

COUNTRY RISK REPORT
GREECE AND ARGENTINA:
FINAL REPORT

Global Risk Management and Governance

Michel Bouchet

Group 5

Owens, I., Huling, J., Nurkollari, A., de Man, V., and Sportelli, M.

From 2021 to 2022, there has been a 34% increase in sovereign debt in default; to meet the EU's sustainable development goals (SDG), we believe in taking a proactive approach to the climate crisis by investing in the budding yet underfunded sustainable tourism sector. This will have a doubling effect on the job sector and provide needed economic incentives for FDI.

Tourism is an incredibly valuable export service for nations such as Greece and Argentina, accounting for 20.6% and 7.1% of GDP, respectively. The global tourism sector accounts for around 8% of global emissions and contributes 9% to the global GDP (World Travel and Tourism Council 2022). However, this industry is highly susceptible to the changing climate and disastrous effects, such as flooding, droughts, and wildfires. Therefore, to continue a successful exportation of tourism, nations must consider investing in projects that are favorable to environmental conservation and directly tackle global warming.

This blossoming industry is called sustainable tourism. According to the UNEP (2015), sustainable tourism refers to the practices in and by the tourism industry to understand its economic, social, and environmental impacts, while addressing the needs of tourists, the industry, the environment, and the community. The global ecotourism market was estimated at USD 170 billion in 2022 and is expected to expand more than twofold by 2028, with a sector forecast of USD 375 billion (Statista 2023).

Understanding that ecotourism is a valuable project investment, we will assess which nation the World Bank should invest in based on these questions: will the project help the country's economy, will it benefit the poorest people and increase economic opportunities for women, and what impact would it have on the environment, both now and in the future? With these questions, it is evident that Greece should receive Investment Project Financing from the IBRD to invest in ecotourism projects that will immensely benefit the country's economic growth. The project will not only provide advantageous economic opportunities for the Greek youth and female population, but it will also actively contribute to the EU SDGs and tackle the looming climate crisis.

As the report aims to produce a concise evaluation, the main factors considered have been the financial and environmental risks. The first two sections will provide a historiography of Argentina and Greece respectively, with an analysis of their financial health and contribution of the tourism industry to the overall national economy. A comparison and analysis will then debate the strengths and weaknesses of investing in either country, before providing a conclusion and recommendations for the investment of sustainable tourism in Greece.

1. The Historic and Economic Situation

1.1 Argentina

Argentina faces complex economic issues driven by significant currency devaluation, rampant inflation, and environmental challenges. In 2023, inflation reached 211.4%, the highest in over three decades, with the peso losing about 90% of its value against the dollar over five years (IMF 2024; Reuters 2024). In response, the government implemented policy adjustments targeting monetary and fiscal controls to manage inflation and stabilize the economy. Notably, the monetary base was reduced significantly in 2023, helping slow inflation temporarily (BCRA 2023). However, despite these measures, Argentina's economy was adversely affected by a severe drought in the second quarter of 2023, impacting agricultural productivity and contributing to a projected GDP decline of -2.4% for 2024. Climate risks further threaten economic stability, potentially disrupting critical sectors like agriculture and tourism (Global Risk Atlas 2021; BCRA 2023). Ongoing economic strategies have yet to address deeper systemic issues, such as financial dollarization, limited domestic savings, and high investment barriers. Administrative controls have exacerbated market distortions, leading to a wider trade deficit and depleted reserves. The IMF (2024) noted that Argentina's economic program had deviated considerably from expected outcomes, highlighting persistent challenges and unaddressed long-term economic imbalances.

Employment in Argentina also faces significant issues. The unemployment rate stands at 8%, with the youth unemployment rate at 18% (IMF 2023). As of the end of 2019, about 35 out of every 100 working-age individuals were inactive, not seeking employment, while only 20 were engaged in stable private-sector jobs (Brookings 2022). This situation underscores a deeper structural problem in Argentina, highlighting critical concerns about the stability and inclusivity of employment, particularly for the youth. This makes Argentina a difficult investment atmosphere for the World Bank.

Argentina is the largest debtor to the IMF, with an outstanding debt of \$42.9 billion (IMF 2024). The country has defaulted on its international sovereign debt nine times, including three defaults since 2001 during significant crises (FDI Intelligence 2024). According to the World Economic Forum (2023), debt crises and inflation are the top risks facing Argentina. It has also undergone two major debt restructurings (Brookings 2022; European Commission 2023).

The current account balance (CAB) shows significant fluctuations, recording a high deficit of \$31.15 billion in 2017 and a negative balance of \$6.1 billion by 2023 (World Bank

2024; CEIC 2024). The trade deficit in 2017 was driven by an upswing in the Brazilian economy, which increased exports from Argentina to Brazil (ECLAC 2017). Argentina's main exports include soybean meal, soybean oil, ground nuts, and vegetable residues, primarily to Brazil, China, and the US, specializing as a leading global exporter in these commodities (CEIC 2024). The current account balance has been negative for a long time, and from 2018 to 2019, it has picked up again. This mainly concerns the devaluation of the pesos, which has exacerbated the high inflation.

Projected for a -2.8% GDP growth in 2024, Argentina faces a worsening debt-to-GDP ratio currently at 80% (IMF 2024). The capital account has remained relatively stable, despite experiencing net outflows in 2022 due to global concerns affecting emerging markets, such as regulatory changes and geopolitical tensions impacting Chinese assets. Despite these challenges, Argentina's financial system has remained resilient, effectively managing fund intermediation and payment provisions (BCRA 2023). However, the global economic environment, characterized by high sovereign and private debt levels and volatile market valuations, poses additional risks. This environment, coupled with the rise of procyclical non-bank financial intermediaries, threatens to deteriorate the macroeconomic climate further, potentially destabilizing domestic economic activities and financial market stability. Given these factors, investment in sectors reliant on economic stability, such as tourism, is advised against.

Because most of the attention in this report goes to the investment opportunities in Greece, the Annex contains more information on the strengths and weaknesses of Argentina, also regarding the non-financial elements. This can be useful in case the World Bank decides to expand the investment program in Greece to the tourism industry in Argentina. This means not 'all eggs are put in the same basket' can lead to a more diversified risk base. However, this report addresses the major benefits of investing in the sustainable tourism industry in Greece.

1.2 Greece

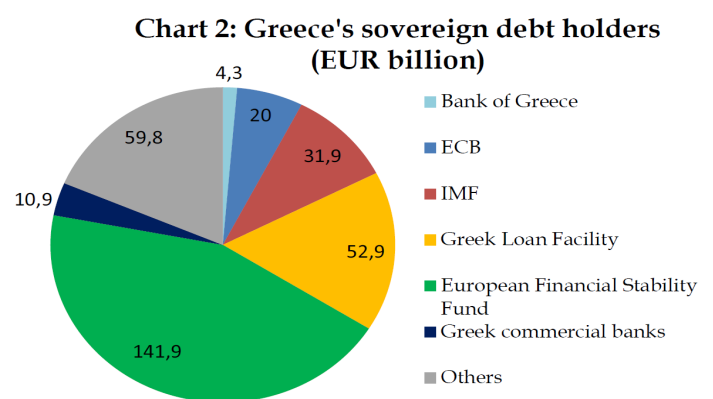
In 2023, Greece confronted its own set of economic challenges, marked by the repercussions of the COVID-19 pandemic, ongoing debt obligations, and shifts in the global economic landscape. The government enacted a series of measures to stimulate economic recovery, focusing on structural reforms and fiscal adjustments aimed at boosting growth while managing the country's high debt-to-GDP ratio. These reforms were intended to

enhance competitiveness, improve public sector efficiency, and attract foreign investment (European Commission 2024).

The Greek government also targeted inflation control through monetary policy measures. This included aligning with the European Central Bank's (ECB) broader policy framework to maintain price stability and ensure the health of the banking sector. The ECB's monetary policy, which includes asset purchases and targeted long-term refinancing operations, has had significant effects on Greece's inflation rates and liquidity within the economy. The normalizing energy prices contributed so that headline and core inflation decelerated to 3.8 and 3.6 percent (y/y), respectively, in October. The Bank of Greece, in coordination with the ECB, closely monitored the country's monetary conditions to prevent excessive inflation and maintain financial stability. (Οικονομικός Ταχυδρόμος 2023)

During the latter half of 2023, Greece's economic outlook has improved notably, with real GDP expanding beyond its pre-pandemic trend level, driven by tourism and a gradual revival in consumer spending. However, external vulnerabilities, such as fluctuations in global commodity prices and potential geopolitical tensions, remain a concern. Additionally, Greece's energy sector, reliant on imports, faces heightened risks due to ongoing global supply chain disruptions and volatile energy markets (European Commission 2024).

The Greek financial sector, which has undergone significant reforms in recent years, has shown improvement in terms of capital adequacy and non-performing loans (NPLs). Nevertheless, the legacy of high public debt continues to weigh heavily on the nation's fiscal health, constraining the government's ability to implement expansive fiscal policies. (IMF 2024)



Source: EFSF, IMF, ECB, Greek Finance Ministry, EPRS

The public debt-to-GDP ratio has declined below its pre-pandemic level, with debt financing risks contained in the medium term due to the favorable debt structure. With still very high debt, continued fiscal consolidation with the primary surplus increasing to 2.1 percent of GDP in 2024, up from the projected 1.1 percent in 2023. While international lenders, particularly within the European Union framework, continue to support Greece's economic recovery through financial assistance and policy guidance, the country remains susceptible to shifts in investor sentiment, potential interest rate hikes, and external economic shocks. Structural vulnerabilities, such as high unemployment rates and the need for further

labor market reforms, underscore the necessity for sustained policy efforts to bolster Greece's economic resilience in the coming years (IMF 2024).

Greece has navigated its complex debt challenges, emerging from a prolonged debt crisis that necessitated substantial international bailouts. As of 2023, Greece's public debt remains high, at around €350 billion, much of which is owed to the European Stability Mechanism (ESM) and the International Monetary Fund (IMF). The debt crisis led to severe austerity and economic downturns, pushing the debt-to-GDP ratio beyond 200% and resulting in significant defaults.

2. Balance of Payments: Comparison and Selection

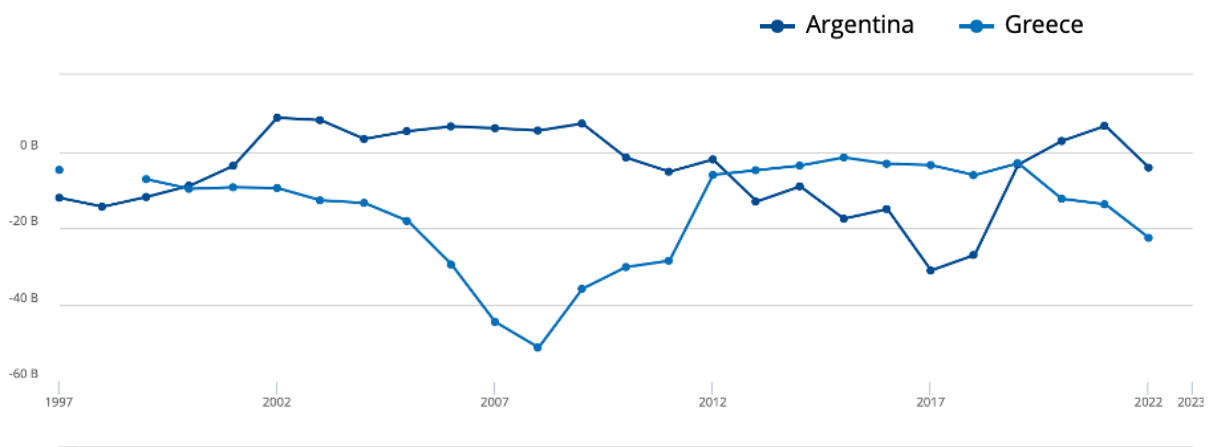


Figure 1 – The current account of Greece and Argentina in billion USD.

Greece's current account balance (CAB) has seen fluctuations influenced by its reliance on tourism and shipping. Before the COVID-19 pandemic, Greece had a CAB surplus, driven by tourism revenues that contributed about 12% of GDP, reaching nearly €18 billion in 2019. However, the pandemic led to a severe downturn, with tourism revenues dropping by 75%, resulting in a CAB deficit that widened to €11.1 billion in 2020.

In 2021, as travel restrictions eased, the CAB improved but remained in deficit at €8.6 billion, about 4.3% of GDP. By the end of 2022, the deficit reduced further to approximately 3.5% of GDP was helped by a recovery in tourism and exports, particularly in agricultural products and pharmaceuticals. Since the current account balance of Argentina is higher than for Greece, this means that Argentina is receiving more finances from exports and could, therefore, be more interesting for project financing. (Bank of Greece 2024)

For Greece, the capital account balance has exhibited significant volatility. In the mid-2000s, the capital account balance experienced a notable increase, potentially due to

increased foreign investments and EU structural funds. However, in 2011-2015, Greece saw significant net outflows linked to the country's debt crisis, with the economic turmoil leading to capital flight and a sharp drop in foreign investments.

The capital account balance stabilized between 2016 and 2019, with signs of recovery as Greece implemented reforms and received international aid. However, the COVID-19 pandemic caused another shift, leading to a sharp spike in the capital account balance in 2021, likely due to significant financial transfers for pandemic relief. In 2022, the balance saw another decline, reflecting economic uncertainty and changing investor sentiment. Despite the fluctuations, the data underscores the sensitivity of Greece's capital account to global economic conditions and domestic financial stability. Greece's stronger capital account suggests a more favorable environment for receiving investments related to capital transfers and asset sales (Bank of Greece 2024).

3. Economic Challenges and Financial Resilience

3.1 Economic Stability and Growth

Greece's journey toward economic stability and growth has been significantly shaped by its recovery from the financial crisis, followed by the recent challenges posed by the COVID-19 pandemic. Post-crisis, Greece has seen a gradual but steady improvement in GDP, which, according to Eurostat, began to stabilize and show positive growth from 2017 onwards (Eurostat 2022). This recovery has been supported by stringent EU economic policies and financial oversight, which aimed to restructure Greece's economic landscape and instill fiscal discipline. The European Commission's Country Reports on Greece highlight the implementation of these policies, noting their role in stabilizing the banking sector and improving public finances (European Commission 2021).

However, the onset of the COVID-19 pandemic in early 2020 disrupted this progressing recovery, particularly impacting the tourism sector, which is a cornerstone of the Greek economy. The Hellenic Statistical Authority (ELSTAT) reports a sharp decline in tourism revenues, which in 2020 plummeted due to travel restrictions and global lockdowns, severely affecting the broader economy (ELSTAT 2021). The Bank of Greece has documented these impacts, illustrating a contraction in GDP by 8.2% in 2020 (Bank of Greece 2021). Despite these setbacks, recovery signs became evident in late 2021 and continued into 2022, supported by a revival in tourism and increased consumer spending, signaling a resilient rebound in key economic sectors (Bank of Greece 2022). These dynamics underscore the interconnectedness of global health events with economic stability

and growth, highlighting the critical need for robust economic structures capable of withstanding such shocks (OECD 2021).

3.2 Financial Health

In assessing Greece's financial health, the nation's public debt management and fiscal policies underscore significant strides toward economic stability. As of the end of 2021, Greece's public debt was notably high at approximately 193% of its GDP, ranking among the highest in the European Union (European Stability Mechanism 2022). Despite these daunting figures, Greece achieved a primary budget surplus of 1.1% of GDP in 2019, facilitated by stringent EU and IMF programs before the setbacks induced by COVID-19 (IMF 2020). The European Stability Mechanism has been instrumental, disbursing over €205 billion through three successive adjustment programs aimed at economic reform and fiscal sustainability (European Stability Mechanism 2021).

The tourism sector, a vital component of Greece's economy, accounting for around 20.6% of its GDP in 2019, experienced a severe downturn in 2020 with revenues plummeting by approximately 75% due to the pandemic (World Travel and Tourism Council 2021). However, 2021 witnessed a significant rebound as travel restrictions eased, showing resilience and capacity for recovery (National Tourism Organisation of Greece 2022). Additionally, Greece's export performance improved markedly in the same year, with goods and services nearing pre-pandemic levels at around €33 billion, bolstered by sectors like food products and pharmaceuticals (Hellenic Statistical Authority 2022). The current account deficit, peaking at 7.8% of GDP in 2012, was reduced to 2.3% by the end of 2021, reflecting robust export activities and a revived tourism sector (World Bank 2021).

This economic overview is contextualized within broader EU trends as analyzed by World Bank data, indicating that Greece's efforts in curtailing its current account deficit are in alignment with other EU member states post-Eurozone crisis (World Bank 2022). The Bank of Greece projects continued economic growth, anticipating a 3.8% increase in GDP for 2022, driven by strengthening tourism and exports (Bank of Greece 2022). These developments not only illustrate Greece's economic resilience but also highlight the effectiveness of international aid and fiscal discipline in facilitating its recovery, positioning Greece's financial management and sectoral contributions within a narrative of gradual but definite economic rejuvenation.

4. Sectoral Analysis

The tourism sector in Greece plays a huge role in the nation's economy, accounting directly for approximately 20.6% of Greece's GDP and indirectly influencing nearly 25% of total employment in 2019 (World Travel and Tourism Council 2021). After a significant drop in 2020 due to the pandemic, where tourism revenues fell by about 75%, resulting in an economic shortfall of around €12 billion, the sector saw a vigorous recovery in 2021 (ELSTAT 2022). According to the World Travel and Tourism Council, the industry's resurgence approached pre-pandemic levels, with revenues climbing back to approximately €18 billion, nearly 90% of 2019 figures (World Travel and Tourism Council 2022).

The National Tourism Organisation of Greece has been actively promoting new development strategies to capitalize on this upward trend. These include expanding eco-friendly travel options and enhancing cultural tourism, which aims not only to recover losses but to increase the annual contribution of tourism to the GDP by attracting more off-season visitors, potentially adding another €10 billion to the economy by 2025 (National Tourism Organisation of Greece 2022). These efforts are geared towards stabilizing and expanding the tourism sector's substantial role in Greece's economic landscape (OECD 2022).

Greece is vigorously advancing its renewable energy initiatives, aligning closely with the ambitious goals of the European Green Deal, which aims to make Europe climate-neutral by 2050 (European Commission 2021). Under its National Energy and Climate Plan, Greece targets increasing its renewable energy capacity to 18.9 gigawatts by 2030, up from 9.4 gigawatts in 2020 (Hellenic Republic Ministry of Environment and Energy 2021). According to the Hellenic Republic Ministry of Environment and Energy, solar and wind energy are the frontrunners in this expansion, currently producing approximately 7.2 gigawatts, which represents about 35% of Greece's total electricity generation (Hellenic Republic Ministry of Environment and Energy 2022).

Supported by the European Green Deal's policy frameworks and financial support mechanisms, Greece is channeling significant EU funds towards enhancing its electrical grid capacity and spearheading new renewable projects. For instance, investments totaling over €5 billion have been earmarked for renewable ventures through 2023, aiming to bolster energy independence and reduce reliance on imported fossil fuels (European Investment Bank 2021). These developments are not only pivotal in reducing Greece's carbon emissions by an estimated 55% by 2030 but also in driving economic growth by creating thousands of jobs in the renewable sector (European Commission 2021). The concerted effort to integrate these

renewable projects with EU directives underlines Greece's commitment to achieving the broader goals of sustainability and environmental conservation across the continent (European Green Deal 2021).

Greece faces significant environmental risks that substantially challenge its economic stability and growth, particularly in tourism. Climate change manifests through increased frequency and intensity of extreme weather events such as wildfires, heatwaves, and flooding. For instance, the devastating wildfires in 2021 resulted in extensive damage to natural landscapes, infrastructure, and local economies, highlighting the vulnerability of Greece's rich biodiversity and tourism-reliant regions. Additionally, rising sea levels threaten coastal areas, where much of Greece's tourism infrastructure is located, potentially leading to economic losses and displacement of communities. Addressing these environmental risks through sustainable practices and resilience-building measures is critical for safeguarding Greece's future economic prospects and ensuring the long-term viability of its tourism industry.

5. Risks and Opportunities

In analyzing the risks and opportunities for Greece, particularly in the context of World Bank financing, it is crucial to consider both the geopolitical risks in the Eastern Mediterranean and the economic opportunities within the country. Geopolitically, Greece faces significant tensions in the region, particularly over maritime boundaries and resource rights. According to the Hellenic Foundation for European and Foreign Policy (ELIAMEP), these tensions have escalated military expenditures, with Greece allocating an estimated 2.58% of its GDP to defense in 2021, one of the highest rates in NATO (ELIAMEP 2022). The International Crisis Group further underscores the risk of conflict escalation, potentially affecting regional stability and economic confidence (International Crisis Group 2021).

On the opportunity side, Greece presents substantial potential for infrastructural development and digital transformation, areas where the World Bank can effectively contribute. The OECD highlights Greece's strategic initiatives to enhance its transport and digital infrastructure, with planned investments exceeding €12 billion over the next five years (OECD 2021). The European Investment Bank (EIB) supports these projects, having invested approximately €2.3 billion in 2020 alone to advance Greece's digital and transport networks (European Investment Bank 2021). These investments are expected to stimulate economic growth, improve efficiencies, and enhance competitiveness, aligning well with the World

Bank's goals to promote sustainable development and economic resilience (World Bank 2022).

6. Conclusion and Recommendations

This report has highlighted the significant progress in Greece's tourism sector, particularly focusing on the integration of sustainable practices that are critical for the sector's longevity and resilience. The tourism industry, which contributed approximately 20.6% to Greece's GDP in 2019, faced unprecedented challenges due to the COVID-19 pandemic with revenues plummeting by approximately 75% in 2020. Nevertheless, the sector demonstrated a strong recovery in 2021, witnessing a rebound to nearly 80% of the pre-pandemic levels by year-end, with projections indicating full recovery by 2024.

The rise of sustainable tourism in Greece, marked by an increase in eco-friendly accommodations and practices, reflects a broader shift towards environmental stewardship in the industry. Notably, regions like Santorini and Crete have seen a 30% increase in eco-certified accommodations since 2019, attracting a growing number of eco-conscious travelers. This trend is supported by data from platforms like Airbnb, which reported a 40% increase in bookings for properties with green certifications in the last year alone. The final recommendations are as following:

1. Investment in Eco-Friendly Tourism Infrastructure

Allocate funds to increase the number of sustainable projects across Greece, focusing on retrofitting existing properties with energy-efficient technologies and renewable energy systems. Such initiatives could potentially reduce carbon emissions from the tourism sector by up to 35% by 2030.

2. Support for Infrastructure Enhancements

Provide financing for the development of green public transportation and renewable energy installations in tourist-heavy areas. This could include solar-powered water heating systems and waste recycling plants, aiming to cut down on urban waste by 25% within five years.

3. Promotional Initiatives for Green Tourism

Partner with the Greek National Tourism Organization to launch international campaigns promoting Greece as a sustainable tourism leader. Highlighting successful case studies from Greek islands could attract further international interest and investment.

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The strategic investments proposed for the World Bank would not only support Greece's economic recovery but also promote sustainable growth within its tourism sector. These initiatives align with global sustainability goals and position Greece as an innovator in green tourism on the international stage.

Authors: Isobel Owens (isobel.owens@student-cife.eu), Jacob Huling (jacob.huling@student-cife.eu), Andrra Nurkollari (andrra.nurkollari@student-cife.eu), Vera de Man (vera.deman@student-cife.eu), Mattia Sportelli (mattia.sportelli@student-cife.eu)

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Appendix 1: Balance of Payments (BoP)

The balance of payments (BoP) is a fundamental indicator of a nation's economic health and its capacity to sustain foreign engagements. It is pivotal for assessing financial risks and identifying investment opportunities in Argentina and Greece in order to effectively allocate resources, supporting its overarching mission to foster sustainable economic development and reduce global poverty. This strategic use of BoP data ensures that investments are both impactful and aligned with the broader goals of enhancing global economic stability.

The current account

The figure below shows the Current Account Balance (CAB) of the BoP for the period 1997-2022.

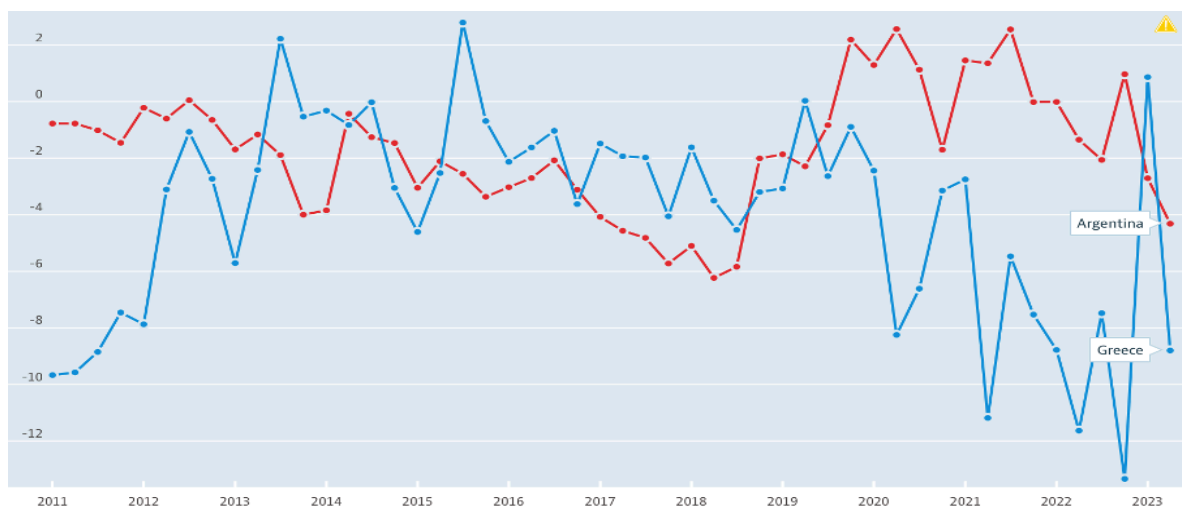


Figure 1 - Current account balance Argentina and Greece (OECD, 2024)

The capital account balance of payments refers to a component of a country's balance of payments that records all transactions involving the transfer of ownership of assets between residents of the country and non-residents. The figure below shows the net capital account for 2000-2022 and the amount on the left side is in million USD.

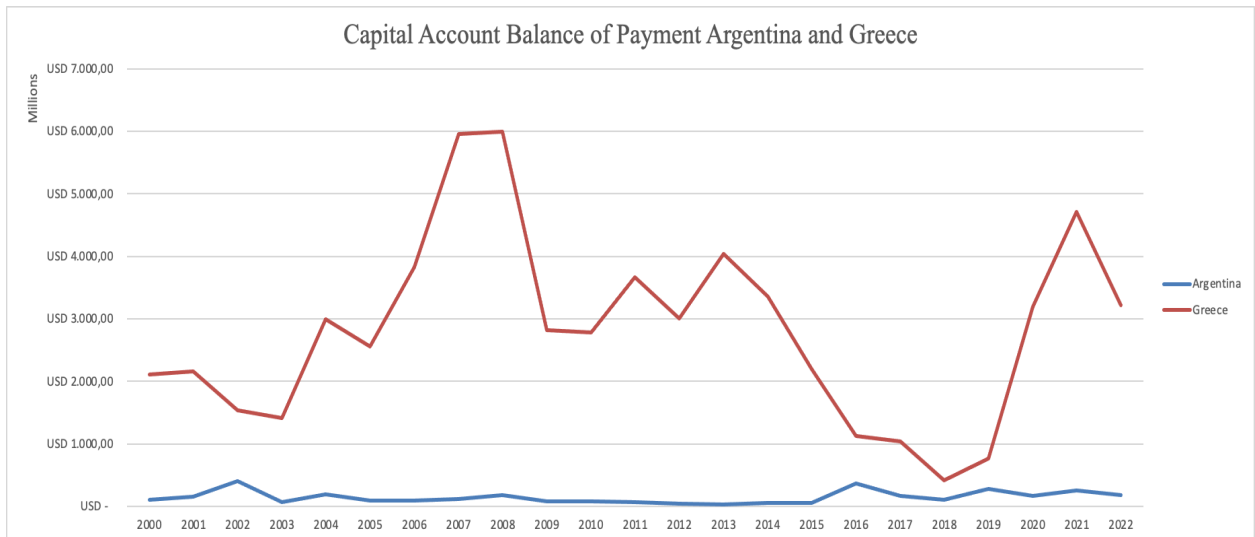


Figure 2 - The capital account Balance of Payments. Created by the authors, based on data from the World Bank (2024)

Appendix 2: Data overview

Summary of the risk exposure for financing for Argentina and Greece

	Argentina	Greece
Real projected GDP growth (2024)	-2.8	2
Public debt (2023)	341.42 billion dollars	408.23 billion dollars
Unemployment rate (2024)	8%	9.4%
Youth Unemployment rate (2022)	18.8% (down 4.4% from 2021)	31.25% (down 4.14% from 2021)
Doing Business Rate (2020)	126	79
Current Account Balance (2023) Billions of US dollars	5497 billion dollars	-16.343 billion dollars
Current Account balance percent of GDP (2023)	-0.6% (Falling from 1.4% in 2021)	-6.5%
General Government gross debt (2024)	86.2% of GDP	158.8%
Primary net lending/borrowing (2024)	<i>Estimated</i> 2.2% of GDP	<i>Estimated</i> 2.13% of GDP
Government expenditure (2024)	37.28 % of GDP	52.5% of GDP

Figure 3: Summary of risk exposure for financing for Argentina and Greece. Constructed by the authors based on data from IMF (2024), G20 Climate Risk Atlas (n.d), the Argentina

presidencia (2021), Allianz (2023), the Central Bank of Argentina (BCRA, 2024), Intelligent Insurer (2024) and The World Bank (2024)

Strengths and Weaknesses of Investing in Argentina

Strengths	Weaknesses
Rich natural resources (notably oil and gas)	Almost 60% (57%) of the population lives below the poverty threshold, which could cause social unrest and political instability
Highly literate population	Macroeconomic imbalances and weakened institutional framework
Diversified industrial base	Capital controls in the context of recurring FX shortages
Major agricultural exporter (notably soya and wheat)	Nine sovereign defaults, two in the past years. Biggest debtor
Large economy and domestic market, one of the G20 major economies	Weak currency pegged to USD causing devaluation in local currency
Has made significant progress towards a digital transformation	Political instability. In December 2023, a new administration took office in Argentina with measures such as a potential shutdown of the central bank
The country's nationally determined contribution (NDC) aims at achieving net zero by 2050	Climate vulnerability is high. Without urgent action, Argentina stands to lose 2.78% of its GDP by 2050. That rises to 8.17% by 2100.
More liberal (reinsurance) investment policy	Highly dependent of fossil fuels industry
Recent falling trend in retail inflation (since December 2023)	Past structurally high, skyrocketing inflation

Figure 4 – Strengths and weaknesses of Argentina. Constructed by the author based on data from G20 Climate Risk Atlas (n.d), the Argentina presidencia (2021), Allianz (2023), the Central Bank of Argentina (BCRA, 2024), Intelligent Insurer (2024) and The World Bank (2024)