasing out of the pandemic-related support measures, and the increase of the tax base due to economic growth, while the growth of public wages and social benefits remains muted.

The headline balance is projected to improve further to a deficit of 0.8% of GDP in 2024, corresponding to a primary surplus of 2.2% of GDP. As the economic recovery continues the balance is forecast to improve due cyclical factors. Beyond that, the forecast assumes that the energy measures would be phased out by the end of 2023, which contributes to the improvement of the primary balance.

The Commission opinion on Greece's Draft Budgetary Plan finds the Plan in

([9]) With the end of enhanced surveillance, fiscal balances are monitored and reported in terms of the European System of Accounts 2010.

([10]) The Draft Budgetary Plan was submitted to the Commission on 15 October 2022.

line with the fiscal guidance contained in the Council recommendation of 12 July 2022 ([11]).

3.2. RESPONSE TO THE ENERGY CRISIS

The support in terms of percentage of GDP provided by Greece to address the energy crisis is among the highest ones within the EU for 2022. Greece appears to be exposed to the energy price hike more than the EU average given the high energy intensity of the economy and the relatively high share of household expenditure on energy (as measured by the weight of the energy component in the HICP basket). The adopted measures mainly consist of subsidies to energy users, social transfers to vulnerable households, subsidies for fuels and cuts to indirect taxes on transport services. The gross budgetary cost of energy measures is estimated to reach 5.5% of GDP in 2022 and to increase to 5.8% of GDP in 2023 (see table below).

The net budgetary cost of the energy measures is expected to be 0.5% of GDP in 2023, significantly reduced from 2.3% of GDP in 2022. Since May 2022, the authorities have introduced revenue increasing measures to contain the fiscal cost of the energy-related interventions. The major source of additional revenues is a tax on wholesale electricity prices whereby the electricity producers have to transfer their extra receipts beyond a set price cap to the general government. This results in considerable additional revenues for the government, especially from the infra-marginal producers. As of July 2022, this mechanism has been put into operation for all types of electricity producers. Further revenue increasing measures have also been put in place, such as the introduction of an extraordinary 90% levy on windfall revenues of the energy producers for the period from October 2021 to June 2022 and a permanent increase of the already existing public sector obligation levy by EUR 10 per MWh, which is paid by non-vulnerable households based on their energy consumption. Furthermore, the forecast includes an "energy" reserve of 0.2% of GDP which could be used to cover increased spending on measures and currently unforeseen energy-related costs for the general government entities.

Most of the energy measures do not appear targeted to vulnerable households or firms, and most of them do not fully preserve the price signal to reduce energy demand and increase energy efficiency. According to the fiscal guidance contained in the Council recommendation of 12 July 2022 for Greece, support measures in response to the energy crisis should be temporary and targeted to the most vulnerable households and firms. As specified by the Commission, such measures should maintain incentives to reduce the consumption of fossil fuels and to contain their budgetary impact. ([12]) Income measures that are temporary and targeted to the most vulnerable appear to be the most appropriate solution to mitigate the social and economic impact of the energy crisis as they are targeted to the most affected by the crisis, have a lower budgetary cost and reduce energy poverty and disparities. In the

([11]) Commission Opinion of 22. 11. 2022 on the Draft Budgetary Plan of Greece. C(2022) 9507 final.

([12]) Communication from the Commission, 2022 European Semester – Spring Package, COM(2022) 600 final.

case of Greece, the principal vehicle of support is a price subsidy on electricity consumption to which all households and firms are eligible irrespective of their energy consumption or income. This subsidy, with an estimated budgetary cost of 4.8% of GDP in 2022 and 5.8% of GDP in 2023, covers a significant part of the price increase, thereby decreasing the effectiveness of price-incentives to limit energy consumption. Similarly, the subsidies given in response to high fuel prices were also untargeted as they benefited the vast majority of households. Besides these measures, some smaller, more targeted income support measures have also been adopted, such as increased income transfers to low-income pensioners, and additional disbursements of child benefits and other social transfers.

The authorities have recently made efforts to improve the quality of the energy measures but there is room for further improvement. As of October 2022, the authorities have put in place incentives to reduce energy consumption and introduced some differentiation among beneficiaries. Households with higher electricity consumption will receive lower subsidies, unless they decrease their electricity consumption by at least 15% compared to the previous year. A similar differentiation has been introduced for companies, where small enterprises with limited energy consumption receive higher subsidies than larger enterprises or small ones with higher energy consumption. Despite these new features, there remains scope to further improve the design of the measures to allow the full functioning of the market price signals thereby incentivising further savings in energy consumption.

3.3. FURTHER FISCAL POLICY ACTIONS INCLUDED IN THE FORECAST

The forecast includes a number of permanent fiscal measures announced by the Prime Minister in his speech at the Thessaloniki Fair on 10 September 2022. The size of the package is estimated at 0.1% of GDP in 2022 and about 1.2% of GDP per year in 2023 and 2024. More than half of the package are measures already included in Greece's 2022 Stability Programme and in the Commission 2022 spring forecast, thus the additional fiscal cost is limited to 0.1% of GDP in 2022 and about 0.4% of GDP in 2023.

The major measures announced for 2023 are permanent tax cuts, most of which have already been included in the 2022 spring forecast. The Stability Programme already announced that the government would make permanent the three-percentage point reduction in the social security contribution and the abolition of the solidarity surcharge, which were initially granted during the pandemic on a temporary basis to the private sector in 2021 and 2022. In addition to the Stability Programme, the government now announced that the abolition of the solidarity surcharge would be extended also to public sector employees and pensioners with an estimated annual fiscal cost of 0.2% of GDP. These measures aim to reduce the high tax burden on households, support labour demand and boost households' disposable income at a time when inflation is expected to exceed wage growth and reduce the incentives for undeclared or under-declared employment.

The package also includes measures on the wage bill, but their cost is limited

(0.1% of GDP) in 2023. These measures include the reform of doctors' special wage grid and additional compensation to some special military personnel categories. In view of the high inflation and the absence of automatic wage indexation in the public sector, a more substantial reform of the wage bill with an estimated fiscal impact of 0.2% of GDP is planned for 2024 with an emphasis on low-wage earners but also on managerial posts. The details of this reform will be closely monitored by the Commission to preserve consistency with the unified wage grid, as laid out in the country-specific recommendations adopted by the Council this year.

3.4. FISCAL RISKS

Fiscal risks remain considerable. These are mainly related to uncertainties surrounding the Russia's war against Ukraine and the energy crisis and its impact on the Greek economy. A more pronounced slowdown or even recession, could undermine the authorities' plan to reach a primary surplus in 2023. Inflation creates uncertainties both on the upside and the downside. On the upside, higher-than-projected inflation could contribute to higher revenues, but it creates increasing pressures on the expenditure side at the same time. Public wages and social benefits are not indexed to inflation, which partly limits the (immediate) pass-through of higher inflation to public expenditure. However, pressures to increase spending on wages and benefits is likely to rise in view of falling real disposable incomes and might prompt policy actions to counter price increases earlier or to a greater extent than currently planned (see section 3.3).

The evolution of the electricity prices is crucial for the 2023 budget. Whereas the revenue measures, most notably the tax on wholesale electricity revenues contain much of the fiscal cost of the electricity subsidies based on the current electricity price futures, a further increase in electricity prices could increase the fiscal cost of the mechanism. This is however a symmetric risk, as a reduction in electricity prices could even make the scheme fiscally neutral. Further upside risk, potentially leading to a higher-than-expected primary surplus is the conservative estimation of the fiscal cost of the scheme, which does not factor in reduction in electricity demand.

There are various sources of further risks. First, the recent or planned financial policy schemes, including the sale-and lease-back entity for properties owned by vulnerable debtors, may entail a deficit- and debt-increasing impact depending on their final statistical classification. Second, risks stem from the pending legal cases, most notably the litigation cases against the Public Real Estate Company (ETAD). Third, the Council of State published its decision on the retroactive compensation for cuts in the supplementary pensions and seasonal bonuses. According to this ruling, only pensioners who filed lawsuits before 31 July 2020, would be eligible for a retroactive compensation. Whereas this decision sets the scene for the retroactive payments, it also narrows the scope considerably, and thereby the potential fiscal cost.

Table 3.1: **Energy measures according to type (% of GDP)**

	2021	2022	2023
(A) Spending on energy measures	**0.3**	**5.5**	**5.8**
Energy subsidies	0.1	4.8	5.7
Social transfers	0.1	0.4	0.0
Fuel subsidies	0.0	0.3	0.0
Temporary tax cuts	0.0	0.1	0.1
(B) Total revenues from financing measures	**0.0**	**3.2**	**5.3**
Tax on the energy producers via a price cap	0.0	3.1	5.3
Levy on windfall revenues to energy producers for the period Oct-21 to Jun-22	0.0	0.2	0.0
(A-B) Net fiscal cost	**0.3**	**2.3**	**0.5**

Source: European Commission.

Table 3.2: **Energy measure according to targeting and nature (as % of GDP)**

	Price		Income		Revenues from windfall profits	Net cost
	Targeted	Non-targeted	Targeted	Non-targeted		
	(a)		(b)		(c)	(a)+(b)-(c)
2021	0.0	0.1	0.2	0.0	0	0.3
2022	0.0	4.9	0.4	0.2	3.2	2.3
2023	-0.2	5.9	0.1	0.0	5.3	0.5

Source: European Commission.

Table 3.3: **Fiscal impact of new policy actions (total measures as a % of GDP)**

	2022	2023	2024
Total amount	**0.1**	**1.2**	**1.3**
of which			
New measures	***0.1***	***0.4***	***0.6***
Permanent tax cuts	0.0	0.3	0.2
Public sector wage bill	0.0	0.1	0.3
Other smaller measures	0.1	0.1	0.1
Measures already included in 2022 Spring Forecast	0.0	0.7	0.7
Permanent tax cuts	0.0	0.7	0.7

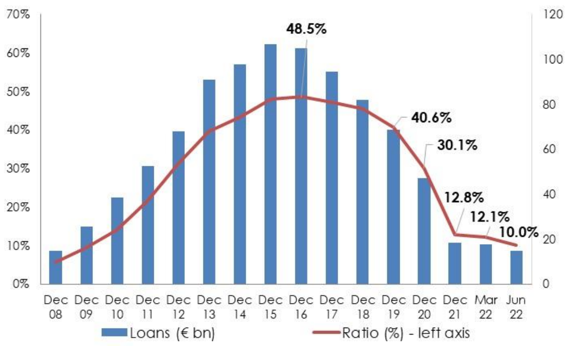
Source: European Commission.

4. FINANCIAL SECTOR

4.1. FINANCIAL SECTOR DEVELOPMENTS

The reduction in the stock of non-performing loans (NPLs) in the banking sector continued in the first half of 2022. The stock fell by 20% compared with end-2021 and stood at EUR 14.8 billion as of June 2022, representing a non-performing loans ratio of 10% as opposed to 12.8% at end-2021 ([13]). The decrease was driven by loan write-offs, the accounting reclassification of the remaining securitisations under the Hercules scheme and some outright sale transactions ([14]). The systemic banks' aim is to move closer to the average of EU peers by end-2024. Given the expiry of the Hercules Asset Protection Scheme in October 2022, systemic banks will need to increasingly rely on their in-house management of loans in or at risk of default and their ability to offer viable long-term solutions or proceed to effective collateral recovery to achieve this goal. This may prove to be more challenging than inorganic NPL reduction used predominantly so far, even more so for some less-significant institutions with high non-performing loan ratios, which have also not made use of the Hercules scheme.

Graph 4.1: **Evolution of the stock of gross non-performing loans and the corresponding non-performing loans ratio for Greek banks**



Source: Bank of Greece, data on a solo basis.

The net flow of new non-performing loans remains modest but there are early signs of increasing arrears, as risks to asset quality persist. As pandemic-related state support measures (Gefyra I and II schemes) have almost expired, default rates from these schemes remain at low levels (5-7%). There were no signs of any major pick-up in the gross inflows of non-performing loans in the banks' loan portfolio in the second quarter. In addition, systemic banks continue to report lower-than-expected default rates in loans that had exited the Covid-19 payment moratoria, including in cases where specific products had been offered to viable customers facing temporary difficulties. However, the net inflow of non-performing loans turned again positive in the second quarter of 2022, while the rise in early arrears (i.e. loans less than 90 days past due) in that quarter may be an early indicator of pressure on banks' asset quality in the near future. The gradually worsening macroeconomic outlook and increasing interest rates on dominantly (~75%) variable-interest loans are affecting households' real disposable income, and

([13]) Source: Bank of Greece. The figures refer to solo basis. The non-performing loan ratio on a consolidated basis stood even lower, at 9.5%.

([14]) Namely, the 'Light' and 'Hermes' transactions for Alpha Bank, and two non-performing loan securitisations that have applied for entry into the Hercules scheme, 'Sunrise 3' for Piraeus Bank and 'Solar', which is common to all four systemic banks (Alpha, Piraeus, Eurobank and NBG). NBG has classified as held-for-sale already from end-2021 Frontier II, the other pending NPL securitisation under the Hercules scheme.

may accelerate the inflow of non-performing loans. However, this could be partially cushioned by the existing fiscal support measures. Given the uncertain economic environment, banks are currently revising their non-performing loan strategies, modifying upwards their expectations for new non-performing loan inflows and provisioning needs.

The workout of legacy non-performing debt continues at a slow pace. EUR 87 billion of private debt has exited banks' balance sheets but remains in the economy, managed by specialised non-bank financial institutions (i.e. credit servicers). This represents a burden to economic recovery while at the same time reduces the business opportunities for banks in the domestic market. Although most of the securitised non-performing loan portfolios are outperforming their business plan targets, in some cases there have been divergences relative to these targets, also due to the prolonged suspension of enforcement proceedings during the pandemic. Servicers are taking targeted actions to gradually mitigate these divergences, taking advantage of the gradual re-start of the debt enforcement process since April 2021, as well as sales of loan portfolios on the non-performing loan secondary market. Such sales will increasingly involve loans that have undergone restructuring and have become performing again. The ability of credit servicers to efficiently resolve and restructure debts, together with the efficient functioning of the non-performing loan secondary market, will be key to economic performance and will be monitored on an ongoing basis. The authorities are expected to constantly reassess the existing monitoring framework and propose improvements if needed to ensure its effectiveness.

Profitability of banks is improving, albeit buoyed by one-off gains, and could be supported by the banks' credit expansion and rising interest rates. All four systemic banks booked profits in the first half of 2022, boosted by one-off trading gains, sustained growth in their fees and commissions and effective cost control. The banks' net interest income has been resilient thanks to new lending and the fall in the cost of risk ([15]) due to the clean-up of non-performing loans. These factors have largely offset adverse effects on income from the corresponding sharp loan book deleveraging in 2021, and have improved the quality of the revenue mix at the same time. The tightening of monetary policy is expected to boost the net interest margin of banks given the high percentage of floating rate loans in their loan book. This trend, together with the realisation of banks' plans to increase net lending, especially in the corporate sector, could help to sustain profitability in the short- and medium-term. In parallel, systemic banks have taken measures to mitigate the impact of volatility in sovereign yields on their profitability, due to their significant holdings of domestic sovereign bonds, by increasing the share of their sovereign bond portfolio that is valued at amortised cost to 80% and by implementing hedging strategies on the remaining part ([16]).

([15]) The cost of risk is the ratio of provisions recognised by an entity over a given period (annualised) to the average volume of the loan portfolio during that period.

([16]) There may be a minor additional negative impact on banks' capital from their sovereign bond holdings due to the full phase-out in 2023 of the Covid-19 temporary prudential filter which shielded banks' capital from volatility in central

Overall, banks' capital position is gradually being restored but the quality of capital remains a concern. The prudential phase-in of IFRS 9 accounting rules [17] deteriorated banks' capital position, but the profits of the first half of 2022 and the reduced provisioning needs have largely offset this impact. At the end of June 2022, banks' average Common Equity Tier 1 and Total Capital ratios stood at 13.2% and 15.9% of risk-weighted assets [18] as opposed to 12.5% and 15.2% at the end of March 2022. The banks intend to reinforce their capital position through internal capital generation, as well as some capital-enhancing actions in the pipeline (e.g. sale of non-core businesses and synthetic securitisations). The planned completion of the remaining three non-performing loan securitisations under Hercules will provide banks with some additional capital relief from the state guarantee provided on the retained senior tranche, as banks have already fully provisioned for the transfer of the relevant loan portfolios. However, the capital position of Greek banks remains one of the lowest in the EU and its quality continues to be a concern, as it contains a high and increasing share of deferred tax credits (circa 64% of supervisory capital at end March 2022 at consolidated level).

Despite improving fundamentals, banks face challenges and downside risks, which will require close monitoring. Banks' profitability and their capacity to create capital internally could be adversely affected by a) a potential deterioration in asset quality as energy costs and interest rates increase and deteriorate the repayment capacity of debtors, b) a possible retrenchment of credit demand in case of a recession and c) increases in their cost of funding. The long-term unsecured funding costs for Greek banks have already increased, which, if protracted, may affect their strategy for further debt issuances to meet the minimum requirement for own funds and eligible liabilities (MREL) [19], both in terms of timing and type of instruments issued. Moreover, the repayment of the latest round of targeted longer-term refinancing operations (TLTRO III), which is nearing its end, may still lead to an increase in the banks' cost of funding and to a potential deterioration of their prudential liquidity ratios, especially if deposits decreased and long term unsecured funding remained expensive. However, the high share of currently pledged collateral under the TLTRO III that is eligible for Eurosystem funding under the normal refinancing instrument, is expected to support liquidity ratios.

Credit growth to non-financial corporations has picked up in nominal terms during 2022. The annual rate of growth in credit to non-financial corporations reached 12.3% in September

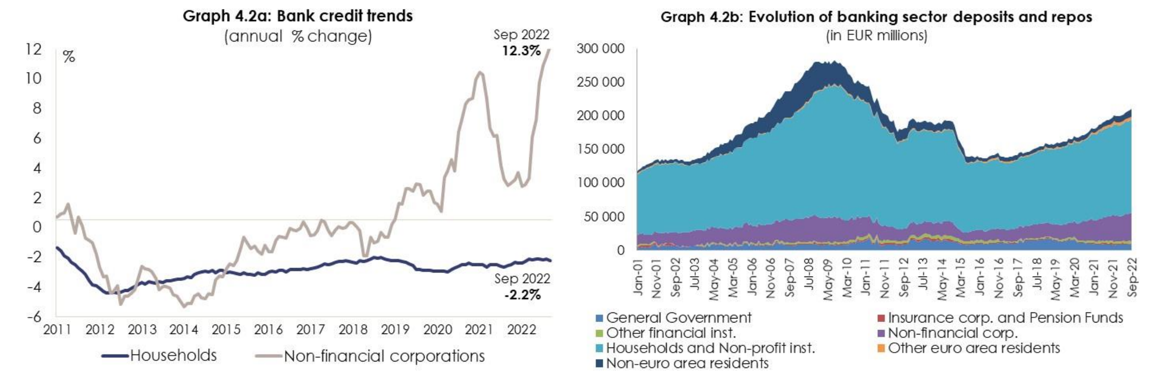
government bond prices (see Regulation (EU) 2020/873).

(17) IFRS 9 replaced the previous accounting standard for financial instruments (IAS 39) and was endorsed in the EU in November 2016. It is effective for periods beginning on or after 1 January 2018. IFRS 9 moves from an incurred loss model (under IAS 39) to an expected credit loss model. Given that this change could lead to a significant capital loss, the EU legal framework allows for a five-year transitional arrangement for banks who choose to make use of it.

(18) Source: ECB – CBD2 - Consolidated Banking Data.

(19) Binding MREL targets are established by the resolution authorities on a bank-by-bank basis on the basis of the provisions of the Bank Recovery and Resolution Directive (2014/59/EU) and the Single Resolution Mechanism Regulation (806/2014/EU) and their subsequent amendments.

Graph 4.2: **Bank credit and deposit trends**



Note: *Data on deposits* exclude liabilities associated with assets disposed of in a securitisation but still recognised on the statistical balance sheet.
Source: Bank of Greece.

2022, in comparison to 3.7% at end-2021. From January to September 2022 a sizeable cumulative net credit flow to non-financial corporations of EUR 5.1 billion, was recorded, as high as the corresponding flow for the same period in 2020 and substantially higher than the whole net credit flow in 2021. This was mainly driven by flows to large non-financial corporations. Gross new lending to households increased, however, the repayments of existing mortgages more than offset this increase, thus leading to a negative net credit growth for housing loans. Despite a jump in September, the average cost of bank lending to businesses has only marginally risen in 2022 thus far at 3.1% and is still lower than that to micro firms and individual entrepreneurs (5.3%) and households (5%). The Hellenic Development Bank concluded the operations in June 2022 under the Covid-19 Enterprise Guarantee fund, with a total of EUR 6.2 billion in loans disbursed since its inception in 2020. It is currently activating new lending programmes targeted at small and medium-sized enterprises in late 2022 and 2023. Loan disbursements linked to the RRF Loan Facility remained low but are expected to accelerate as of 2023, given the number of loans applications and loan contracts signed. Going forward, credit demand should benefit from lower risk aversion due to the overall improvement in medium-term economic outlook but in the short-term, it might suffer from lower economic growth, coupled with higher inflation and rising interest rates.

The Hellenic Financial Stability Fund has started to operate under the revised legal framework. The reform of the law was published in June 2022. Since then, the Fund has adjusted its governance by creating the new Board of Directors, which replaces the previous dual governance structure. The law extended the duration of the Fund until the end of 2025 to allow it to better fulfil its dual objective of contributing to the stability of the Greek banking system, while effectively disposing its assets. In this regard, the Fund has already engaged with independent private advisors to assist it in the formulation and execution of its divestment strategy, according to the recent reform. The Fund has also agreed to participate in the second share capital increase of a less significant institution, where it already had a majority stake. The share capital increase will amount to

EUR 490 million and will be implemented in the course of 2022. Approximately EUR 459 million will be covered by the three principal shareholders, including the Fund.

4.2 FINANCIAL SECTOR POLICIES

The use of electronic platforms under the new insolvency framework is slowly gaining traction. This is mainly the case for the out-of-court workout and second chance (i.e. the insolvency proceedings) platforms. Interest is more limited for the rehabilitation and early warning mechanisms, which could benefit from awareness raising. The steady flow of fully submitted applications to the out-of-court settlement platform has continued, reaching 9 600 as of end-October 2022, corresponding to EUR 5 billion of debt. Out of these fully submitted applications, 43% in terms of loan value (EUR 2.1 billion) has been assessed by end-October, leading to the restructuring of EUR 511 million worth of debt, where the restructuring proposal was accepted by both creditors and debtors, with further EUR 273 million awaiting implementation. The completed restructurings entail an average haircut of 19.5% for debts towards the State and 30.7% for debts towards financial institutions. The pace of successful restructurings is expected to increase considerably in the coming months. At the same time, the authorities are focusing their efforts on ways to improve the approval rates by both creditors and debtors to the restructuring proposals produced by the platform's algorithm, as well as tackling data quality issues that are slowing the overall process. The effectiveness of all components of the insolvency framework will be monitored in the context of post-programme surveillance on a continuous basis.

The implementation of other agreed financial sector actions advances broadly on schedule. This relates to the implementation of the Sale-and-leaseback entity and the clearance of the backlogs of household insolvency cases and called state guarantees. Details can be found in Annex 1.

The number of auctions continues to rise but the high percentage of barren auctions (i.e. auctions with no bidders) remains a concern. Allowing for seasonality, the upward trend in the conduct of auctions was confirmed, as compared to the same period in previous years. In the third quarter of 2022, 75% of the 12 252 planned auctions were conducted, and 25% were suspended, while a negligible amount was cancelled due to procedural reasons. This said, the large percentage of barren auctions remains a concern, with circa 75% of concluded auctions ending up barren and only 25% successful. A decrease of barren auctions in the coming months is expected, thanks to the recently introduced automatic reserve price adjustment mechanism, but the ratio is expected to remain high, which is a concern. The reasons cited for the high percentage of barren auctions are a) lack of adequate streamlining and dissemination of information on post-auction steps, coupled with cadastre registration delays; b) non-effective post-auction eviction process; c) insufficient financing for potential interested buyers in auctions and d) overall low market demand for certain assets. On the positive side, regarding successful auctions, an increasing share of transferred properties (approximately 60%) were acquired by third parties.

Recent Supreme Court decisions could have a disruptive effect on enforcement proceedings. As reported and assessed by the authorities, a chamber of the Supreme Court has issued divergent decisions ([20]) as to whether credit servicers are legitimised or not to proceed with auctions and other enforcement measures in the name and on behalf of the foreign special purpose vehicles ([21]) they represent. According to the authorities, the issue is now being referred to the plenary formation of the Supreme Court. However, the timing and the outcome of the Supreme Court's final ruling remain uncertain. The issue in question is likely to affect upcoming lower-instance courts' judgments in similar cases and erode the willingness of debtors to reach amicable restructuring solutions with the servicers. This legal uncertainty could undermine efforts to resolve non-performing loans and risks seriously affecting the business plans of non-performing loan securitisations under the Hercules scheme. The legal uncertainty should be addressed as a matter of urgency, to avoid further undue delays in the resolution of non-performing debt in the economy. The effective resolution of this legal uncertainty will be assessed in the upcoming post-programme surveillance report.

([20]) Decisions nos. 822/2022, 1343/2022 and 822/2022 of the A2 Civil Chamber of the Supreme Court.

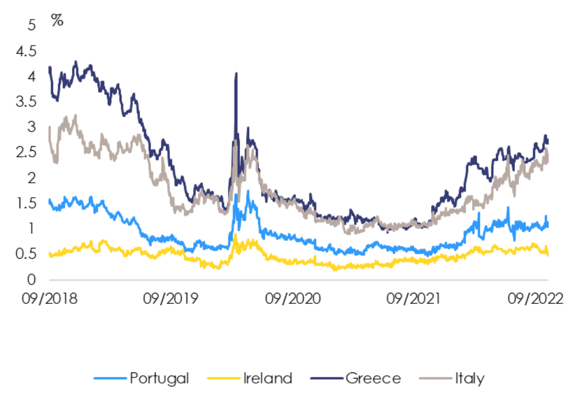
([21]) A special purpose vehicle is a separate legal entity created by an organisation. The special purpose vehicle is a distinct company with its own assets and liabilities, as well as its own legal status. Usually, they are created for a specific objective, often to isolate financial risk.

5. SOVEREIGN FINANCING AND CAPACITY TO REPAY

5.1. SOVEREIGN FINANCING

Yield spreads have remained broadly stable since June 2022, but yield levels have increased considerably. The yield spreads over the German Bund on the 10-year maturity have been hovering around 250 basis points since June 2022. Re-financing rates however have increased by close to 150 basis points on the same maturity, reaching 5% in October 2022, a level not seen since 2017.

Graph 5.1: Sovereign yield spreads (10Y)

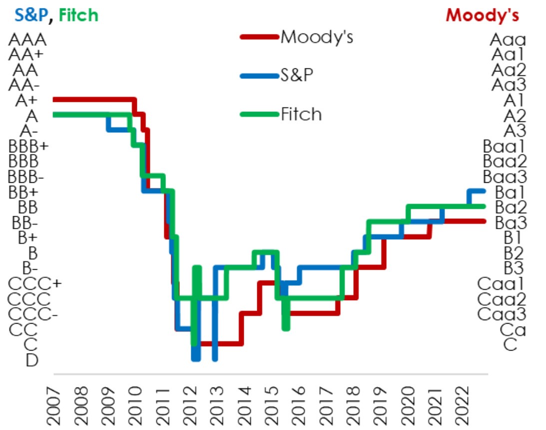


Source: IHS Markit.

Greece has raised close to EUR 3 billion from the market since June 2022. The issuances included re-openings of earlier bonds with a remaining maturity of 5 to 20 years, and also a new five-year benchmark bond with variable interest rate. With this, Greece has raised close to EUR 8 billion in 2022.

The cash buffer remains large. As of end-October, the general government's cash reserves reached EUR 35 billion (22). Given the financing need of the fiscal measures on energy subsidies, and the upcoming debt repayments, including the partial early repayment of the Greek Loan Facility in December 2022, the reserves are expected to decline below EUR 32 billion, their end-2021 level.

Graph 5.2: Greece's credit ratings



Source: Commission services.

Greece's credit ratings remain unchanged since April 2022. In spite of the increasing global uncertainties and rising interest rates both Moody's and Fitch have affirmed their rating of the Greek sovereign debt. Greece remains one notch below investment grade at S&P, and two to three notches below investment grade at Fitch and Moody's.

5.2. CAPACITY TO REPAY

Greece retains the capacity to service its debt. Greece will start repaying its loan to the EFSF in 2023. The total outstanding debt to the EFSF before the capitalisation of the deferred interest is EUR 130.9 billion, or 59% of the expected 2023 GDP. The first

(22) The cash buffer account balance remained at EUR 15.7 billion. The cash buffer account was built also through disbursements under the third financial assistance programme and is dedicated to debt service. Greece may use this amount for other purposes as well, following an approval of the ESM's governing bodies.

instalment amounts to EUR 1.8 billion or 0.8% of GDP, around 7% of the Greece's gross financing needs in 2023. Greece's outstanding debt towards the ESM amounts to EUR 59.8 billion, but no instalments are due before 2034. In December 2022, Greece is expected to prepay its EUR 2.6 billion instalment originally due in 2023 under the Greek Loan Facility. With this, by the end of 2022, Greece would have repaid EUR 8 billion of the EUR 52.9 billion received under the Greek Loan Facility.

Public debt is expected to decline sharply in the short term and stay on a downward trajectory in the medium term, falling to 118% of GDP in 2032 ([23]), but increasing to 125.4% in 2033 as the deferral period of the EFSF loans end and the amount of deferred interest payments would be capitalised. General government debt stood at 194.5% of GDP in 2021, and is expected to decrease to 171.1% in 2022 according to the Commission 2022 autumn forecast. This decline is driven by the increase of nominal GDP, but also due to the restrained debt issuances in 2022 due to the increased volatility and level of yields. Government debt is projected to decline further to 161.9% in 2023 and to 156.9% 2024 on the back of Greece moving into a primary surplus position as of 2023, economic growth and still high inflation. In a baseline scenario, this positive trend is projected to continue in the medium term and the debt ratio is expected to fall to 118% of GDP in 2032 and to increase to 125.4% due to the capitalisation of the deferred interest payments on the EFSF loans.

This update of the debt sustainability analysis delivers a marked improvement in the short and medium term compared to the last update, but no major changes in the long term. This improvement in the short and medium term compared to the results of the debt sustainability analysis in the 14th enhanced surveillance report is mainly driven by the revisions regarding the projections for the nominal GDP growth rate and primary balance. The higher-than-expected nominal growth rate in the short term is primarily due to higher-than-expected inflation. The primary balance path in the medium and long term is higher compared to the previous vintage because of the higher structural balance forecast for the last forecast year ([24]). This structural improvement is mainly due to the fact that while budget revenues increase on the back of higher cumulative nominal growth by 2024, cumulative expenditure growth remains muted. Due to the high weighted average maturity of the Greek public debt, the increase in interest rates has a delayed impact on the debt dynamics. This impact compensates for the higher nominal growth only gradually, but eventually offsets both the impact of the higher nominal growth and of the higher primary balance path.

Debt remains on a downward trajectory in all scenarios, but sustainability crucially hinges on the full delivery of the projected structural improvement in the primary balance. In the baseline scenario, the debt-to-GDP ratio falls to around 25% by 2060, while gross financing needs remain below 15% throughout the horizon, settling below 5% of GDP in 2060. Given the recent

([23]) For more detailed results for the short and medium term, see Annex 2.

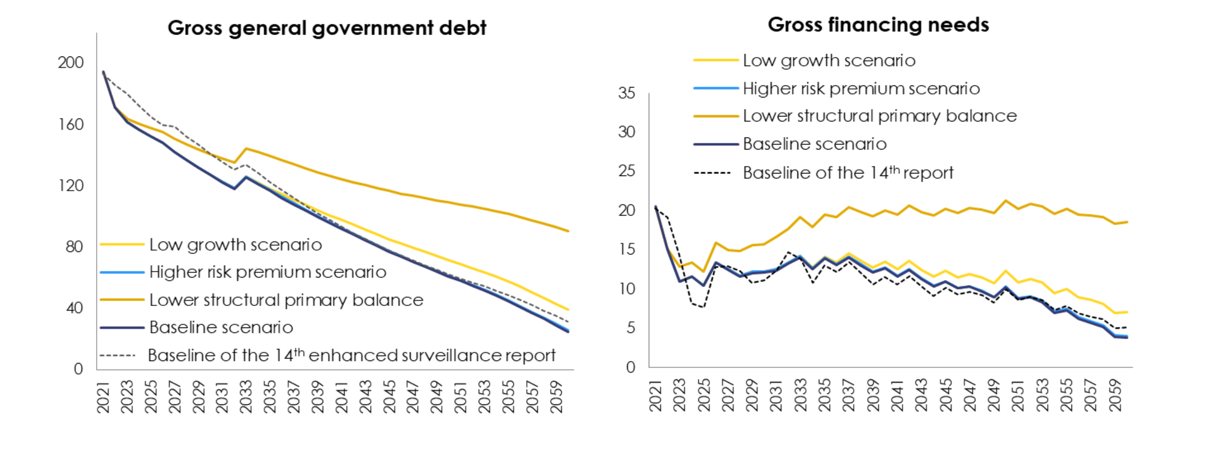
([24]) The no-policy-change fiscal assumption applied to all Member States in the Commission Fiscal Sustainability Reports and Debt Sustainability Monitors and also in this report, assumes that the structural primary balance remains constant as of the last forecast year (in this case 2024).

increase in the interest rate path under the baseline scenario, driven by higher market expectations, and the faster decline in debt-to-GDP ratio compared to the previous analysis, the interest rates implied by the methodology used in the 'higher risk premium' scenario are currently on average similar to those in the baseline scenario, and therefore the projections are broadly aligned ([25]). In the 'lower growth' scenario, which builds on the 'higher risk' scenario, but in addition a lower nominal growth rate is assumed as of the 2030s, debt declines at a slower pace, declining to 40% as of 2060, and gross financing needs remain below 15% of GDP throughout the horizon. The lower primary balance scenario, which assumes that only half of the planned baseline structural improvement in the primary balance would take place until 2024 leads to a significantly higher, yet still declining debt ratio, reaching 91% of GDP in 2060, while gross financing needs close to but still below 20% of GDP.

The assessment of debt sustainability continues to hinge crucially on the underlying assumptions, in particular the fiscal path projection. The new fiscal path assumes achieving and maintaining an average primary balance of 3.1% of GDP over several decades, which is highly ambitious. As underlined by the lower structural primary balance scenario, which assumes an average primary balance of 1.4% of GDP over the projection horizon, a permanent deterioration of the fiscal balances would considerably increase the risks to debt sustainability. There are also risks around the assumed interest rate path. The current assumption takes as a starting point the average interest rates of 2022 up to September, and assumes a linear convergence to expected market rates in the tenth forecast year. However, in a year, when interest rates increase sharply within the year, this methodology potentially underestimates the level of interest rates over this period, because the assumed starting point is lower than the currently observed rates. In addition, the projected trend growth over the medium term assumes the full implementation of the investments financed by the RRF. Should the implementation fall short of the plans, real GDP growth would be lower than currently projected. On the upside, since current projections do not include the impact of reforms under the RRF, any growth dividend thereof constitutes a positive risk. Finally, should the current surge in inflation be less persistent than implied by the current methodology and market expectations, nominal growth would be lower and thus to the trajectory for the debt to GDP ratio would be higher.

([25]) The methodology of the higher risk premium scenario links risk premia to the level of debt in the medium and long run. This is captured by replacing the market-based projections for interest rates and their gradual convergence to a constant 4% in the long term, which are used in the baseline scenario, with a model-based projection after the fifth forecast year, building on the euro area 'AAA' interest rate and a risk premium which is a function of the debt level. For further details, see the 8th enhanced surveillance report.

Graph 5.3: **Results of the debt sustainability analysis**



Source: Commission services.

Table 5.1: **Main assumptions of the scenarios**

		2022	2023	2024	2025	2030	2040	2050	2060	average 2023-2060
Nominal GDP growth (%)	Baseline scenario	15.5	6.6	4.3	3.6	3.2	4.0	3.6	3.6	3.7
	Higher risk premium scenario	15.5	6.6	4.3	3.6	3.2	4.0	3.6	3.6	3.7
	Low growth scenario	15.5	6.6	4.3	3.6	3.2	3.3	3.1	3.0	3.3
	Lower structural primary balance scenario	15.5	6.6	4.3	3.6	3.2	4.0	3.6	3.6	3.7
Re-financing rate (%)	Baseline scenario	3.0	3.1	3.3	3.4	4.1	4.2	4.0	4.0	4.0
	Higher risk premium scenario	3.0	3.1	3.3	3.4	4.1	3.8	3.9	4.0	3.9
	Low growth scenario	3.0	3.1	3.3	3.4	4.1	3.9	3.9	4.0	3.9
	Lower structural primary balance scenario	3.0	3.1	3.3	3.4	4.1	4.2	4.0	4.0	4.0
Primary balance (% of GDP)	Baseline scenario	-1.6	1.1	2.2	2.5	3.1	2.9	2.9	4.2	3.1
	Higher risk premium scenario	-1.6	1.1	2.2	2.5	3.1	2.9	2.9	4.2	3.1
	Low growth scenario	-1.6	1.1	2.2	2.5	3.1	2.9	2.9	4.2	3.1
	Lower structural primary balance scenario	-1.6	-0.8	0.5	0.8	1.4	1.2	1.2	2.4	1.4

Source: Commission services.

Table 5.2: **Main assumptions and results**

		2022	2023	2024	2025	2026	2030	2040	2050	2060	average 2023-2060
Assumptions	Primary balance (% of GDP)	-1.6	1.1	2.2	2.5	2.8	3.1	2.9	2.9	4.2	3.1
	Real GDP growth	6.0	1.0	2.0	1.2	1.2	0.7	1.7	1.6	1.5	1.4
	Nominal GDP growth	15.5	6.6	4.3	3.6	3.6	3.2	4.0	3.6	3.6	3.7
	Re-financing rate (10 year maturity)	3.0	3.1	3.3	3.4	3.5	4.1	4.2	4.0	4.0	4.0
Results	Gross financing needs (% of GDP)	15.3	11.0	11.6	10.5	13.4	12.1	12.6	10.3	3.8	
	Gross goverment debt (% of GDP)	171.1	161.9	156.9	152.4	148.3	127.0	95.8	61.1	24.9	

Source: Commission services.

ANNEX 1

Table of Commitments

Progress with the implementation of specific commitments agreed between the European institutions and the Greek authorities to be completed by the autumn of this year, as set out in the fourteenth enhanced surveillance report

Commitment	State of play
(*) Fiscal. Greece presents its 2023 Draft Budgetary Plan compliant with the Stability and Growth Pact.	On 15 October 2022, Greece submitted the Draft Budgetary Plan for 2023. Overall, the Commission is of the opinion that the Draft Budgetary Plan for Greece is in line with the fiscal guidance contained in the Council recommendation of 12 July 2022. Based on the Commission's forecast and including the information incorporated in the Draft Budgetary Plan, the growth of nationally-financed current expenditure is projected to be below the medium-term potential output growth. Greece plans to finance additional investment through the Recovery and Resilience Facility and other EU funds, and it plans to preserve nationally-financed investment. It plans to finance public investment for the green and digital transitions. Nevertheless, there remains scope to better target measures adopted to counter the economic and social impact of the exceptional increases in energy prices, and to preserve the price signal to reduce energy demand and increase energy efficiency.
(*) Arrears. Material clearance of non-pension arrears and full clearance of pension arrears (due in August).	**Non-pension arrears have been declining in the past months, however the stock remains above the target.** According to August 2022 data, the stock of non-pension arrears amounted to EUR 496 million, down by EUR 32 million compared to the stock in March 2022 reported in the last enhanced surveillance report, corresponding to a deviation from the target by EUR 318 million (0.15% of GDP). Hospitals and extra budgetary funds account for 79% of the underperformance. The deviation from the

	target can be mainly attributed to the persistent high energy costs and general inflationary pressures but also to some remaining structural weaknesses, especially in the clearance of arrears of public transport companies and the Ministry of Transport. **Against this background, additional actions have been put forward, targeted especially at entities that continue to hold a high stock of arrears**. As concerns extra budgetary funds, and more specifically public transport companies, the planned actions aim to overcome the inefficiencies observed in processing the grants. For that reason, these companies have initiated the procedure that will allow them to request additional grants to cover the increased energy costs of the third quarter of 2022. The respective grant is expected to be transferred to these companies at the beginning of December at the latest. In addition, the Ministry of Transport in cooperation with the Ministry of Finance has taken all the necessary actions in order to extend the validity of the law which permits the state to give additional grants to public transport companies for high energy costs also in 2023. The legal amendment is expected to be voted within December. Finally, the Ministry of Labour and Ministry of Transport will issue, by end of November, the ministerial decision for grants compensating the companies for lower tariffs linked to the conduct of social policy. Regarding hospitals, the Ministry of Health and the health fund have already transferred the remaining regular financing to hospitals allowing them to clear their arrears by the end of the year. An additional extraordinary grant of EUR 150 million for hospitals will be disbursed by the state reserve within November, increasing further their liquidity. **The pension arrears' clearance has shown overall good progress, but the agreed target has not been met and full clearance is now expected**

	to be achieved by February 2023. The stock of pension arrears decreased to EUR 70 million in August 2022 compared to EUR 200 million in March. Although the actual flows of new pension applications in 2022 were higher than anticipated in the clearance plan (by around 24%), the stock of pension arrears decreased steadily. The good performance can be attributed to the timely completion of all agreed actions to optimise and simplify the existing pension award IT and procedures. In addition, a new automation mechanism was introduced which can calculate all the outstanding debts of insured applicants which are deducted from ultimate pension payments resulting in a much more accurate estimate of pension arrears. **While structural bottlenecks remain, the extraordinary circumstances posed by the pandemic and the energy crisis added more complexities to the arrears' clearance over the past years.** The pandemic had caused disruptions in labour-intensive clearance processes and affected the collection of data on arrears which resulted in slowing down the pace of clearance. Similarly, persistent high energy costs and inflationary pressures resulted in higher spending, posing further difficulties to achieve the clearance targets. On top of these extraordinary circumstances, the elimination of the remaining stock is the most difficult as it often relates to aged arrears or more complex cases. Despite the difficulties, the authorities plan to continue their efforts to materially clear the non-pension arrears by December 2022 and to fully clear the pension arrears by February 2023 in order to avoid curtailing liquidity to the private sector especially at the current juncture.
Tax administration. Operationalisation of the complete IT system in local tax offices incl.	**The end-to-end IT tax collection system is fully operational across the Independent Authority for Public Revenue, extending across its local tax offices (incl. Attica and Thessaloniki), thereby completing the**

Attica and Thessaloniki (due in September).	**commitment.** The end-to-end collection system is now used by the central services of the Independent Authority, including the directorate of collection and tax refunds, the large debtor unit, the audit centre for high-wealth individuals and the audit centre for large enterprises. Further, 66 of the Independent Authority's local tax offices are also connected. The new IT system ('EISPRAKSIS'), which was co-financed by EU funds, will allow the Independent Authority to have a complete overview of the tax and customs obligations for each tax registration number. This information will facilitate the audits through grouping of specific categories, while also reducing the administrative cost for each check. The new IT system is also expected to improve the service to citizens and businesses, as it will allow the Independent Authority to reply in a more complete and swifter manner to queries received.
(*) Health care – collection of clawback For providers, • notification to providers and start of the administrative procedure for the collection of the remaining 30% of the 2021 clawback through instalments (enrolment of providers into instalment scheme) to be achieved by end-July; • collection of at least 35% of the providers clawback for 2022 by October. For pharmaceuticals, • completion of the calculation of the 2021 clawback by June; • collection of 95% of rebates for 2021 by July; • collection of at least 35% of the clawback of the second semester of 2021 and at least 50% of the overall clawback for	**The collection of the clawbacks is progressing broadly on track and the authorities have met the targets set for October 2022 both in the area of providers and in that of pharmaceuticals.** The procedure for the collection of the outstanding amount of the providers' clawback of 2021 was launched in September. As an exception for 2021, the timeline to collect this amount has been extended to a maximum of 120 instalments. This is because the collection is constrained by the level of transactions. Concerning 2022, the authorities have currently collected on a rolling basis approximately 40% of the estimated providers' clawback of the year. For pharmaceuticals, the 2021 clawback was quantified at EUR 886 million for outpatients alone. While the collection of rebates for the same year has reached 97%, the collection of the actual clawback has reached approximately 61%, which exceeds the target of at least 50% set for October. **While the collection of the clawback is generally keeping a regular**

2021 by October.	**pace, the amounts that are being clawed back remain high and have been increasing progressively in the past years, warranting structural containment in the future.** Summing up outpatient and inpatient pharmaceuticals, the level of the clawback for 2021 is EUR 1510 million (EUR 886 million and EUR 624 million respectively – note that for inpatients the clawback figure does not allow to disentangle rebates). Going forward, to ensure collection remains regular, it will also be key to contain the increase of the clawbacks structurally. The authorities are working on strengthening existing measures and on introducing new ones. With a view to a future structural containment, it is key to expand the availability and enforcement of therapeutic and prescription protocols as well as to implement the integration of laboratory tests and diagnostics in the patients' e-medical record.
Health care – primary health care Substantial progress towards the implementation of the primary health care system including: i) by early-June, the secondary legislation will be adopted, ii) by end-June, the IT infrastructure for registration and appointments will be completed, and patient registration will start with the objective of reaching 25% of the total population registered in the system by end-October and 50% by end-2022; iii) by end-July, the registration of self-employed family doctors to the system will reach a level that allows to cover at least 85% of the population; iv) by October, the incentives/disincentives scheme for registration and gatekeeping will be activated.	**The implementation of the primary health care reform is progressing, but staffing remains a challenge.** The authorities completed the adoption of the legislative package for primary health care during summer. On the side of infrastructure, the IT system has been completed and patient registration has started. The rollout of the new model of primary health care has so far encountered a positive response from the population and the targets for patient registration envisaged by October 2022 were met and even exceeded. Given that registrations have almost reached the system's current capacity in terms of available personal doctors in areas such as Attika, the activation of the financial penalties for citizens who are not registered has been postponed to the beginning of December 2022. This was deemed necessary not to place a burden on citizens who may be willing to register but who are faced with lack of availability of providers. At present, the number of personal doctors only allows for the coverage of 70% of the population. The authorities have launched a call to specialists to join the system as

	personal doctors. The authorities are encouraged to work in parallel on a set of measures to fill any remaining gaps to enhance access to primary health care for the population. This could consist of a set of disincentives for general practitioners and internists through a limitation of the possibility to prescribe health-care goods and/or services. Indeed, ultimately setting up a comprehensive primary health care system that can guarantee equal access to the whole population underpins this reform process and thus remains a key element.
Health care – centralised procurement Verification of the target being met; regular updates on progress with procurement activity up to October.	**The 40% target of launched tenders for centralised procurement has been met.** Following the revision of the legislative framework in 2021, the centralised health procurement body EKAPY has been working on issuing new tenders to meet the target of 40% of the eligible value of hospital budgets to be used through centralised procurement. At the time of the publication of this report, a total worth of EUR 60 million has been contracted, whereas tenders for a value of EUR 240 million currently still need to go through the second round of negotiations and a decision by the Court of Auditors. For these, contracts are expected to be signed by the end of December.
(*) Financial stability - insolvency framework Launch of Competitive Dialogue for the sale-and-leaseback entity with pre-selected interested investors (end-September).	**Following the call for interest and the pre-selection of interested investors, the launch of the competitive dialogue for the sale-and-leaseback entity was completed on 10 November, fulfilling the relevant commitment.** The competitive dialogue will lead to the launch of a call for binding offers in mid-March 2023 and the issuance of the requisite ministerial decisions linked to the operation of the sale-and-lease-back entity. The entire process, including the award of the contract and its ratification in Parliament, is expected to be finalised by end-August 2023 at the earliest, which will pave the way for the new entity to be established and become operational not earlier than the fourth quarter

	of 2023. The interim support scheme for the protection of primary residences of vulnerable households has also become operational in mid-September and will ensure a smooth transition until the new entity commences operations. The scheme will provide a subsidy on loans secured by collateral on the primary residence of "certified" vulnerable debtors (under the new insolvency code), who have been declared bankrupt or whose primary residence is about to be auctioned. The take-up of this scheme has been limited so far.
Financial stability - state guarantees backlog Progress with processing of claims and actual payments according to agreed targets in the April 2022 clearance plan. In particular, called guarantee claims worth EUR 470 million will be examined by September 2022, with payments of EUR 156.5 million in the same period.	**The processing of the backlog of called state guarantees progressed strongly in the third quarter but actual payments remain behind schedule and would need to be sped up substantially to achieve the agreed targets.** By end-September, the authorities reached the agreed target with respect to the number and value of processed claims in the second and third quarter of 2022. However, there was a lag in payments with 72% of the overall target reached. In order to clear part of the payments put on hold, a new explanatory legal provision has been adopted ([26]), allowing the payment of guarantees on loans that were transferred to another legal entity without prior approval by the guarantor. This applies to an estimated EUR 257 million overall, of which EUR 148 million have already been processed and put on hold. The recruitment process has been completed for 31 out of the planned 35 additional staff brought in to expand processing capabilities, while for the remaining 4 positions, the successful candidates have been called to submit their documents. Taking account of the current state of play and capacities, the authorities have revised their action plan: natural persons' claims are expected to be fully examined by the fourth quarter of 2023, i.e. one

([26]) Art. 161, L. 4972/23.09.2022

	quarter later than initially targeted; the targets for the completion of all payments are moved by two quarters and are now set for the end of the third quarter of 2024 for natural persons' claims and by end-2024 for corporate claims. While the work on the authorities' side is expected to be completed by end 2024, the full payment of some of the claims will depend on the timing and outcome of pending court cases or on the timely submission of supporting documents by banks. The authorities have committed to provide regular monthly updates in the context of post-programme surveillance on the pace of clearance.
Financial stability - elimination of the backlog of household insolvency cases i. 95% of cases with re-defined hearing dates ([27]) will have a hearing date set by end-October; ii. of which 70% will be no later than the end of 2022; the remaining 5% of re-defined cases will have a hearing date set at the latest by end-2022; iii. final court decision, which will close the case, will be issued for 25% of the cases that have been heard until end-October.	**The clearance of the backlog of household insolvency cases has continued at a steady pace and the targets for final court decisions of heard cases and for the share of cases to be heard by end-2022 have been met; the setting of hearing dates is lagging slightly behind schedule and the authorities are planning to reach the target by end-2022.** More specifically, 47 904 pending applications (i.e. 99.9% of the total) were validated by end-October 2022, of which 42 072, or 88%, were assigned a new hearing date. 5 832 cases have not yet received one. The authorities expect to reach the target of 95% of validated cases receiving a hearing date by end-2022. Out of the cases that have received a hearing date, 6 860 (16.3%) were heard in 2021, 33 371 (79.3%) were scheduled for a hearing within 2022, and 1 841 (4.4%) within 2023. On this evidence, the deliverable target of having 70% of the cases assigned a hearing by end-October 2022 brought to trial before the end of 2022 has been attained. According to the authorities, a total of 35 201 cases (or 83.7% of those assigned a hearing date) were estimated to have been

([27]) Law 4745/2020 (OJ A 214/06 November 2020) put in place a mechanism allowing household insolvency debtors, who had already petitioned the courts for a reduction and rescheduling of their loan, to file a request for the replacement of a distant hearing date by one in the nearer future (i.e. re-defined hearing dates).

	heard cumulatively by 31 October 2022, pending confirmation from court secretariats. Out of these heard cases, a final court decision has been reported for 42% of them, i.e. 14 895 of cases, which confirms that the pace of issuance has steadily increased over the past three months (from 9 390 decisions issued in July). In conclusion, the number of issued final court decisions fulfilled the relevant deliverable for 25% of the cases heard until end-October 2022, even though a further acceleration is possible. The European institutions have underlined to the authorities the importance of improving timely visibility of issued court decisions, including non-final (so-called interlocutory) decisions, given that court secretariats, short on staff, do not consistently upload the relevant data.
Justice. The enhanced functionality of the e-filing platform in administrative courts will be fully developed and put in pilot mode operation until end-June 2022. Upon successful completion of the pilot phase, the enhanced functionality will be fully available.	**Following the successful completion of the pilot phase, the operationalisation of the administrative courts' e-filing platform in its full functionality has been implemented as of September 2022, allowing for the e-filing of procedural documents and submissions, thereby completing the commitment.** The platform enables the electronic filing of initial and subsequent submissions, memoranda, and all kinds of procedural documents, by administrative authorities and legal professionals alike, in the context of pending judicial procedures. Regarding the uptake of the available functionality, the authorities reported full use by the Council of State, while the remaining administrative courts (first-instance and courts of appeal) are expected to commence using the functionality of the platform for the full range of documents (beyond initial submissions), as of the beginning of 2023, whereupon declaratory notices will be issued by the general directorate of administrative courts. As a matter of precaution, physical filing will be allowed to run in parallel with e-filing, as a transitional step, to avoid the creation of, or to remedy to, procedural mishaps liable to occur due to remaining infrastructure insufficiencies or interconnection issues with IT

	systems of other state authorities or entities.
Cadastre – Forest maps Progress according to the agreed road map. In particular, 65% of total property rights will be in operation or publicly presented and ratification of 95% of forest maps will be completed by end-September.	**Cadastral mapping and the ratification of forest maps have seen good progress reaching the agreed targets and thereby fulfilling the commitment.** The cadastral mapping has been completed for 69.8% of the property rights of the country (rights in operation or publicly presented). This corresponds to 27.3 million out of 39.1 million rights. In addition, 7.1 million rights (18.1%) have been declared by the citizens and are now being processed. Another 4.3 million (11.0%) are contracted and currently in the phase of property declarations. In total, the cadastral mapping for 98.9% of the country is either completed or contracted and under implementation. It is expected that by end 2023, the cadastral mapping will be fully completed and ensuring the necessary financing will be key. According to the Hellenic Cadastre's Management Information System the total progress of the project is at 78.5%. This compares to 36% of progress that was recorded at the beginning of the third economic adjustment programme in 2016. The transition to the new Agency has also progressed, but at a slower pace due to lack of heads of cadastral offices, as was reported in previous reviews. As of today, 57 out of 92 cadastral offices and branches have been set and are operational, but the number of branches that are needed may be reduced as the digitalisation of the former mortgage offices currently underway will reduce the need for physical presence. The commitment on forest maps has also been completed, as by November 2022, 95% of the maps have been ratified.

(*) Hellenic Corporation of Assets and Participations (HCAP) - Implementation of the Strategic Plan. Legislation to modernise the legal framework for state-owned enterprises will be adopted (June). The eligible portion of 10 119 real estate assets belonging to the Ministry of Finance will be identified and transferred to the Public Real Estate Company (ETAD) by end-June. For the real estate assets belonging to other ministries, the completion of the verification process is planned for end-June and the eventual transfer by end-October.	**The law on state-owned enterprises (SOEs) has been adopted** (4972/2022 FEK 181/A/23-09-2022). The new law significantly strengthens the governance of SOEs and the independent commercial operation of HCAP's subsidiaries. The law has two parts, one dealing with SOEs outside HCAP, and the other covering those inside HCAP's portfolio. For SOEs outside HCAP, the new law clarifies various governance aspects, including processes for appointing boards of directors. It provides for the development of a digital register of SOEs, to improve the transparency in the sector. As inspired by OECD best practices, the law requires the State to prepare an ownership policy for the SOEs under its control, and contains a new framework for setting objectives and performance evaluation. For the benefiting SOEs in HCAP's portfolio, the new law gives HCAP, as sole shareholder, authority over budgeting and business planning. The companies will have greater flexibility in hiring, procurement, and remuneration (including frameworks for performance-based bonuses if SOE's overall targets are met). The new law should enable HCAP to ensure that the SOEs in its portfolio deliver improvements in their products and services, and in their financial performance. HCAP has begun applying the provisions of this new law and is requiring its portfolio SOEs to submit updated business plans aimed to achieve ambitious new service and financial goals. This reform is a very important step towards enabling SOEs to operate along private sector lines and reforms should continue in this direction as the implementation of the new law shows results. **The identification of the eligible portion of the 2018 package of public real estate assets and its transfer to the Public Real Estate Company (ETAD) is advancing.** The results indicate that a very large proportion of

	those assets are ineligible for transfer to ETAD (such as riverbanks, forest areas, wetlands or plots of land of special cultural or archaeological interest). The process so far has identified and transferred to ETAD 186 eligible assets. The process of screening assets for transfer to ETAD had been hampered in areas where the cadastre and the forest maps had not been completed, and by the generally limited quality of data that had been available. The screening process has resulted in a significant improvement in the data available. The authorities have confirmed that this is an open process, and properties currently assessed ineligible on the basis of the available data could have their status reviewed if new relevant information came to light. HCAP has prepared a comprehensive strategy for the management of the public real estate assets and this draft strategy is currently being assessed by the Ministry of Finance. Moreover, the Ministry of Finance is preparing legislation for regularising the status of those public real estate assets that have been illegally occupied by private parties. This new legislation will aim to resolve a longstanding issue, which affects assets in ETAD's portfolio. As noted in previous reports, ETAD has not delivered as yet satisfactory performance across its portfolio and a strategy for significantly improving such performance will be developed as a priority. Further to the Council of State decision relating to the ownership of the majority stakes in the water utilities of Athens and Thessaloniki, appropriate legislative provisions have been adopted (articles 114 and 115 of law 4964/2022 FEK A 150/30.7.2022) clarifying how the Corporation will exercise its rights as a majority shareholder of these utility companies

	and contribute to the fulfilment of the State's constitutional obligation to provide uninterrupted and high-quality water and sewerage services to the society.
HCAP - Transfer of the Olympic Athletic Centre (OAKA) to HCAP Further progress on the preparation of the detailed feasibility study, including a relevant business plan, based on the guidelines depicted in the consultants' strategic action plan.	**The call for tenders for the preparation of the detailed feasibility study and business plan is expected to be launched in November 2022 and to be completed in the third quarter of 2023**. The key objective remains to ensure that OAKA can generate enough revenue to guarantee the financial sustainability of a high-quality urban athletics and leisure facility over the long term, covering not just maintenance, but expected improvements and capital investments.
Privatisation All outstanding actions from the Asset Development Plan will continue to be monitored. In particular: • **Public Gas Corporation (DEPA) Infrastructure:** Financial closing is expected by mid-June. • **Egnatia Odos:** Completion and operation of one frontal and three lateral toll stations and the submission of the file to the Court of Audit by end-July. • **Gournes Heraklion:** Financial closing is expected in the fourth quarter of 2022. • **Attiki Odos:** Launching of the binding offers phase is expected in July. • **Regional port of Alexandroupolis:** The selection of the preferred investor is expected by end-July. • **Regional port of Igoumenitsa:** Submission of binding offers and selection of the preferred bidder in the third quarter of 2022. • **Concession of Underground Gas Storage of South**	• **DEPA Infrastructure**: The tender has been financially closed on 1 September 2022. • **Egnatia Odos: The Hellenic Republic Asset Development Fund has launched the pending studies for defining the works required for licensing 16 tunnels.** Upon the completion of these studies, the tendering and the completion of the required works, the tunnel's licencing process is expected to be undertaken by the Public Authority for Tunnels and be finalised in the course of 2023. Moreover, **four new toll stations have been constructed and are already operational.** The Ministry of Infrastructure and Transport monitors closely the timely fulfilment of all the transaction prerequisites so as to avoid any major concession amount waivers or financial compensations to be paid to the concessionaire. The preferred bidder submitted successive requests for extending the period of finalisation of tender documents, thus delaying the completion and submission of the file to the Court of Audit for the pre-contractual audits needed for the conclusion of the concession agreement. These delays were requested in light of the complexity of this long toll road transaction.

Kavala: Binding offers in July and selection of the preferred investor by October subject to the timely issuance of the tariff setting framework by the Regulatory Authority for Energy. • **Regional port of Heraklion:** Submission of binding offers is scheduled by end-October.	• **Gournes Heraklion: ongoing as scheduled.** Financial closing is expected by the end of 2022. • **Attiki Odos: ongoing as scheduled.** The binding offers phase was launched on 8 July with eight interested parties being pre-qualified and for the tender to proceed, the Ministry of Infrastructure and Transport will provide clarity on the tolling policy. • **Regional port of Alexandroupolis:** In the context of Russia's war of aggression against Ukraine the strategic geopolitical importance of this port has dramatically changed. The Hellenic Republic Asset Development Fund has therefore cancelled the privatisation procedure that had been launched under totally different conditions and plans the development of the port following a model suitable for the current challenges and circumstances. • **Regional port of Igoumenitsa: ongoing as scheduled.** The improved offers process was completed on 6 October 2022. • **Concession of Underground Gas Storage of South Kavala:** The decision of the Regulatory Authority for Energy on the Underground Gas Storage Tariff Regulation Framework was issued on 19 July 2022. In light of the energy crisis, the Ministry of Environment and Energy is considering to use part of this storage facility for the national strategic gas reserves. A decision is expected to be taken by the Government by the end of 2022. **Regional port of Heraklion: ongoing**. The deadline for the submission of binding offers is rescheduled for the first quarter of 2023 so as to incorporate improvements in the tender documents, as per the lessons learnt from the preceding port privatisation transactions, in a way that can **shorten the overall duration of the transaction.**

Legal codification The draft codified legislation will be presented by June and all codified labour legislation will be adopted by October.	**The codification of the labour legislation is facing delays.** The Ministry of Labour and Social Affairs has prepared a draft codification of labour laws covering more than 100 years with the support of a scientific committee. The draft codification has subsequently been sent to the Secretariat General for Legal and Parliamentary Affairs for its review as a matter of priority. The process for the codification of the Individual Labour Law, i.e. part of the labour legislation, is close to completion and a Presidential Decree is expected to be adopted it in the coming weeks. The codification of the remaining labour legislation will require additional work and is expected to be completed by the end of March 2023.

ANNEX 2
Debt Sustainability Analysis

This Annex assesses fiscal sustainability risks for Greece over the short-, medium- and long-term. It follows the same multi-dimensional approach as the 2021 Fiscal Sustainability Report, updated based on the Commission 2022 autumn forecast. ([28])

A.1. SHORT-TERM RISKS

Greece is assessed to face low fiscal sustainability risks in the short-term. The Commission's early-detection indicator (S0) does not signal major short-term fiscal risks. Government gross financing needs are expected to remain manageable, at around 11% of GDP in the short-term (i.e. over 2023-2024), and declining compared with the recent peak in 2020 ([29]) (Table A.1).

A.2. MEDIUM-TERM RISKS

Medium-term fiscal sustainability risks for Greece appear high. According to the Commission DSA for Greece, under the baseline, the government debt-to-GDP ratio is expected to remain at a high level over the medium-term (at 125% of GDP in 2033), despite a declining trend since 2020 (Graph A1). ([30]) These baseline projections rest on a 'no-fiscal policy change' assumption where no additional fiscal measures are incorporated beyond the forecast horizon (2024). The assumed structural primary balance appears slightly less ambitious than past historical fiscal performance. ([31]) At the same time, the baseline projections up to 2033 benefit from a favourable nominal interest-growth rate differential, with real GDP growth at around 0.9% of GDP over 2025-2033. Government gross financing needs are expected to remain broadly stable over the projection period, reaching around 14% of GDP in 2033, slightly above the level forecast for 2024.

These baseline projections are stress-tested against alternative assumptions. Four alternative scenarios around the baseline illustrate the impact of changes in key assumptions (Graph A.1). ([32])

Reverting to historical fiscal trajectories under the 'historical structural primary balance' scenario would decrease the government debt ratio. If the structural primary balance (SPB) gradually converged to a surplus of 3.8% of GDP (its historical

([28]) The assumptions underlying the Commission's 'no-fiscal policy change' baseline notably comprise: (i) a structural primary surplus, before ageing costs, of 2.5% of GDP as of 2024; (ii) inflation converging linearly towards the 10-year forward inflation-linked swap rate 10 years ahead (which refers to the 10-year inflation expectations 10 years from now); (iii) the nominal short- and long-term interest rates on new and rolled over debt converging linearly from current values to market-based forward nominal rates by T+10 (as for all Member States); (iv) real GDP growth rates from the Commission 2022 autumn forecast until 2024, followed by EPC/OGWG 'T+10 methodology projections between T+3 and T+10, i.e. for 2025-2033 (on average 0.9%); (v) ageing costs in line with the 2021 Ageing Report (European Commission, Institutional Paper 148, May 2021). For information on the methodology, see the Fiscal Sustainability Report 2021 (European Commission, Institutional Paper 171, April 2022).

([29]) The strong reduction of GFN is due to the improving primary balance and lower debt amortisations.

([30]) The baseline debt projections show the projected government debt and its breakdown into the primary balance, the snowball effect (the combined impact of interest payments and nominal GDP growth on the debt dynamics) and the stock-flow adjustment.

([31]) Based on past historical performance, this value falls within the lower range of the distribution. This means that in the majority of the past 15 years structural balance was better than what is currently assumed in the baseline projection.

([32]) The 'historical SPB' scenario assumes that the structural primary balance (SPB) gradually returns to its past (15 years, i.e. 2007-2021) average level. In the 'lower SPB' scenario, the SPB level is permanently reduced by half of the cumulative forecast change (i.e. over 2022-2024) in the Commission 2022 autumn forecast. The 'adverse interest-growth rate' scenario assumes a less favourable snowball effect than in the baseline (i.e. the differential between market interest rates and nominal GDP growth is permanently 1 pp. higher). In the 'financial stress' scenario, the country temporarily (one year) faces higher market interest rates in 2023 (i.e. market interest rates are assumed to increase temporarily by 1 pp. in 2023). Moreover, a risk premium is added for those countries with a debt-to-GDP ratio exceeding 90% of GDP in 2022. This risk premium is equal to 0.006 times the excess of the 2022 debt level over 90% of GDP.

average), the projected debt-to-GDP ratio would be about 11 pps. lower than in the baseline in 2033.

Stress tests scenarios would lead to worse results, with particularly adverse developments under the lower SPB scenario. A permanent worsening of the macro-financial conditions, as reflected under the 'adverse interest- growth rate differential' scenario would result in a persistently higher government debt-to-GDP ratio, by around 10 pps. of GDP by 2033, as compared with the baseline. A temporary worsening of financial conditions, as reflected in the 'financial stress 'scenario, would lead to a higher public debt-to-GDP ratio by 2033 (+6 pps. of GDP) compared to the baseline. The 'lower structural primary balance' scenario would lead to a significantly higher government debt-to-GDP ratio by 2033 (+16 pps. of GDP) compared to the baseline.

Stochastic projections show a medium sensitivity of these projections against plausible unforeseen events. ([33]) These stochastic simulations point to 12% probability of the debt ratio in 2027 being greater than in 2022, entailing medium risk. In addition, such shocks point to significant uncertainty surrounding the government debt baseline projections (Graph A.2). ([34])

The fiscal effort required to bring the debt ratio below 60% of GDP within 15 years is high. The S1 indicator shows that, compared to the baseline, an additional fiscal consolidation of 3.5% of GDP would be needed, in cumulated terms over 5 years, to bring the debt-to-GDP ratio to the Treaty reference value of 60% by 2039. ([35]) In fact, the positive S1 value signals that the country has no room to reduce its primary surplus, without breaching the 60% of GDP reference target. This result is mainly driven by the current distance of the Greek government debt ratio from the 60% reference value (contribution of 6.7 pps. of GDP) and, to a lower extent, by the projected ageing-related public spending (contribution by 0.5 pp. of GDP), which more than offset the contribution from the favourable initial budgetary position (contribution of -3.0 pps. of GDP) (Table A.2).

A.3. LONG-TERM RISKS

Long-term fiscal sustainability risks for Greece appear medium overall. The S2 indicator points to low fiscal sustainability risks. ([36]) The indicator shows that, relative to the baseline, the SPB would not need to improve to ensure debt stabilisation over the long term. This result is underpinned by the favourable initial budgetary position (-1.6 pps. of GDP) and the projected decline in ageing-related costs (contribution of -1.9 pps. of GDP). Ageing cost developments are primarily driven by the projected decline of public pension expenditure (contribution of -2.0 pps. of GDP), which is only partly offset by health care spending (contribution of +0.6 pps. of GDP) (Table A.1). Yet, combined with debt

([33]) The stochastic projections show the joint impact on debt of 2000 different shocks affecting the government's budgetary position, economic growth, interest rates and exchange rates. The cone covers 80% of all the simulated debt paths, therefore excluding tail events.

([34]) The level of uncertainty is measured by the difference between the 10th and 90th debt distribution percentiles.

([35]) S1 measures the consolidation effort, in terms of the 5-year cumulative change in the structural primary balance compared to the baseline, needed to bring debt to 60% of GDP in 15 years. The risk classification based on S1 depends on the amount of consolidation required. If the S1 value (in pps. of GDP) is negative, the country is deemed at 'low risk'; if S1 value is between 0 and 2.5, the country is assigned 'medium risk'; and if S1 value is above 2.5, the country is assigned 'high risk'.

([36]) S2 measures the consolidation effort required to stabilise debt over an infinite horizon. If the S2 value (in pps of GDP) is lower than 2, the country is assigned 'low risk'; if S2 is between 2 and 6, the country is assigned 'medium risk'; and if S2 is above 6, the country is assigned 'high risk'.

vulnerabilities, as highlighted by the DSA, long-term risks are assessed as medium.

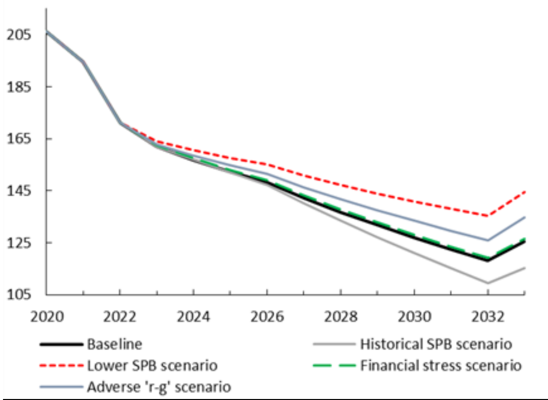
Finally, several additional risk factors need to be considered in the assessment. Several factors mitigate the risks. These include the large share of debt held by official lenders at low interest rates, and a particularly long maturity of debt compared with peer countries. At the end of 2021, a very high share of Greece’s government debt was held by official lenders and by the Eurosystem. Risk-increasing factors are related to the state guarantees granted recently, also in the context of the COVID-19 crisis. Contingent liability risks stemming from the high share of non-performing loans in the banking sector are also significant (also highlighted by SYMBOL simulations), though the share of non-performing loans witnessed a sharp reduction in the course of 2021. Furthermore, costs linked to pending legal cases against the state also pose fiscal risks.

Table A.1: **Baseline debt projections**

Table 1. Baseline debt projections	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Gross debt ratio (% of GDP)	**206.2**	**194.5**	**171.1**	**161.9**	**156.9**	**152.4**	**148.3**	**142.3**	**136.8**	**131.8**	**127.0**	**122.4**	**118.0**	**125.4**
Change in debt		-11.7	-23.4	-9.2	-5.0	-4.6	-4.1	-6.0	-5.5	-5.0	-4.8	-4.6	-4.3	7.3
of which														
Primary deficit		*-5.0*	*-1.6*	*1.1*	*2.2*	*2.5*	*2.8*	*3.0*	*3.1*	*3.1*	*3.1*	*3.1*	*3.1*	*3.2*
Snowball effect			*-23.7*	*-7.7*	*-3.7*	*-2.3*	*-2.0*	*-1.7*	*-1.0*	*-0.7*	*-0.5*	*-0.2*	*0.0*	*-0.2*
Stock-flow adjustment		*-0.7*	*-1.3*	*-0.4*	*1.0*	*0.3*	*0.6*	*-1.3*	*-1.4*	*-1.2*	*-1.3*	*-1.3*	*-1.3*	*10.7*
Gross financing needs (% of GDP)		20.6	15.3	11.0	11.6	10.5	13.4	12.5	11.6	12.1	12.1	12.4	13.3	14.1

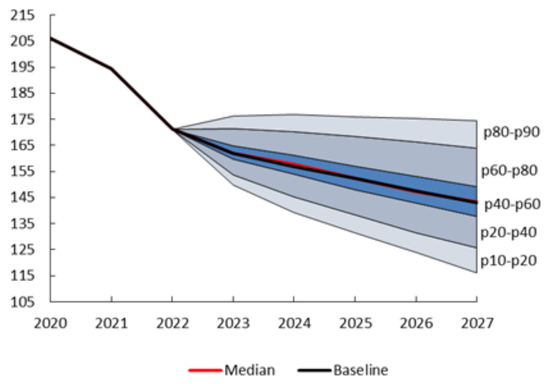
Source: Commission services.

Graph A.1: **Deterministic debt projections (% of GDP)**



Source: European Commission.

Graph A.2: **Stochastic debt projections (% of GDP)**



Source: European Commission.

Table A.2: **Breakdown of the S1 and S2 sustainability gap indicators**

			S1	S2
Overall index (pps. of GDP)			**3.5**	**-3.5**
of which				
	Initial budgetary position		-3.0	-1.6
	Debt requirement		6.7	
	Ageing costs		0.5	-1.9
	of which	*Pensions*	*-0.5*	*-2.0*
		Health care	*0.2*	*0.6*
		Long-term care	*0.0*	*0.0*
		Others	*-0.3*	*-0.5*

Source: European Commission.

Table A.3: **Heat map of fiscal sustainability risks for Greece ([37])**

Short term	Medium term										Long term	
			Debt sustainability analysis (DSA)									
					Deterministic scenarios							
Overall (S0)	Overall (S1+DSA)	S1	Overall		Baseline	Historical SPB	Lower SPB	Adverse 'r-g'	Financial stress	Stochastic projections	S2	Overall (S2+DSA)
LOW	HIGH	HIGH	HIGH	Overall	HIGH	HIGH	HIGH	HIGH	HIGH	MEDIUM	LOW	MEDIUM
				Debt level (2033), % GDP	125	114	141	135	131			
				Debt peak year	2022	2022	2022	2022	2022			
				Fiscal consolidation space	25%	21%	35%	25%	25%			
				Probability of debt ratio exceeding in 2027 its 2022 level						12%		
				Difference between 90th and 10th percentiles (pps. GDP)						58		

(1) Debt level in 2033. Green: below 60% of GDP. Yellow: between 60% and 90%. Red: above 90%. (2) The debt peak year indicates whether debt is projected to increase overall over the next decade. Green: debt peaks early. Yellow: peak towards the middle of the projection period. Red: late peak. (3) Fiscal consolidation space measures the share of past fiscal positions in the country that were more stringent than the one assumed in the baseline. Green: high value, i.e. the assumed fiscal position is plausible by historical standards and leaves room for corrective measures if needed. Yellow: intermediate. Red: low. (4) Probability of debt ratio exceeding in 2027 its 2022 level. Green: low probability. Yellow: intermediate. Red: high (also reflecting the initial debt level). (5) the difference between the 90th and 10th percentiles measures uncertainty, based on the debt distribution under 2000 different shocks. Green, yellow and red cells indicate increasing uncertainty.
Source: European Commission (for further details on the Commission's multidimensional approach, see the 2021 Fiscal Sustainability Report).

([37]) The heat map presents the overall fiscal sustainability risk classification. The *short-term risk category* is based on the S0 indicator, an early-detection indicator of fiscal stress in the upcoming year. The *medium-term risk category* is derived from the debt sustainability analysis (DSA) and the S1 indicator. The DSA assesses risks to sustainability based on several criteria: the projected debt level in 10 years' time, the debt trajectory ('peak year'), the plausibility of fiscal assumptions and room for tighter positions if needed ('fiscal consolidation space'), the probability of debt not stabilising in the next 5 years and the size of uncertainty. The *long-term risk category* is based on the S2 indicator and the DSA.

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