

IMF Executive Board Concludes Second Post-Program Monitoring Discussions with Greece

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November 30, 2020

Washington, DC: On November 20, 2020, the Executive Board of the International Monetary Fund (IMF) concluded the Second Post-Program Monitoring Discussions with Greece.

The pandemic interrupted a modest recovery. The government's early implementation of travel restrictions, a ban on public events, and other social distancing measures helped contain the initial outbreak. GDP contracted by 7.9 percent in 2020H1, moderately better than the Euro Area weighted average (-9 percent) and a further hit is expected in Q3, the peak of Greece's tourism season. Overall, the economy is expected to contract sharply in 2020, before gradually recovering over the medium term, supported by a recovery in private consumption, investment linked to privatization and the first tranches of Next Generation EU (NGEU) grants, and higher goods exports.

Greece's public debt remains sustainable over the medium-term with the pandemic-induced rise in debt vulnerabilities largely mitigated by a sizable cash buffer and NGEU funds, resulting in an adequate repayment capacity. Nonetheless, COVID-19 brings unprecedented uncertainty and downside risks to all sectors of the economy, amplified by Greece's crisis legacies. The main risks arise from a prolonged pandemic that would derail the anticipated rebound in tourism, and a significant deterioration of bank balance sheets. Staff will reexamine its long-run debt sustainability assessment during the next Article IV Consultation, which is envisaged to take place in the first half of 2021.

Executive Board Assessment [1]

Executive Directors agreed with the thrust of the staff appraisal. They welcomed the authorities' policy response to the pandemic, which has been swift, sizable, and appropriately targeted at hard-hit households and businesses. Noting that substantial

uncertainties and downside risks remain, they urged the authorities not to withdraw policy support prematurely.

Directors recommended maintaining targeted fiscal accommodation and making good use of fiscal space in the near term, while safeguarding medium-term sustainability. They encouraged frontloading fiscal support next year ahead of Next Generation EU (NGEU) grant disbursements, and ensuring effective use of these resources. Directors also underscored the importance of prioritizing health care spending, better targeting social support, and enhancing public investment execution. They welcomed the authorities' intention to rely progressively on viability assessments as the basis for targeting fiscal support to firms, debtors, and workers.

Directors noted that Greece's medium-term public debt repayment capacity remains adequate, but that it could be impacted if severe downside risks materialize. They highlighted that fiscal prudence, growth-friendly reforms, and continued regional support would be essential for long-term debt sustainability.

Directors agreed that the measures taken to cushion the pandemic's impact on banks should be gradually replaced by more tailored solutions to debtors in distress. They recommended a comprehensive approach to addressing long-standing weaknesses in banks, and a cost-benefit analysis of the asset management company under consideration to tackle non-performing loans. Directors stressed that effective implementation of the new insolvency code will be critical to facilitate debt restructuring while minimizing moral hazard.

Directors commended the authorities for advancing structural reforms despite the pandemic. They welcomed in particular progress in the areas of labor market flexibility and modernization, the business climate, digitalization, and green growth. Directors encouraged further efforts to facilitate re-skilling of the labor force, boost female labor force participation, and continue product market liberalization.

Greece: Selected Economic Indicators

Population (millions of people)	10.7	Per capita GDP (€'000)	17.5
IMF quota (millions of SDRs)	2,428.9	Literacy rate (percent)	97.1
(Percent of total)	0.51	Poverty rate (percent)	31.8

Main products and exports: tourism services; shipping services; food/beverages; industrial products; petroleum and chemicals.

Key export markets: EU (Italy, Germany, Cyprus, Bulgaria, Spain), Turkey, Lebanon, USA, UK.

GHG emissions per capita (tonnes of CO2 equivalent): 8.2 (10.9)

	2018	2019	2020	2021
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	(prel.)	(proj.)		
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Output

Real GDP growth (percent)	1.9	1.9	-9.5	5.7
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Employment

Unemployment rate (percent)	19.3	17.3	18.9	17.5
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Prices

CPI inflation (period avg., percent)	0.8	0.5	-1.1	0.6
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General government finances (percent of GDP) 1/

Revenue	47.8	46.8	47.7	49.7
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Expenditure	46.9	46.2	57.5	54.0
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Overall balance	0.9	0.6	-9.8	-4.3
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Primary balance	4.2	3.5	-6.8	-1.3
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Public debt	184.8	180.9	208.1	199.1
Money and credit				
Broad money (percent change)	4.3	4.2
Credit to private sector (percent change)	-7.5	-9.5
3-month T-bill rate (percent)	1.1	0.6
Balance of payments				
Current account (percent of GDP)	-3.5	-2.1	-7.5	-4.1
FDI (percent of GDP)	-1.6	-2.0	-1.6	-2.1
External debt (percent of GDP)	227.8	240.9	255.4	242.0
Memorandum item:				
Nominal GDP (billions of euros) 2/	184.7	187.5	168.2	179.3

Sources: ELSTAT; Ministry of Finance; Bank of Greece; World Bank, World Development Indicators; IMF, International Finance Statistics; IMF, Direction of Trade Statistics; and IMF staff projections.

1/ Based on the primary balance definition outlined in the EU enhanced surveillance framework with Greece.

2/ On October 16 ELSTAT updated the national accounts including a change of base year to constant prices series and a downward revision to growth in 2018 to 1.6 percent (2019 remains unchanged). Staff will incorporate these modifications once quarterly revisions to the historical growth path are released.

[1] At the conclusion of the discussion, the Managing Director, as Chairman of the

Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.IMF.org/external/np/sec/misc/qualifiers.htm>.

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