INTERNATIONAL MONETARY FUND

GREECE

Fifth Review Under the Stand-By Arrangement, Rephasing and Request for Waivers of Nonobservance of Performance Criteria

Prepared by the European Department in Consultation with Other Departments

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Stand-By Arrangement. On May 9, 2010, the Executive Board approved a three-year Stand-By Arrangement for Greece in the amount of SDR 26.4 billion (2,399.1 percent of quota). Purchases have been made at the time of approval and upon completion of each of the first four reviews (in a total amount equivalent to SDR 15.6194 billion, or €17.9 billion). The sixth disbursement, subject to completion of this review, would be in an amount equivalent to SDR 1.9224 billion (about €2.2 billion). To date, Euro area countries have disbursed €47.1 billion (of €80 billion committed) and will make available about €5.8 billion with this review.

Recent Developments. At the July and October EU Summits, European leaders mapped out an enhanced official support package for Greece and set the parameters for significant private sector involvement (PSI, targeting a face value haircut of 50 percent). However, the drawn-out debt restructuring discussions have taken a toll on market sentiment and ratcheted up pressure on the banking system (which is heavily exposed to sovereign bonds). Emergency liquidity assistance from the Bank of Greece has helped address a significant increase in deposits outflows. Meanwhile, since the fourth review, the economic situation in Greece has taken a turn for the worse, with the economy increasingly adjusting through recession and related wage-price channels, rather than through structural reform-driven increases in productivity. After a large adjustment in 2010, fiscal policy has struggled to keep up with recessionary pressures. The authorities have also struggled to implement the reforms approved under the June medium-term fiscal strategy. Privatization plans are advancing, but difficult market conditions and technical delays prevented any sales during the third quarter. Structural reforms have not yet delivered expected results, in part due to a disconnect between legislation and implementation. Finally, in an important shift in the political landscape, the three major political parties combined to form a coalition government to be led by a technocratic PM Elections are now expected late in Q1 2012.

Program Status. Staff's overall assessment is that the new government and parties supporting it are committed to the program's objectives and policies. Against this political backdrop, the authorities have taken steps to bring the fiscal program back on track, taking meaningful measures to cut public wages, employment and pensions, and to broaden the tax base (prior actions). The new financing strategy can place the program on a sustainable foundation (assuming that the PSI strategy delivers the targeted debt gains via near universal participation of creditors). Policies have been adapted in a way that will better deliver program objectives and with greater balance, in particular by adjusting the primary surplus targets guiding fiscal policy and the near-term and post-program privatization targets. In the privatization area, the authorities have advanced the preparation of various assets for sale (prior action). In the financial sector, they have legislated a new framework for bank resolution, refined the capital support strategy to better handle the implications of the PSI agreement, and taken steps to strengthen the operations of oversight agencies (prior action). Finally, concerning growth-enhancing structural reforms, they have scaled up the ambition of labor market reforms to meet the challenge from rising unemployment (prior action) and specified strategies to bring other reforms back on track. Still, risks to the program remain large, both from external sources (the worsening outlook for the euro area), and internal sources (a relapse into weak implementation).

Discussions. See the Fund Relations Appendix

Publication. The Greek authorities consent to the publication of the Staff Report

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I. BACKGROUND

1. **The review discussions took place in the context of a drawn-out process in Europe to assemble a new and adequate financing package to support Greece, and struggles in Greece to implement and assemble political support for the program.** The debate in Europe has revolved around the conditions for private sector involvement (PSI), and the appropriate amount of official support. EU Summits in July and October took decisions on a path forward. Meanwhile, the Greek authorities had difficulties implementing the adjustment program over the summer, falling behind across a range of policies. Social resistance to the program continued to intensify as the economy weakened and opposition attacks on the program accelerated. In early November, after an effort to secure broader support for the program through a referendum on program policies generated a strong backlash, PM Papandreou resigned. A three-party coalition government has since been assembled, comprising PASOK, the main opposition party New Democracy, and the LAOS party. The coalition appointed a technocratic Prime Minister (Lucas Papademos, former ECB Vice President), and will remain in place until new elections, expected late in the first quarter. The leaders of the three parties have provided assurances to Fund management and staff that they are committed to the objectives and main policies of the program.

II. RECENT DEVELOPMENTS

2. **Europe has been inching towards a new financing package for Greece, involving both additional official support and significant PSI:**

- In late July, European leaders agreed to maintain their financial support to countries under adjustment programs (like Greece) for as long as it takes to restore market access, provided their program is implemented. Support would be provided by the European Financial Stability Fund (EFSF) at close to its funding cost (expected to be between 4 and 4½ percent over the program period, rates that are close to historic lows) and at extended maturities (from 15 to 30 years) with a grace period of 10 years.

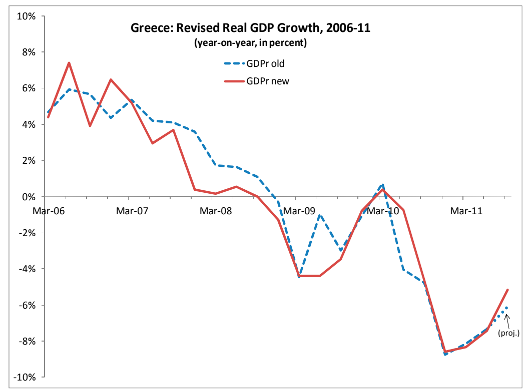
- The discussions on the scale and design of PSI commenced in June. An initial proposal by the International Institute of Finance in July was seen as overly generous and failed to get sustained official sector support. It ultimately gave way to a revised late-October agreement with European leaders, centered on the following key parameters: (i) a 50 percent face value reduction in privately-held Greek bonded debt; (ii) incentives, financed by the official sector, that are capped at €30 billion; and (iii) a target to bring Greek debt-to-GDP under 120 percent of GDP by 2020. Box 1 reviews the PSI discussions and their present status in more detail.

3. **Market sentiment has steadily deteriorated since the last review** (Figure 1). With deeper PSI on the horizon, bond and sovereign CDS spreads have skyrocketed, with spreads

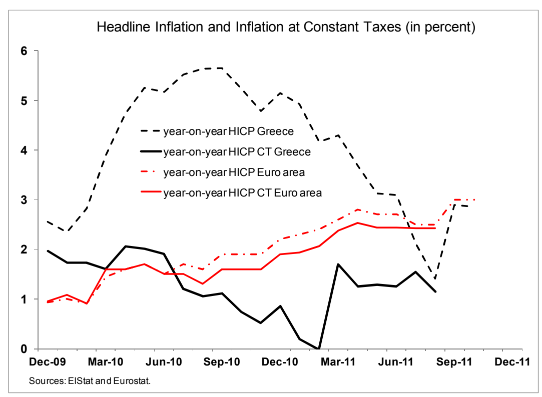
on 2-year and 10-year debt over German bunds exceeding 11,350 bps and 2,600 bps, respectively, by mid-November. They declined only temporarily in the wake of the latest announcement on PSI, and have remained extremely volatile, reaching new record highs.

4. **The Greek economy has turned sharply downwards in 2011** (Table 1):

- Concerning **GDP growth**, data revisions show that the cumulative recession by end-2010 was deeper and first quarter 2011 growth weaker than understood at the time of the fourth review. Indicators of economic activity (e.g. retail trade, construction, and industrial production) suggest that the decline of domestic demand continued unabated during the third quarter. Labor market conditions have deteriorated sharply, with unemployment reaching 16.5 percent in July 2011, underwhelming hopes for a seasonal recovery of employment during the main tourism season. While increasing tourist arrivals and merchandise exports have been encouraging, recent Euro area indicators suggest that external demand has weakened (Figure 2).



- **Headline inflation** (HICP) declined to 1.4 percent in August, significantly below the Euro area average. Driven by weakness in the economy, core inflation was at zero percent (from 0.6 in July). Inflation edged back up to 2.9 percent in September/October, on account of indirect tax increases, but remained slightly below the Euro area average.



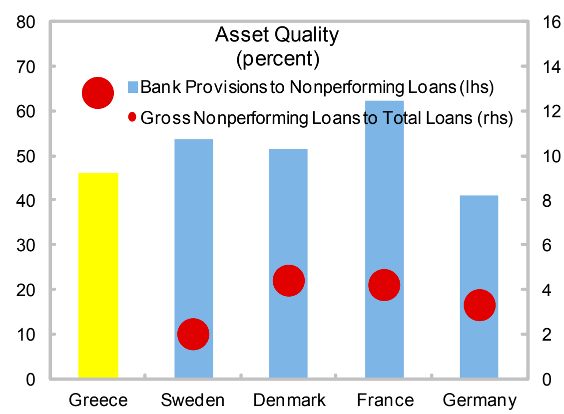
- **Competitiveness** is improving through wage cuts rather than increased efficiency. Productivity measured as real GDP over employment has continued to deteriorate during the first half of the year, albeit at a slowing pace, as the fall in employment has accelerated. Total economy unit labor costs (ULC) have fallen by about 2½ percent year-on-year in 2011 (and more than 3 percent in the business sector), built on a decline in compensation per employee of about 2¼ percent and 6 percent lower employment. (Figure 3). The real effective exchange rate remained broadly unchanged year-on-year in August, owing to euro appreciation early in 2011.

- **The current account deficit continues to adjust gradually** (Figure 4). The 8¼ percent decline of the deficit over the first eight months of 2011(year-on-year, in euro terms) leaves the trailing 12 month deficit at about 10 percent of GDP, still very high considering the length and depth of the recession. The improvement has been mainly due to the deepening recession and associated sharp compression of non-oil imports, and to a lesser extent increasing travel receipts and merchandise exports. A surging oil deficit together with lower transport receipts and rising net interest payments have prevented a faster external adjustment.

5. **Pressures on the banking system have multiplied, as PSI discussions have placed an unwelcome spotlight on bank solvency** (Tables 2–3; Figure 5):

- **Deposit losses intensified in early Q4.** Deposit withdrawals have accelerated in September–November reaching €15 billion (and bringing total outflows since the beginning of the year to €32 billion, or 16½ percent of end-2010 deposits). Wholesale funding markets remain closed, and banks' access to Eurosystem refinancing has suffered from collateral depreciation. As a result, banks have increasingly resorted to emergency liquidity assistance (ELA) provided by the Bank of Greece (BoG), with the government approving some €60 billion in guarantees to facilitate this. Total central bank exposure (including ELA by the BoG) now amounts to nearly €120 billion (or 55 percent of GDP).

- **Banks' private loan books have further deteriorated.** In all, every asset quality metric is now significantly worse than European averages. Loan impairments have accelerated, with nonperforming loans surging by 20 percent in the first half of 2011, to 12.8 percent of total loans. The stock of restructured loans increased at a similar pace, reaching 4 percent of total loans. During the same period, provisioning coverage has declined by one percentage point, to 45.3 percent (a level well below an average of 57 percent in a representative sample of large European banks). To assess credit risk, an independent qualified international advisory firm—Blackrock—has commenced a diagnostic of bank loan portfolios and will complete it by end-year.



Source: FSI Indicators, IMF.

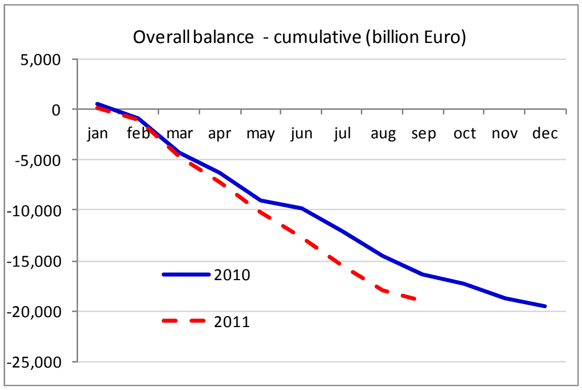
- **Banks' heavy exposure to Greek government bonds is taking a toll on their profitability, capital, and market value.** In response to the July 21 PSI agreement, banks impaired their holdings of government bonds by 16 percent on average (less than the 21 percent benchmark). This generated accounting losses of about €5 billion. To date, impairments have shaved about two percentage points off Core Tier I capital, with the system's aggregated Core Tier I ratio declining to 8.6 percent. For two banks (majority state-owned ATE Bank and T Bank), the total regulatory capital ratio fell below the 8 percent regulatory minimum. Overall, the banking system's combined market value of €4 billion falls well short of its reported core Tier I capital of €22 billion, as markets have been further discounting the value of banks' remaining and still significant exposures to sovereign debt.

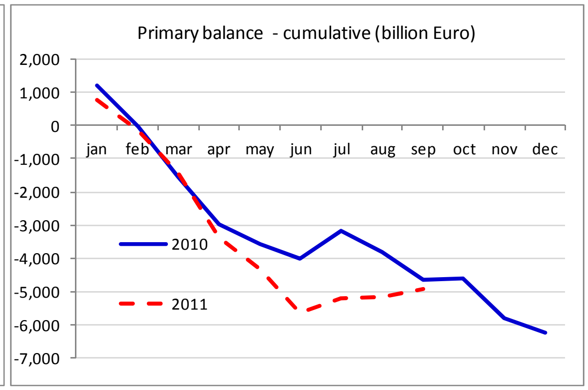
- **A small bank was intervened in October.** Concerns about Proton bank first arose in February after evidence of connected lending came to light. After supervisors uncovered possible embezzlement and money-laundering activities in July, the BoG intervened. With the authorities concerned about fragile confidence and unwilling to risk liquidation, the bank was kept afloat by extraordinary liquidity support from the government and interbank deposits from the four largest Greek banks. In October, once the new resolution law was in place, the authorities resolved the bank by establishing a bridge bank, protecting depositors, and wiping out the financial interests of Proton's former shareholders.

6. **Private sector balance sheets remain under pressure.** Asset prices continue to decline, with housing prices down by a reported 5 percent during 2011 and the equity market down by almost 50 percent to date in 2011. Total credit to the private sector declined by 1.3 percent year-on-year through August, led by a 6.6 percent fall in consumer loans. Housing loans decreased by 2.1 percent, while corporate credit growth remained marginally positive, at 0.5 percent. Lending spreads on new loans have continued to increase, in particular for corporations. While weak economic activity is dampening demand for loans, indications from both the lender and borrower sides are that the current deleveraging is mainly driven by constrained credit supply. Indeed, lack of liquidity and funding were named among the main impediments to business activity according to an October business survey by the Athens Chamber of Commerce and Industry (EBEA).

7. **After the large consolidation realized during 2010, the fiscal position has taken a turn for the worse during 2011, as the recession deepened and policy implementation slipped** (Table 4; Figure 6). Through end-September, the primary general government balance fell short of the program target by €280 million, or 0.1 percent of GDP. Looking at the state budget, for which more detailed information is available, the cash deficit for the overall and primary state budget balances have remained slightly larger than in 2010 (although still trending about 5 percent of GDP above Greece's starting fiscal position, a major achievement in the recessionary environment). Back-loaded adjustment in 2011 is in part a matter of program design, but the recent weak performance also reflects revenue and spending slippages (e.g. excess hiring), delays in the approval and full implementation of some medium-term fiscal strategy (MTFS) measures (e.g. the excise increase on natural gas), as well as the authorities' cancellation of some measures (e.g. an excise on soft drinks).The revenue shortfall in the state budget has reached some €1.7 billion (¾ percent of GDP), with a drop in VAT efficiency signaling compliance problems. Significant shortfalls in social security contributions—well beyond developments in the economy-wide wage bill—also

suggest deteriorating compliance by firms (likely due to liquidity constraints). Slower execution of military procurement and investment spending has helped to temporarily contain the deterioration of the fiscal position.





8. **The government has had to manage in a situation of tight cash constraints, contributing to a growing arrears problem**. With the delay in the fifth review disbursement, cash has been more tightly managed, by: (i) delaying the planned unwinding of the Treasury-bill stock and keeping it at its end-June level (as a result, interest rates slightly edged up); (ii) reducing transfers to non-state entities that have their own deposits; (iii) using deposits in the intermediate HFSF account for funding transfers to the HFSF dedicated account (which has not been touched); and (iv) delaying some discretionary payments (as a result, arrears have increased, and amounted at end-September to €6.5 billion, or an increase of €300 million since end-March).

9. **Reforms of fiscal institutions are advancing slowly, held back by limited administrative capacity and institutional resistance**:

- In the **revenue administration** area, the authorities have launched a strategic plan for medium-term fiscal reforms (meeting a program **structural benchmark**). This will, among other things, create a central tax debt directorate and large taxpayer unit. However, while they have exceeded tax debt collection targets and have begun implementing new risk-based audits, audits of large taxpayers and high-wealth individuals have fallen behind schedule (at 62 percent of the end-September target). Reforms to remove barriers to effective tax administration (e.g. to set up an arbitration process) are also behind schedule.

- As regards **public financial management**, commitment registers are slowly taking hold (with 40 percent of line ministries reporting data in September). However, the establishment of new directorates of financial services and appointment of permanent accounting officers in line ministries has been mired in significant administrative delays. Fiscal and expenditure-arrears reporting has now become a feature of the Greek reporting system, although the timeliness of data releases, their quality (particularly arrears data), and comprehensiveness (especially the lack of availability of detailed revenue and spending information for all general government entities) remain to be improved. A program **structural benchmark** was deemed only partially met as the authorities were unable to report consistent arrears data using commitment registers.

10. **Privatization plans are advancing, but sales have been slow to materialize**. Since the sale of telecom (OTE) shares in June, two concession agreements related to the sports-betting company OPAP and mobile telephone licenses have been signed, with payments expected by end year. Proceeds through end-September amounted to €390 million, well short of the anticipated €1.7 billion. The Privatization Fund has been confronting difficult market conditions, with the price of several listed public companies down by more than 50 percent since the start of the second quarter. At the same time, the appointment of advisors for the 2011–12 projects has proceeded more slowly than foreseen. Nevertheless, the full operational establishment of the Privatization Fund has been completed, including the appointments of the Board of Directors and the Council of Experts, staffing transfers, adoption of operational plans, and transfer of a first list of assets. Intermediate steps needed for the privatization program (gaming, tourism, expropriation laws, and the gold mine licenses) have also been completed on schedule.

11. **Structural reforms have not yet delivered expected results, in part due to a disconnect between legislation and implementation** (Table 5). Two flagship reforms—on collective bargaining and liberalizing restricted professions—have not delivered substantial results: only 10 special firm level collective agreements have been concluded, while the liberalization of regulated professions has been delayed, with further time allowed for required restrictions to be reinstated. A third reform, the fast-track investment procedure, has only recently resulted in approvals of three projects, and these still need to receive the required licenses before they can start. The slow progress is summarized in Greece's ranking in the Doing Business Indicators, which improved by just 1 position in 2011 (from 101 to 100 out of 183). On the positive side, some new laws have been passed during the last 4 months (e.g. to strengthen the labor inspectorate, liberalize the energy market, and simplify environmental licensing procedures), and others are in process (e.g. laws to simplify export procedures and allow for better regulation). Overall, however, the delays have prevented realization of a critical mass of reforms, which is necessary to secure synergies and generate meaningful macroeconomic impacts.

III. DISCUSSIONS

12. **Discussions focused on recalibrating the program's macroeconomic framework and adapting the implementation of reform and adjustment policies to an appropriate and feasible pace.** Since the second review it has been clear that a reinvigoration of reforms would be needed to support program objectives. After continued slow progress with reforms for a third straight review cycle and with growing evidence of deepening macro adjustment, the authorities and IMF/EC/ECB staff all recognized that a significant revision of the outlook

and some changes in the policy framework would be needed. Several overarching policy challenges defined the discussions: (i) the need to adapt the amount and pace of fiscal adjustment to reduce macro feedbacks (with new measures and timely implementation of institutional reforms needed to secure revised targets); (ii) the need to establish a more robust framework for bank support and resolution (to help manage growing pressures on banks); and (iii) the need to reinvigorate structural reforms and advance privatizations to support a faster restoration of competitiveness and promote eventual economic rebalancing through higher productivity.

The Macroeconomic Framework

13. **It was agreed that developments warranted a significant revision to the growth outlook** (MEFP ¶1–2) (Tables 6–7; Figure 7). The original program foresaw a growth inflection point by late 2011, which has not yet arrived. The target of the original program—adjustment through productivity-enhancing structural reforms—will clearly take longer to realize, with income and wage-price adjustment mechanisms having a large influence in the short run. Thus:

- **A deeper recession and more muted recovery have now been programmed.** Revised growth projections point to a contraction of -5½ to 6 percent in 2011 and a further -2¾ to 3 percent in 2012 (the latest consensus forecast has converged very close to these figures). Growth is expected to remain below the pre-crisis average for an extended period of time, within the range of experience of countries experiencing internal devaluations (Figure 8). In fact, the needed reallocation of resources towards the tradable sector suggests that the current downturn has a significant permanent component. Some cyclical recovery is expected, but muted, in line with past country experience in the wake of sovereign debt cum banking crises (Box 2).

- **Potential growth has been revised down.** Against the backdrop of slow reform implementation and the lingering impacts of the recession on the physical and human capital stock, medium and long-term potential growth will likely be below earlier expectations. Taking into account eventual productivity gains and higher labor force participation generated by far-reaching structural reforms, potential growth of around 2½ percent per annum appears realistic over the medium-term (down from 3 percent previously). This would be about 1½ percentage points below Greece's average growth in the decade preceding the crisis. Potential growth is projected to decline gradually in the long term to around 1¾ percent per year, as a result of demographic factors. Both figures preserve a catch-up factor to the Euro area income level, in line with past country experience.

Greece: Past Income Convergence Paths of Comparator Countries Relative to Euro Core Countries

	GDP per capita catch-up period	Initial per capita (in percent of Euro core income, constant 2000 US$) 1/	Maximum per capita (in percent of Euro core income, constant 2000 US$) 1/	Average convergence rate (in percent)	Average annual catch-up (percentage points)
Greece	(2000-2009)	49.3	59.3	1.7	1.0
Cyprus	(1976-1995)	28.8	59.1	3.5	1.5
Portugal	(1985-1999)	39.5	49.4	1.4	0.7
Spain	(1986-2003)	55.5	64.1	0.8	0.5
Slovenia	(1993-2008)	39.1	52.5	1.8	1.0
South Korea	(1999-2009)	44.7	61.7	2.7	1.6

Source: World Bank, World Development Indicators data base.
1/ Euro core defined as Austria, Belgium, Finland, France, Germany, Netherlands.

14. **The more modest growth outlook is likely to bring about lower inflation, but it is still expected to take more than a decade to fully unwind Greece's competitiveness gap**.

- **Inflation** and **GDP deflator** projections for 2012 onwards were revised down considering the pressure from a deeper recession and slightly larger output gap on prices, profit margins, and wages. Structural reforms in product and labor markets are still expected to unfold their full impact on competition, profit margins, wage flexibility, and productivity growth over the medium and longer term, thus keeping inflation pressures durably below those experienced before the crisis.

- The projected slow unwinding of Greece's **competitiveness gap** has been preserved. CGER estimates of Greece's competitiveness gap are sizable, averaging 11 percent across the different methodologies (with the equilibrium real exchange rate approach showing the widest gap at 33 percent). Over the next decade, the GDP deflator-based real effective exchange rate (REER) is expected to improve by about 10 percent. A key factor in Greece's adjustment is expected to be continued inflation differentials vis-à-vis important non-Euro area trade partners (predominantly the emerging Europe and MENA regions).

15. **External sector adjustment is projected to proceed at a slightly faster pace in the medium term, driven by the deeper and prolonged recession**. To date, the adjustment in the external balance has been largely in line with the pace of fiscal adjustment and improvements in public sector savings. However, stronger private sector savings—a process which is in part driving the deeper recession—are expected to give the external adjustment an extra push in the medium term, helping the trade balance turn into surplus already by 2014, one year earlier than projected at the time of the 4th Review.

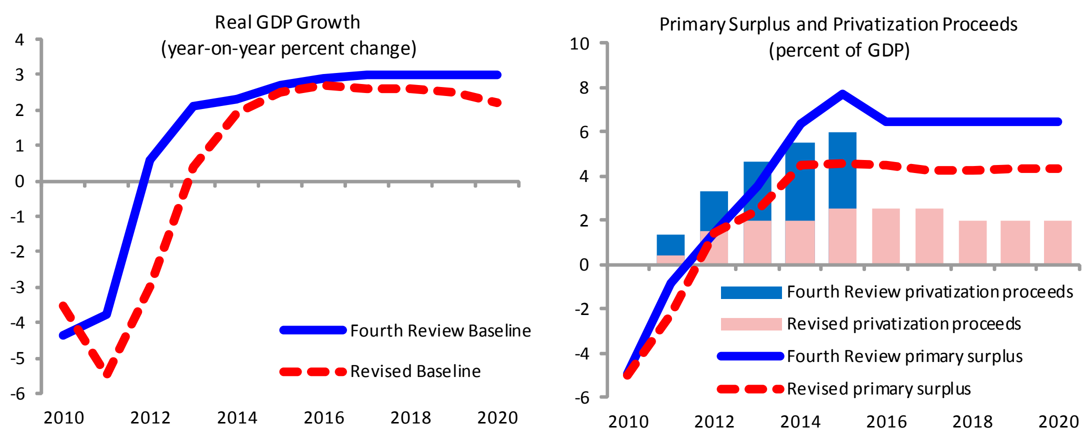
16. **There is a growing risk that the economy moves towards an even more accelerated macroeconomic adjustment**. The assumed reinvigoration of structural reforms may yet be further delayed, while a new hit to consumer and business confidence from drawn-out PSI discussions or an intensifying credit crunch cannot be ruled out. Accelerated private sector adjustment, on top of fiscal retrenchment, would likely lead to a downward

spiral of fiscal austerity, falling disposable incomes, and depressed sentiment. In effect, the economy would very rapidly work off its external imbalance through deeper recession and wage-price corrections rather than through productivity-enhancing structural reforms. Separately, external risks have also increased, given recent market and political turbulence elsewhere in the Euro area periphery, as well as a deterioration in overall Euro area growth prospects. These could have spillover effects on Greece through both confidence and real channels, as a collapse in exports would foil the only source of growth for the Greek economy in the short-run. Given the risks, it was agreed that macroeconomic developments would need to remain under close scrutiny.

Debt Sustainability

17. **The DSA has been cast with more conservative macroeconomic and policy assumptions than in the fourth review, and more conservative even than the revised 5th review macroeconomic and program assumptions.** First, in keeping with experience to date under the program, it is assumed that Greece takes longer to implement structural reforms, and that a longer timeframe is necessary for them to yield macroeconomic dividends (e.g. due to complementarities), implying a lower path for output. Second, given the adverse market conditions and technical constraints faced by Greece, a substantially more conservative but still suitably ambitious path is assumed for privatization proceeds. Third, the fiscal primary surplus is assumed to settle in the 3½–4 percent of GDP range (a level Greece has sustained in the past and which is well within the range of international experience of sustained adjustment). The assumptions have been set to be more conservative than even the program baseline to provide comfort that public debt can be placed on a sustainable path even if the very ambitious program fiscal and privatization targets cannot be achieved.

Greece. Revised Baseline: Key Macro and Policy Assumptions



18. **Under these conservative assumptions Greece's debt would be sustainable under a new financing package involving both deep PSI and official support on favorable terms, albeit still with risks** (Appendix I: Tables 1–2 and Figures 1–2):

- **The previous July 21 financing package would not work**. Public debt would peak at 187 percent of GDP in 2013 and fall to 152 percent of GDP by 2020. Net external debt would peak at 128 percent of GDP in 2012 and fall to 96 percent of GDP by 2020. These already weak downward trajectories would not be robust to shocks. For public debt, failure to reach the fiscal adjustment target or to privatize at the rate assumed, as well as growth and interest rate shocks, would leave debt at very high levels or no longer declining. A combined shock representing fast macro adjustment would send debt initially soaring to levels that would challenge confidence in the program. For external debt, reduced FDI or weaker competitiveness from delays in the response of the economy to structural reforms or a terms-of-trade and interest rate shock would put debt dynamics on a significantly higher trajectory.

- **Deep PSI scenarios**. The precise outcome of the PSI exercise has an important bearing on public debt dynamics and how robust any improvement would be (the external debt sustainability analysis shows a similar pattern):

  - With near-universal participation in a debt exchange targeting a 50 percent face value haircut and offering a low coupon, and European support at an interest rate of about 4 percent, debt could be brought to 120 percent of GDP by 2020 (the maximum level considered sustainable for a market access country).[1] The trajectory would also be less susceptible to shocks (including to the official sector funding cost), although a longer period of time would be required to bring debt-to-GDP below 120.

  - However, with low participation in the debt exchange and a significant amount of hold outs to be amortized with European support—a real risk under a purely voluntary approach (i.e., an approach not involving any measures to induce higher participation levels)—debt could stick above 145 percent of GDP in 2020. Moreover, the trajectory would no longer be robust to the usual range of shocks.

  Thus, securing a sustainable debt position will depend on whether PSI negotiations deliver the targeted €100 billion in debt reduction, in particular on the ability of the features of the exchange to deliver near-universal participation.

Fiscal Policy

19. **The authorities reaffirmed their determination to restore a sustainable fiscal position in Greece** (MEFP ¶4). They acknowledged the need to bring down the fiscal deficit

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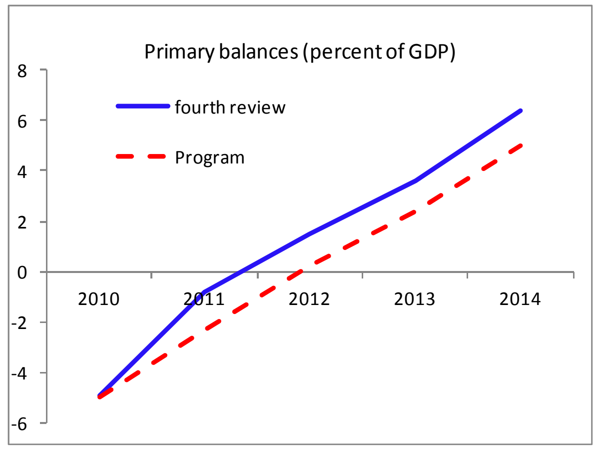
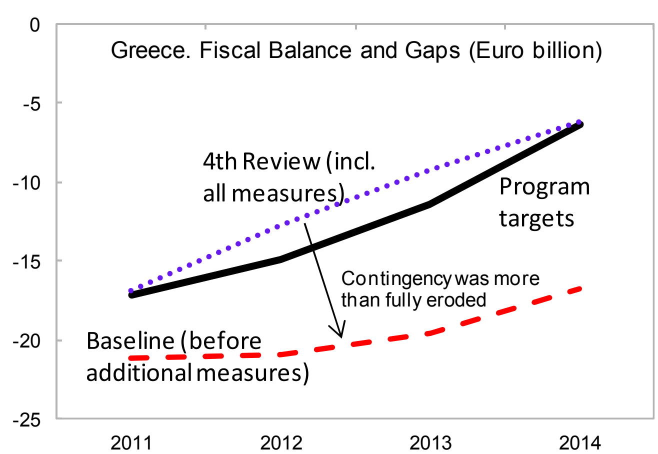
[1] See Modernizing the Framework for Fiscal Policy and Debt Sustainability Analysis; IMF Policy paper; August 5, 2011,

and debt, but noted that sustainability could not be secured until growth revived and interest rate spreads stabilized at low levels. This presented a dilemma, given the impact of fiscal adjustment on growth, and this was magnified in the present circumstances given the revisions to the macroeconomic outlook. The discussions focused on recalibrating fiscal targets to achieve a reasonable balance between competing growth and adjustment objectives, and on defining the fiscal measures necessary to deliver the targets.

20. **Fiscal targets have been recalibrated** (MEFP ¶5) (Table 8). Adjustment efforts will be anchored by a 5 percent of GDP primary surplus target for 2014 (with an expectation that this would slowly recede to 4 percent of GDP by 2020). The revised medium-term targets are well within the range of international experience and can still deliver an overall deficit below 3 percent of GDP given the prospective interest savings from PSI. In terms of the overall deficit, for 2011, it was agreed to revise the target from about 7⅔ of GDP to about 9 percent of GDP (which would still deliver a 1½ percent of GDP improvement relative to 2010). It was considered neither feasible nor desirable to try to fully offset the impact of the deeper-than-expected recession and policy slippages in the few remaining months of the year (the 9 percent target reflects an estimate of what could be achieved by implementing measures for 2012 during the final quarter). For 2012–13, it was agreed that the existing program targets would be maintained. The targets still require a significant structural adjustment effort by Greece—8 percent of GDP in measures to meet 2011–12 targets, and a further 6 percent of GDP in measures in 2013–14 to hit the 5 percent of GDP primary-surplus target.



21. **The technical work for the review identified significant new fiscal gaps relative to the revised targets**. These measured 2¾ percent of GDP in 2012 and growing to 4¾ percent of GDP in 2014, on account of the revisions to the macroeconomic framework, some changes to the design of previously agreed measures, and revisions in the estimates for other previously agreed measures (e.g. reflecting better information about tax bases).



22. **Measures were agreed for 2011–12 to secure revised program targets** (MEFP ¶6):

- **Full implementation of previously enacted MTFS reforms**. As a **prior action** for the review, the authorities have fully enacted the secondary legislation for various MTFS tax and spending measures (MEFP Annex I; e.g. excises on natural gas and heating oil, vehicle taxes, and a uniform health package across social funds). Among other key measures in this category, the authorities completed the public sector wage grid reform, embedding significantly more ambitious and upfront cuts than originally planned. This reform brings entry-level salaries more in line with private sector norms, aligns wages across the public sector, introduces formal evaluation processes for promotion and bonuses, and by reducing various allowances would initially reduce the wage bill by 6½ percent. A phase-in period will smooth the adjustment for workers facing individual wage declines exceeding 25 percent.

- **New measures to meet the 2012 target.** These have been implemented as a **prior action** for the review (thus delivering some gains in 2011). The authorities opted for a package heavily tilted towards revenue measures (¾ of all new measures). These measures target areas where the taxation system needs to be improved. For instance, the reduction in income tax exemptions and in the high income tax threshold is expected to boost PIT revenues by 0.9 percent of GDP to 5¼ percent (closer to, but still well short of the EU average of 9½ percent). In addition, the introduction of a real estate tax will boost recurrent real estate tax revenue to 1½ percent of GDP (relative to the OECD average of 1 percent). Given the macro conjuncture and the potential impact on compliance of so many new taxes in a short span of time (including from the June package), it was agreed that an extremely conservative near-term yield projection would be applied. As to expenditure reductions, the new measures focus on pensions, spending on which lies well above the EU average. Cuts to both main and auxiliary pensions, among other measures, are expected to reduce pension spending to 15 percent of GDP by 2012 (still high versus a European average of 13 percent of GDP in 2009). The budget for 2012 will be considered by parliament in December.

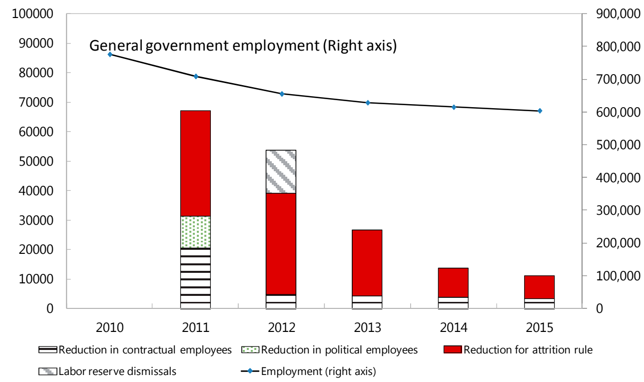
Greece. Measures to Meet the 2011 and 2012 Targets

	2011	2012
(percent of GDP)		
Total net impact I+II+III (Cumulative impact 2011-12)	0.5	2.8
I. New Measures 1/	0.9	2.8
Revenue	0.8	2.2
Reduction in PIT personal allowance and deductions	0.0	1.3
Special levy on real estates	0.8	0.8
Expenditure	0.2	0.6
Pension spending	0.1	0.4
Main pensions	0.0	0.3
Supplementary pensions	0.0	0.1
Lump sum pensions	0.1	0.0
Green fund earmarked spending	0.0	0.2
II. Acceleration/strengthening of MTFS measures 1/	0.1	0.6
Wage grid reform	0.1	0.5
Labor reserve	0.0	0.1
III. Adjustment to gross impact of measures 2/	-0.5	-0.6

1/ Gross changes to existing measures
2/ Measures adversely affect tax bases directly (e.g. lower pensions and wages) and indirectly (e.g. negative macroeconomic impact)
Source: Authorities' and Staff estimates

23. **Measures for 2013–14 require further study** (MEFP ¶6). The authorities and staff agreed that the focus should be on identifying spending measures to balance the adjustment effort, since very high revenue levels would likely prove unsustainable in Greece. The authorities have identified spending reductions yielding about ¾ percent of GDP, including adjustments to special wage regimes, further cuts in pharmaceutical and hospital operational spending, and reductions in cash welfare benefits. But they also recognized that a deeper review of selected spending programs will be required to identify further areas where savings can be achieved (such as pensions, social transfers, and defense spending). This will be completed by June 2012, in time to provide input into the 2013 budget (proposed as a new **structural benchmark**). The review will be guided by a target to identify 2 percent of GDP in adjustment measures, and an additional 1 percent of GDP in contingency measures.

Greece. General Government Employment, 2010-15



Sources: Authorities and Staff estimates

24. **Discussions also focused on advancing various agreed structural spending and revenue reforms meant to better underpin the adjustment effort** (MEFP ¶7):

- **Personnel reductions**. To deliver the planned reduction of over 150,000 personnel in the general government between 2010 and 2015 (22 percent of public employment), the government agreed to support the existing 1:5 attrition rule with a pre-retirement scheme, a one-year furlough scheme for early separations, and the introduction of several controls on new hiring. The latter include a reduced number of intakes into military and police schools (whose graduates are automatically hired), replenishment of the furlough scheme over time, and the abolition of vacant positions. By 2015, these reforms would bring general government employment to 12 percent of the labor force, 3 percent below the OECD average (2008), and given the planned wage reforms, would reduce the public wage bill to about 9 percent of GDP, matching some of the lowest spending OECD countries (e.g. Czech Republic and Slovakia).

- **Social security reforms.** Despite some initial delays, the government is finalizing a restricted list of arduous professions entitled to early pension rights, which will reduce their share in total employment from 14.3 percent in 2007 to about 8 percent. This is more than originally planned, helped by the outsized impact of the recession on specific sectors like construction. The government has also introduced tighter definitions of disability, with the aim to reduce the number of disability pensions to 10 percent of overall pensions by 2015 (from about 14 percent at present). In the health sector, a time-bound plan covering the next stage of deeper reforms awaits the recommendations of an expert task force, now expected before year-end. The PSI exercise is expected to entail significant losses for social security funds: they hold about €23.7 billion in government bonds. However, they can be recapitalized in a manner that preserves their expected income stream (neither the PSI exercise nor any subsequent pension fund recapitalization would have an impact on general government debt, since these transactions are internal to the general government).

- **Tax reform**: With the enactment of the PIT reform in 2011, and given other initiatives crowding the calendar at present, the authorities have delayed plans to introduce a fully fledged tax reform to March 2012 (proposed as a new program **structural benchmark**). The aim of the reform—which is to be budget neutral—is to simplify the tax system and broaden the tax base to help bring collection efficiency up to EU standards. After two rounds of technical assistance, the main elements of the reform are taking shape, including: elimination of several tax exemptions and preferential regimes under the CIT and the VAT, reduction in the taxation of property transactions, greater harmonization of the system of capital income taxation, and simplification of the Code of Books and Records.

Fiscal Institutional Reforms

25. **The authorities and staff agreed that reforming fiscal institutions remains a critical ingredient to the long-term success of the fiscal-adjustment process** (MEFP ¶8). By now the revenue administration and public financial management reform strategies are well mapped out. The crucial issue is moving the reforms forward at a sustainable pace. International experience, e.g. in neighboring southern European countries, shows that these are complex reforms that take time to bring concrete results. The discussions centered on the next steps in the reform process—with a focus on actions that will deliver concrete outcomes—and on adjusting the pace of reforms to the level that the authorities can deliver.

26. **The government reiterated its commitment to implement its anti tax-evasion plans and transform the organization and work methods of the revenue administration** (MEFP ¶9) (Table 9):

- **Operational targets**. The targets—covering audits and collections of assessed taxes and tax debts—were broadened to include the completion of audits of about 1,700 high-wealth individuals identified by the task force. They were also extended to include an end-2012 test date (proposed as a new program **structural benchmark**). In parallel, it was agreed that existing anti-money laundering tools should be employed more forcefully by implementing financial institutions' obligation to report transactions suspected of being related to the proceeds of tax evasion to the Financial Intelligence Unit (FIU). In order to achieve the ultimate objective to detect and prosecute tax offenders, as well as to recover the proceeds of tax evasion, this will require enforcement of reporting requirements by the banking supervisor and closer cooperation between the FIU, tax authorities, and judicial system. These actions, in particular meeting the targets, would have meaningful implications for tax revenues (beyond what is assumed in the program baseline).

Greece. Improvements in Revenue Administration: Selected Performance Targets, 2011

Indicator	Performance to end-September 2011 1/	Targets to end-September 2011	Targets to end-December 2011	Targets to end-December 2012	Past Practice
Audits					
Audit of high wealth individuals (new)	136	N.A.	400	1,700	
Full audits of large taxpayers	31	50	75	300	Very few full scope audits, mostly of large taxpayers, were made in the past. Most audits were directed at verifying specific items in tax returns.
VAT audits of large taxpayers	37	150	225	325	
VAT audits of non-filers	4,567	750	1,000	6,000	
Collection					
1. Collection of assessed taxes and penalties from new audits of:					
• High wealth individuals (within 3/6 months)	15 percent/N.A.	20/30 percent	20/30 percent	20/30 percent	
• Large taxpayers (within 3/6 months)	N.A./65 percent	20/30 percent	20/30 percent	20/30 percent	
• VAT non-filers (within 3/6 months)	14.5 percent/N.A.	20/30 percent	20/30 percent	20/30 percent	
2. Collection of tax debt	€738 million (August)	€200 million	€300 million	€1,500 million	Historically weak debt collection rates (e.g. less than 1 percent for fines and penalties).

1/ Authorities' preliminary data.

- **Removing barriers to effective tax administration.** The authorities acknowledged delays, but indicated that the fast-track administrative resolution body for large disputed tax cases and the arbitration system envisaged in the March legislation are now being set up, and that a review of the qualifications of all current auditors is underway (with hiring of new auditors expected in early 2012). The authorities also confirmed their plans to continue to address under-performance of existing staff. Using the new appointment and removal powers recently granted to the Minister of Finance, the Ministry plans to review the performance of managers in implementing the anti tax-evasion plan through end-2011 and replace those who do not meet the assigned targets.

- **Medium-term reforms of the revenue administration**. The new central directorate for debt collection and the large taxpayer unit envisioned in the strategic medium-term reform plan are expected to be fully operational by end-year. The process of consolidating the operations of the tax administration is, however, behind schedule due to technical problems. As a result, the authorities have closed 30 rather than up to 200 local offices (with the remainder to wait until end-2012, when IT systems are fully updated) and will consolidate key functions in regional offices (e.g. debt collection, audits, support to judicial procedures, filing, and payment enforcement).

27. **The authorities also reiterated their commitment to resolve their persistent spending arrears problem, which will require improvements in budget procedures, spending controls, and fiscal reporting** (MEFP ¶10) (Table 10)**:**

- **Budgeting procedures**. An appropriate budget is the first step to controlling arrears. The authorities, however, have been struggling to keep up with the rapidly evolving macro-fiscal conditions in Greece, leaving them with outdated budgets. They face cumbersome procedures for the use of within-year supplementary budgets. To address this, the authorities intend to adopt legislation and regulations streamlining the submission and approval of within-year supplementary budgets by end-February.

- **Spending controls.** The authorities have been encountering difficulties and delays in setting up the infrastructure to control spending at the commitment stage. Two key steps are needed, now targeted for the fourth quarter: (i) they will begin enacting sanctions (including blocking budget releases) as a means to enforce reporting from commitment registers; and (ii) they will establish new dedicated directorates of financial services and appoint permanent accounting officers in all line ministries.

- **Fiscal reporting.** To address reporting issues—problems with timeliness, quality and comprehensiveness—the authorities indicated that quality checks of data submissions have been scaled up and, in collaboration with Elstat, a recent data-collection pilot is being expanded to cover 60 percent of general government spending. Once commitment registers are more fully established, arrears reporting from this source can again be tested.

28. **There was agreement that the implementation of institutional reforms would benefit from stronger management oversight** (MEFP ¶11). The authorities plan to step up the responsibilities of the anti tax-evasion steering committee to oversee the implementation of the medium-term tax-administration reform plan. On the PFM side, there have been delays in establishing the coordination groups foreseen at the time of the fourth review, but a coordination group responsible for fully operationalizing commitment registers across the general government has now been established.

Financial Sector Policies

29. **The authorities recognized that they will have to act determinedly to secure financial stability in the face of mounting challenges** (MEFP ¶12). Pressures on banks' financial and liquidity profiles have intensified, given the close links between the financial health of the Greek banking system and that of the sovereign. Confidence will need to be restored in the context of lingering uncertainties related to sovereign solvency, the PSI operation, and the quality of the domestic loan book. The discussions focused on securing adequate and appropriate liquidity to the banking system, the strategy to strengthen bank capital positions, the resolution framework (to address any problem banks that arise), and on specific cases of bank restructuring and resolution.

30. **The BoG is taking a more prominent role in preserving sufficient system liquidity** (MEFP ¶13). The authorities acknowledged that liquidity pressures will persist through the remainder of 2011, due to ongoing leakage of deposits as the recession continues, maturing bank bonds, and possible further loss of collateral eligibility (for instance, in the

event of a downgrade of covered bonds). The BoG noted that it would stand ready to provide additional ELA as appropriate, following Eurosystem procedures (and subject to approval by the ECB's Governing Council). The shift towards ELA comes with costs to the banking system: an interest rate on average about 1¾ percentage points above the Eurosystem's refinance rate. Like recent refinancing through the Eurosystem, a government guarantee is involved (formalizing the contingent liability represented by the financial system). Over time, banks will need to gradually extricate themselves from their dependence on exceptional liquidity support in an orderly fashion and at a pace consistent with the program's macroeconomic, fiscal, and financial framework (Table 11). The authorities and staff agreed that the next update of banks' medium-term funding plans, under the BoG's guidance and coordination, would be scheduled for end-2011, to incorporate the latest revisions to the program macroframework.

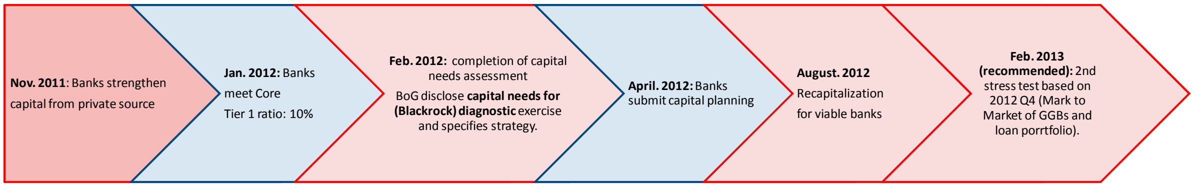
31. **The authorities articulated in greater detail their plan to strengthen banking system capital** (MEFP ¶14). As explained in the 4th review, to reassure about banks' ability to withstand losses and thus facilitate a faster return to market, banks are expected to achieve both higher Tier I capital ratio (10 percent, a level above the 9 percent minimum set by the EBA, on account of the elevated risks in Greece), and a capital buffer under Pillar II to account for market and other risks. Banks will be strongly encouraged to achieve this by raising capital from private sources, rather than by reducing credit exposure. The discussions:

- Defined the **Pillar II needs** more precisely, relating them to preserving a 6 percent core Tier I ratio under a stress test built on an adverse macro scenario. Completion of the diagnostic supporting this exercise is proposed as a new **structural benchmark** for end-February 2012. The program continues to provide a period of 6 months for banks to meet Pillar II requirements, subject to an assessment that plans are viable.

- Focused on clarifying how **losses on government bonds** would be handled, in light of the PSI exercise. The strategy is designed to ensure that banks reflect losses upfront and gradually build up a capital buffer to offset any post-PSI difference between the book and market value of government bonds (a perception that banks remain undercapitalized would be detrimental to deposit stability and market access).

Overall, the PSI exercise is projected to generate significant capital needs, and Box 3 discusses potential amounts and the recapitalization issues that arise in more detail. The private loan diagnostic and the PSI exercise are expected to reach conclusions around the same point in time in February 2012.

Greece: Expected Timeline for Bank Recapitalization



32. **Reforms to the Hellenic Financial Stability Fund (HFSF), to ensure it operates effectively as a capital support backstop, have been advanced** (MEFP ¶14). The authorities completed legal revisions to the Fund's framework, governing the conditions under which it will inject capital, and the timeline for disposing of any equity acquired (a period of 24-36 months was agreed). The authorities also agreed to finalize a memorandum of understanding between the BoG and the HFSF, as a **prior action** for the review. This should facilitate timely recapitalization of banks by improving the quality and timeliness of data needed by the HFSF to make its capital support decisions. In terms of HFSF funding, under reasonable loss estimates for the private loan book and given the potential parameters of the PSI exercise, total capital needs for the banking system could reach €40 billion (compared to €1½ billion now available). This has been accounted for in program financing estimates. Not all of this would be channeled to the HFSF, as the government would need some resources to exercise its role as shareholder in recapitalizing public banks (where this is deemed appropriate), and some resources may be needed to facilitate resolution.

33. **A new bank-resolution law will help handle banks that prove to be poor candidates for public recapitalization** (MEFP ¶15):

- **The new law**. As envisaged, the authorities have expanded their bank resolution toolbox beyond liquidation, to include purchase and assumption (P&A) and bridge-bank transactions (meeting a program **structural benchmark**). The new bank-resolution framework is broadly in line with wider EU initiatives (which are still in the draft phase) and broader international practice. The discussions revolved around establishing one resolution authority (the BoG); defining the role and contribution of deposit insurance to bridge-bank and P&A transactions (it will fill only gaps related to insured deposits); clearing the HFSF to inject capital to facilitate the new types of transactions; and defining depositor preference (a narrow definition applying to insured depositors was adopted).

- **Fine-tuning**. The Ministry of Finance is still fine-tuning the framework and intends to amend the law by end-year to address some lingering issues, including flexibility to deal with labor contracts in problem banks under resolution. Other important issues to consider include: the range of the veto powers (regarding, for example, decisions on the distribution of dividends or management remuneration policies; and decisions affecting interests of depositors or the solvency of the credit institution), the extent of depositor preference, defining least-cost criteria for decisions, establishing some limits on the expenditures of a resolution fund, and clarifying the need for a viability assessment prior to any HFSF capital injection into a bridge bank.

34. **The new bank support and resolution framework will need to be complemented by stronger governance arrangements for financial oversight agencies** (MEFP ¶16). The private ownership of the BoG and Deposit Insurance Fund (HDIGF) and the large lender-of-last-resort role of the BoG create the potential for conflicts of interest in the execution of public interest functions. While the legislation for these bodies attempts to address these issues, in the case of the BoG the legislation does not go as far as in other private central banks in Europe (e.g., concerning limits on private shareholders voting and Board representation rights); and in the case of the HDIGF, conflict of interest guidelines could be strengthened (e.g., by prohibiting persons involved in the banking industry from serving on the HDIGF management board of directors). For the HFSF, its large prospective involvement in banks puts a premium on ensuring that strong and credible governance practices are in place, in particular on ensuring adequate expertise in international bank resolution and management at the HFSF board level. It was agreed that all three institutions would be reviewed, and that by year-end, legislation would be enacted to address any issues (proposed as a new program **structural benchmark**). This very ambitious timeline is considered necessary to put changes in place ahead of the expected oversight activity associated with recapitalizing and/or resolving banks early in 2012.

35. **Specific actions are underway to ensure that all operating banks are in full compliance with regulatory requirements** (MEFP ¶17):

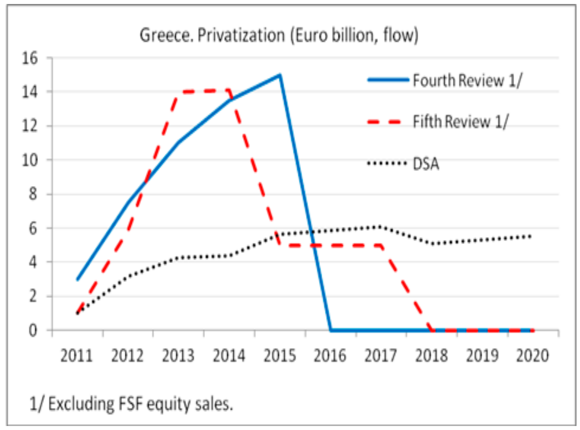
- **ATE**. Given the fragile situation in Greece and the need to ensure continued liquidity support for ATE, it was agreed that the government would inject a small amount of additional funds (€290 million) to bring the total regulatory capital ratio back to compliance as soon as possible. In early 2012, once the full impact of PSI and loan diagnostics is known, options for the bank will be reviewed.

- **HCLF**. A detailed timetable to fully dispose of commercial activities (now in the process of being separated from consignment activities) has been completed, with full disposal to be completed no later than July 2012 (MEFP ¶17).

- **Other banks** (MEFP ¶17). Beyond Proton bank, there are two other small banks that are not in compliance with regulatory requirements. Both have been attempting to address their issues (in one case by seeking a merger with a stronger bank; in another by seeking capital from existing shareholders). Their strategies have proved unsuccessful to date. The authorities agreed to take appropriate actions to deal with these problem banks by end-November, 2011. The tools available to the authorities offer efficient ways to address these situations.

Privatization

36. **The authorities reaffirmed their resolve to pursue an ambitious and steady-paced privatization program** (MEFP ¶18). Transferring assets in key sectors (such as ports, airports, energy, and real estate) to private sector management and more productive uses should help the economic recovery and boost potential growth. Proceeds from the program will also reduce public debt and help meet financing needs. The discussions focused on the targets, the steps needed to advance the preparation of objects for privatization, and on ensuring the effective operation of the Privatization Fund.



37. **The overall privatization target was retained, with some re-phasing of near-term targets** (MEFP ¶19). Recent problems—due to difficult market conditions, uncertainties in the banking sector, and technical complexities (such as unbundling of utilities and maturing of real estate assets) have posed a challenge to a swift start of the process. The 2011–12 quarterly performance targets have been re-phased to reflect these slippages. The target through mid-2014—privatization of €35 billion in assets—has been retained for now, in keeping with the wishes of the Greek and European authorities. The overall target of €50 billion has also been retained, although it is now projected to be met 2 years later, by 2017. Looking ahead, a resolution of the uncertainty surrounding the Greek program—most notably concerning the financing strategy—may help revive market demand. Should market difficulties nonetheless persist, the program and overall targets will need to be revisited to bring them into line with the more conservative assumptions made in the DSA.

Greece. Privatization Schedule

	Target (in Euro mio., cumul.)			of which already:	
Year	Fourth Review	Rev. Proposal	No. of objects to be sold in quarter	Transferred to the Fund	Advisors appointed 1/
2011 Q2	400	390	1	0	1
2011 Q3	1,700	390	0	0	0
2011 Q4	5,000	1,700	5	3	5
2012 Q1	7,000	5 000	6	6	4
2012 Q2	9,000	7 000	9	8	4
2012 Q3	11,000	9 000	6	4	1
2012 Q4	15,000	11 000	7	4	1
2013 Q1-Q2	18,000	17,000	5	5	0

1/ All legal, financial and technical advisors (if required) for the respective project are in place.

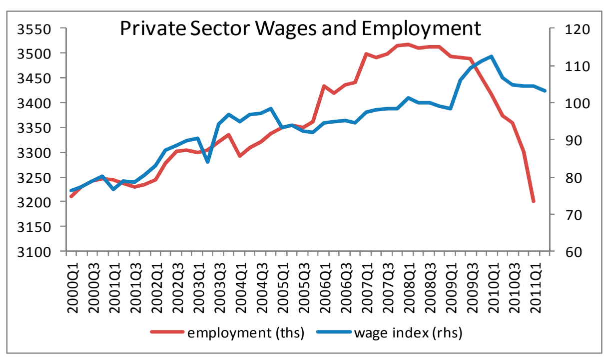
38. **The schedule for specific asset sales has slipped, but the authorities have taken steps to secure asset sales planned through 2012** (MEFP ¶19). Some more complex asset sales (including unbundling utilities, bundling ports' portfolios, and a first batch of real estate divestments) have been shifted to 2012 (MEFP Annex III). To set the stage for more robust

results in 2012, as a **prior action** the authorities transferred almost all remaining 2012 assets for privatization into the Privatization Fund and secured technical, legal, and financial advisors for the bulk of the envisioned projects. To meet the targets, the government also expressed its commitment to add assets, if needed (including additional shares of listed public companies). The major barrier to overcome, however, remains the preparation and transfer of real estate assets (comprising almost 70 percent of total proceeds through 2017). In this area, the largest and most mature projects will be transferred to the fund, and real estate administrations will be merged and placed under professional management, and under the supervision of the Privatization Fund will prepare portfolios of smaller real estate assets.

39. **The government committed to ensure the efficient and transparent functioning of the new Privatization Fund** (MEFP ¶20). With the institutional setup complete, the focus was on specific features of the Fund's operations. The authorities instituted a multi-political party board and have required multiple steps for approval for each transaction. These, along with overall accountability to parliament, can help secure stronger transparency and accountability, while creating broader legitimacy for the process. The authorities acknowledged that litigation risks would still remain, and reassured that these specific features would be managed in such a way so as to avoid bureaucratic paralysis.

Growth-Enhancing Structural Reforms

40. **The authorities are determined to boost productivity growth and competitiveness by accelerating the implementation of structural reforms** (MEFP ¶21) (Table 12). While the review had downgraded the growth outlook partly due to delays in this area, it was still recognized that the reforms would be needed to underpin the program's long-term growth projections and that they had the potential to deliver this higher growth (Box 4). The discussions focused on labor market reforms—given the pressing need to respond to rapidly rising unemployment—and on measures to reinvigorate service sector liberalization, business environment liberalization, and the completion of sectoral growth strategies. The discussions also helped to refine the program's judicial reform strategy.



41. **Labor market reforms to date have not managed to deliver enough wage flexibility to prevent pressure on employment**. The problem appears to be rooted in inadequate tools to allow wages to adjust in small enterprises (SMEs represent 97 percent of firms, account for ¾ of total employment and most of the recent increase in the

unemployed).[2] These firms could not take advantage of the special firm-level agreements introduced by the authorities in late 2010, and are thus constrained by sectoral and occupational wage floors, or forced to resort to informal arrangements.

42. **Hence, it was agreed that further measures would be needed to promote wage flexibility and foster employment** (MEFP ¶22):

- **Reducing wage rigidities**. Within the existing collective-bargaining framework, the authorities agreed to: (i) suspend the mechanism extending sectoral agreements to firms not represented in the negotiations for several years; (ii) eliminate the favorability clause (which requires negotiations on contracts regulated by more than one collective agreement to start from the most favorable one for the worker); and (iii) allow worker representatives (with a 3/5th majority) to negotiate agreements in firms of all sizes. These measures (adoption of which represented a **prior action** for the review) could allow wages to fall below existing sectoral floors (remaining above the nationally-agreed minima, a cushion estimated at up to 10–20 percent), thus giving firms more leeway to retain employees as they confront financial pressures.

- **Review of other labor market parameters** (Figure 9). Before end-year, the authorities intend to open a dialogue with social partners on the national collective agreement on labor market parameters. This agreement, which is signed by the main trade unions and employer representatives, represents a floor and anchor for all other private sector wage agreements. The current three-year agreement indexes the minimum wage to lagged euro-area inflation; a mechanism out of sync with low expected inflation and needed real wage restraint in Greece. While preserving a minimum wage and safety standard for all employees is paramount, the level of the minimum wage—which has risen rapidly of late and is relatively high compared to peers—may also need to be reviewed.

- **Reduction of the labor tax wedge**. The authorities reiterated their commitment to reduce non-wage labor costs in a budget neutral way. Given delays in policy implementation and the crowded end-year agenda, it was agreed that this measure would be shifted to June 2012 (and it is now proposed as a **structural benchmark**). Discussions focused on potential avenues to create space to reduce the wedge by 5 percentage points to bring it in line with the Euro area average (Figure 9). These include broadening of the tax base (both through policy and administrative reforms) and the consolidation of small earmarked funds (which together impose labor taxes of over 6 percent of wages).

[2] See Zografakis and Spathis (2011), "The Economic Crisis and the Labor Market," KEPE.

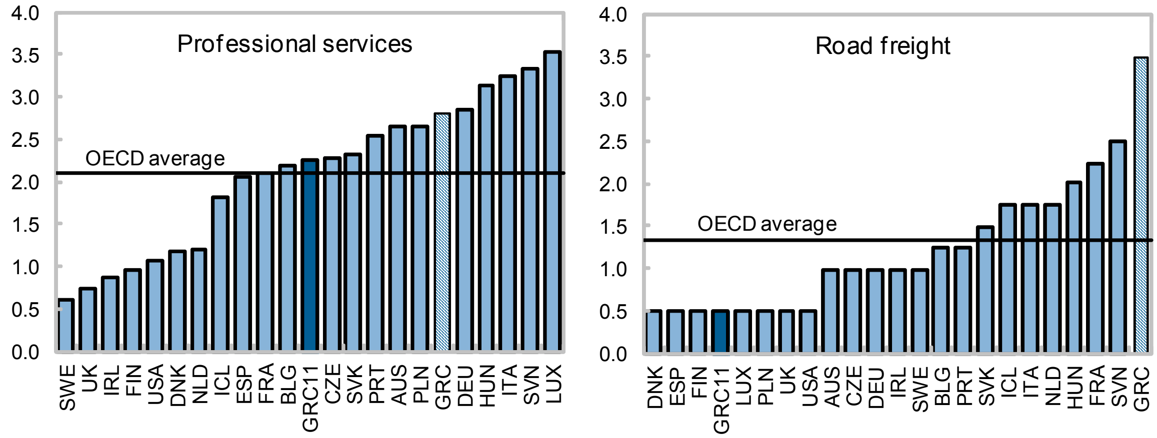
43. **The government is working to overcome delays in the removal of barriers to investment and exports** (MEFP ¶23). The discussions focused on the activation and expansion of the fast-track procedure, the steps needed to ensure that the new business and environmental licensing laws become fully operational, and the envisaged legislation to simplify export and customs procedures. The authorities plan to use the three projects approved under the fast-track procedure to test the system and resolve potential bottlenecks in anticipation of finalizing new legislation lowering the qualification thresholds and generalizing the procedure to other investments. Concerning the new licensing law, it is expected to come into force at end-November, after publication of required secondary legislation. Finally, passage of the new legislation simplifying export and customs procedures has been re-phased to end-year, due to a crowded legislative calendar.

44. **Concerning service sector liberalization, a strategy was agreed to bring reform of the regulated professions back on track and to advance transportation liberalization** (MEFP ¶24). The changes, if fully enacted, can yield notable improvements (text chart).

- **Regulated professions**. The new law liberalizing regulated professions became effective on July 2. Nevertheless, the deadline for requesting reinstatement of justified restrictions had to be extended to mid-November, after Ministries failed to bring forward their requests on time. The authorities agreed to analyze these applications and, after an evaluation by the Hellenic Competition Commission, to reinstate only a limited number of restrictions that are in the public interest. The authorities indicated that they would aim to complete the screening and amending of existing legislation to ensure consistency with the new umbrella law by end-March 2012 (proposed as a new program **structural benchmark**).

- **Transportation**. The authorities committed to curtail the transition period for the liberalization of road haulage from end-September 2012 to end-December 2011 and provide for free entry and licensing costs in line with administrative costs as of January 1, 2012. This will complete the implementation of the law passed in early 2010. They are also working on liberalizing the taxi market, including by providing free entry at lower licensing costs.

Greece: Liberalization of professional services and road freight
(Index scale from 0 to 6, from least to more restrictive)



Source: OECD.
Note: Data is for 2008, and includes estimates for Greece for 2011.

45. **The authorities committed to bring their delayed sector-specific growth strategies to conclusion by end-year** (MEFP ¶25). A number of external studies have been completed, identifying barriers to growth in key sectors with growth potential (including tourism, retail, energy, food manufacturing, agriculture, aquaculture, regional transport cargo hubs). The delays in translating the recommendations of these studies into concrete action plans reflect capacity constraints in the Greek government, which the authorities believe can be overcome with extra time.

46. **The judicial reform agenda has been further developed** (MEFP ¶26). The reforms have both fiscal implications (via tax collection), and implications for growth (through the business environment):

- **Short-term measures:** The authorities are putting priority on tax cases. They aim to lower incentives for litigation, accelerate the resolution of pending tax cases in administrative courts (whose value is estimated at about €30 billion), and speed up case processing (resolution of tax cases takes 7–10 years on average, relative to European standards of up to 2–5 years). To this end, they have prioritized tax cases above €150,000, raised the deposit requirement for tax appeals, limited the number of suspensions for tax cases, increased administrative court fees, and established 19 specialized tax chambers (with 5 more to be added by end-year). These measures are also expected to help lower the large tax case backlog in administrative courts (estimated at 165,000), with the authorities aiming to reduce it by 15 percent by year-end (representing a reduction of 25,000 cases relative to an average annual increase of 35,000 over the past few years).

- **Medium-term reforms**: To improve overall case processing, the authorities aim to introduce electronic case registration, tracking, and filing over the medium run, as well as reform the code of civil procedure to bring it in line with best practices. Furthermore, to reduce litigation, they will implement and work to promote the new law on out-of-court mediation. Finally, to increase court efficiency (now lagging by international standards), they reiterated their commitment to design a performance and accountability framework for courts, including by developing a database on court performance.

Selected Indicators for the Justice System
(data as of 2008, per 100,000 inhabitants)

	Net accumulation of backlog (incoming minus resolved cases)*	Clearance rate*	Number of courts of first instance	Number of judges
Greece	333**	87%	3.9	33.3
Portugal	262	95%	2.2	18
France	151	96%	1.8	9.1
Italy	302	96%	1.7	10.2
Austria	-115	100%	1.8	19.9
Poland	111	100%	1	25.9
Netherlands	45	99%	0.1	13.3

Source: European Commission for the Efficiency of Justice (CEPEJ) - Evaluation report of European judicial systems - Edition 2010 (2008 data (provided by States)): Efficiency and quality of justice. (http://www.coe.int/T/dghl/cooperation/cepej/default_en.asp).
* Administrative, civil, and commercial cases in 1st and 2nd instance courts.
**For Greece, estimated data as of 2011, at 35,000 cases/year.

47. **The government is setting up a management framework to improve the implementation of structural reforms** (MEFP ¶27). To date, structural reforms have been initiated by individual ministries, without a formal centralized oversight mechanism. This has sometimes hindered the prioritization of reforms and has prevented the monitoring of progress after legislation was passed, contributing to the overall slow pace of reform implementation. To remedy this situation, in July the authorities passed a law establishing a directorate of planning, management and monitoring of reforms, which is expected to be fully implemented by end-year. The directorate will also liaise with the new EC Task Force on TA in structural areas to ensure that support is received both through technical assistance and structural funds.

Program Modalities

48. **Since the last review, the authorities have faced increasing difficulties in meeting program targets** (Table 1, Letter of Intent):

- The end-September **quantitative performance criteria** (QPC) on the primary cash balance for the general government and on cash privatization receipts were missed, as well as the indicative target on non-accumulation of domestic arrears, due to administrative delays, difficult market conditions, and revenue shortfalls. The continuous QPC on non-accumulation of external arrears was also missed, although by a minimal amount which has been promptly cleared. Nevertheless, the fiscal and privatization policy measures discussed above (and implemented as prior actions for this review) provide strong reassurances against a continuation of these slippages, and a basis for the authorities' request for waivers of non-observance of the fiscal and privatization QPCs. The clearance of external arrears and minor nature of the non-observance provides a basis for the authorities request for a waiver in respect to the continuous PC on non-accumulation of external arrears. All other end-September QPCs were met.

- The end-June and September **structural benchmarks** (SBs) were met, although with delays, and in one instance only partially. The end-June SB on articulating a medium-term strategic plan of revenue administration reforms was observed with a delay, in July, while the SB on publication of three months of consistent arrears and consolidated general government fiscal reports was only partially observed, as data were not drawn from commitment registers owing to administrative delays. The mid-September SB on parliamentary approval of legislation revising the HFSF operating framework and bank resolution framework was also met with a small delay. The mid-August SB on the second package of MTFS reforms was converted to a prior action for this review (see below).

49. **The authorities completed five prior actions for this review, which helped bring the program back on track** (Table 2, Letter of Intent). The measures are indeed critical to the attainment of program objectives. In particular, the two fiscal prior actions—covering full implementation of previously agreed measures and enactment of new measures—are of paramount importance to reaching 2011–12 fiscal consolidation targets. The financial sector measure—to enhance cooperation between the BoG and the HFSF—is crucial to help manage the process of recapitalizing banks in the wake of the PSI and Blackrock exercises. The privatization measure will help secure achievement of sales targets, in turn supporting debt reduction and the growth strategy. Finally, the labor market measure will support faster closure of Greece's competitiveness gap, and thus achievement of the program's macroeconomic targets.

50. **Looking ahead, revised quantitative performance criteria and new benchmarks will guide the monitoring of progress towards program objectives** (Tables 1–2, Letter of Intent) (Table 13):

- **Quantitative performance criteria and phasing**. New performance criteria for March 2012 have been proposed, while revisions to fiscal and privatization targets for December 2011 are proposed to capture agreed changes of policy plans. Given the delay in completing the fifth review, the sixth review (in an amount of SDR 1,201.5 million) would be based on end-December performance criteria.

- **Structural benchmarks**. New benchmarks are proposed in support of program objectives. In the fiscal area, in support of the consolidation strategy, proposed benchmarks cover: (i) achievement of a wider set of targets set in the anti-tax evasion action plan (separately, at end-December 2011 and 2012); (ii) tax reform, to broaden the base and lower rates in a revenue neutral manner; and (iii) completion of a spending review, to identify opportunities to rationalize spending programs. In the financial sector, to support the process of recapitalizing banks, new benchmarks cover: (i) strengthening of the governance arrangements for financial oversight agencies; and (ii) completion of a capital needs assessment, based on the Blackrock study. Structural reform benchmarks, to help support an improvement in Greece's competitiveness gap, cover: (i) the enactment of legislation to reduce the labor tax wedge in a revenue neutral manner; and (ii) the amendment of legislation covering specific service sectors to bring it into conformity with the new umbrella liberalization law.

51. **To support effective program implementation, the EC is putting in place an expanded program of technical assistance (TA)**. A task force, comprising about 30 EC staff, is already operating and putting in place TA plans in coordination with other major TA providers, including the IMF. The TA aims at ensuring effective targeting of structural funds and implementation of structural reforms in a wide range of areas, notably (i) privatization, (ii) tax administration and budget reforms (in coordination with TA provided by the IMF), (iii) reform of public administration (building on the OECD's Functional Review of the Central Administration in Greece), (iv) health sector reform; and (v) improvements in the business environment.

52. **The program continues to meet all four of the substantive criteria for exceptional access:**

- *Exceptional balance of payments pressures.* Capital account pressures in Greece remain severe, reflected in Greece's extremely high sovereign spreads. While a debt restructuring deal is expected to reduce spreads, this will also likely reduce prospects for market access for a period of time. And it will take a few more years before improvements in Greek competitiveness reduce its still-large current account deficit. In this environment, Fund access beyond normal limits, alongside European support, continues to be required to meet the country's sizeable financing needs.

- *Debt sustainability on a forward looking basis.*[3] As noted, the sustainability of Greece's debt depends on prolonged support from Greece's European partners at low interest rates, and deep restructuring of private sector debts with near-universal participation of creditors. Greece's European partners committed to provide

[3] This criterion involves a probabilistic assessment that debt is sustainable in the medium term taking into account all facts and circumstances, including, inter alia, any intended restructuring of debt to restore sustainability. See Access Policy, Decision No. 14064-(08/18), Feb. 22, 2008, as amended (Decision No. 14716-(10/83), August 30, 2010).

significant and prolonged support at EFSF funding cost during the July 21 Summit (provided that Greece implements the program). Concerning the restructuring of private debts, the authorities have: (i) established an envelope of resources based on realistic macro and policy assumptions and an ambitious debt target objective (which as discussed in paragraph 18 is considered sustainable for a market access country); and (ii) hired financial and legal advisors and begun consultations with creditor representatives to finalize terms of an offer (including the use of a minimum participation threshold, and the inducements and incentives to be offered). A next key step now under consideration is the inducement(s) to use to ensure near-universal participation (including the possible legislation of CACs in domestic law bonds). The steps taken to date give confidence that the operation will be able to attract the needed level of creditor support and that it will go forward consistent with contemplated parameters. In light of these considerations, staff assesses the debt to be sustainable on a forward looking basis.

- *Prospects for regaining market access.* Greece does not now have market access, and needs time to implement reforms, restore growth, and reduce its debt ratio before any such access can be contemplated. The PSI now under discussion and euro area states' commitment to continue to finance Greece until market conditions normalize would dramatically lower post-program market financing needs and provide the room for Greece to reform and for the economy to adjust and recover. There are of course risks that market access will be delayed further (due to the hangover of senior debt), but in the program baseline, it is expected that market access would be restored within a timeframe and on a scale that would allow Greece to meet its obligations to the Fund coming due in the post-program period.

- *Capacity to deliver the program.* Greece did not demonstrate a good capacity to deliver the program over the summer, with implementation suffering from political and social pressures and administrative capacity constraints. A number of important initiatives also had to be significantly re-phased (e.g. the reform to address the labor tax wedge), and the program had to be re-calibrated to reflect revised expectations about the pace and impact of adjustment. Recently, the new government and the three political parties supporting it have endorsed program objectives and policies, mitigating an important source of political and social tension. And the government has shown, through the prior actions completed for the review, the capacity to catch up with program implementation. Moreover, the authorities are dedicated to improving their performance, and in this context have set up internal management and monitoring mechanisms. They will also receive significant support in the form of technical assistance from the EC (alongside continuing TA from the Fund). In light of the above, the staff judges that the authorities' policy program provides a reasonably strong prospect of success, including not only the revised adjustment plans, but also the institutional and political capacity to deliver the adjustment.

53. **Financing assurances are in place for the review** (MEFP ¶28–30). Euro area member states have committed to provide a strictly limited amount of financing within the program period (including for PSI inducements) to help set an envelope for private sector burden sharing. The revised program framework points to total financing need of €148 billion through the end of the program period, rising to about €199 billion through end-2014, after which market access is expected to provide for all financing needs (Tables 14–15). Under the assumptions of the DSA, where for instance there is less privatization, the financing need amounts to €222 billion through end-2014. This total need stands against €34 billion in undisbursed commitments under the program (excluding this review), and a commitment by European leaders during the October 26 Summit to provide an additional €100 billion through 2014, and, crucially, to provide support until Greece has regained market access, provided the program remains on track. European leaders also committed to provide €30 billion for PSI inducements, and the PSI operation would provide the additional necessary financing (€38 billion through the end of the program period, and €61 billion through end-2014, assuming near-universal participation).

54. **Under the program baseline, Greece has the capacity to repay the Fund** (Table 16). Standard indicators of Fund exposure remain elevated, at the upper end for exceptional access cases. However, risks to the Fund have been significantly mitigated by: (i) the more favourable financial conditions agreed to by Euro area member states, through and beyond the program period; and (ii) good prospects for a significant PSI operation. These developments significantly reduce total Greek amortization requirements during the period during which Fund amortization would occur, and as noted above improve the prospect that Greece can go back to market. Additional safeguards to Fund resources are provided by the Fund's long-standing preferred creditor status.

55. **The program remains exposed to substantial macro and policy risks**. The nexus of key risks remains much as described at the fourth review, with a few twists. Global developments have added to the risk that the Greek economy may contract at an accelerated rate; the continued failure of Greek politicians to reach a national consensus has added election risk to policy implementation concerns; and the potential for European fatigue in financing Greece has added a new dimension to financing risk. The strategy to address these concerns is built on: (i) efforts to ensure adequate liquidity support to the banking system (to avoid crystallizing or exacerbating macro risks); (ii) tightly monitored front-loaded implementation of adjustment measures supported by TA (to contain implementation risks); and (iii) more achievable program targets and clearer financing commitments (to improve implementation, and reduce the risk of a sudden stop in official financing).

IV. Staff Appraisal

56. **Greece has some impressive program achievements to its credit**. During 2010–11 the fiscal deficit has been reduced by 5 percentage points, despite a contraction in GDP of almost 10 percent during these two years. Moreover, a medium-term fiscal strategy has been

legislated, defining a host of measures to help carry the adjustment forward, and an ambitious privatization program has been started.

57. **However, the program has clearly entered a difficult phase**. The economy is trending notably lower than what was expected during the 4th Review. Investor sentiments have not improved as hoped, given the unexpected turmoil in other countries in the Euro area periphery, uncertainties among investors about the framework for a comprehensive policy response to the crisis, and also uncertainties about private sector involvement in reducing Greece's debt. However, the most important factor has been the slowing pace of structural reforms this year.

58. **The new financing package agreed by European leaders has given Greece room to address its challenges, and it must now be implemented expeditiously**. The official support and PSI targets agreed are crucial to secure a sustainable debt position. To fully realize this outcome and keep the program on track, it will be critical for European authorities to firm up the cost of EFSF funding for Greece (to inform the parameters in the PSI deal necessary to secure the debt target), and for the PSI to deliver the near-universal participation necessary to bring Greek debt down by the targeted €100 billion. From this perspective, the Greek and European authorities are encouraged to consider tools to attain near-universal creditor participation. The package will also dramatically lower Greece's financing requirements opening up room for more feasible program targets for the fiscal deficit and privatization. But given the initial scale of Greece's problem, these must remain ambitious.

59. **The immediate challenge facing the authorities is in the fiscal area**. The notably weaker-than-expected economy and the attendant contraction in the revenue base is a key reason why the authorities are struggling to meet their fiscal targets and face a need for significant new measures. But it is also true that implementation of the government's medium-term program slipped considerably over the summer, while crucial institutional reforms (to improve tax collection and contain arrears) have continued to move at a slow pace. Staff welcomes the passage of corrective fiscal measures, in particular the more ambitious and upfront cuts to public wages and employment. The draft 2012 budget submitted to parliament now needs to be passed, consistent with program parameters and agreed measures. Going forward, stronger management of the wide-ranging and complex reforms in the program will be needed. Staff welcomes the EC's commitment to scale up technical assistance, alongside the Fund's TA, to help keep reforms on track.

60. **Further progress in reducing the deficit is going to be very hard to achieve without underlying structural fiscal reforms**. Greece will not be able to undertake—in a socially acceptable manner—the large fiscal consolidation that still lies ahead without a much stronger resolve to tackle the problem of tax evasion. With a revenue administration reform strategy and a stronger legal framework in place, execution is key for the period ahead. But the public sector is also very large, and the reduction of its size must be another

essential element of a credible fiscal strategy. This inevitably will require closure of inefficient state entities, reductions in the large public sector work force, and adjustments of generous public wage and pension levels. Stronger budgeting and spending control are also needed, supported by better reporting of arrears.

61. **Preserving stability in the financial sector is another urgent challenge**. The weak economy and the PSI operation will both take a toll on banks' capital positions. The program has a strategy in place to resolve and/or recapitalize banks, and it is imperative to do so in a way that supports the recovery by avoiding excessive deleveraging. Given past government problems in running banks, it will be important to execute the strategy in a manner that preserves private management and control of viable banks to the extent possible. The staff welcomes the authorities' introduction of a new resolution framework to handle any nonviable banks in an efficient way that is least disruptive to depositors. The authorities should use the new resolution framework as a tool to become more proactive in supervision. It will be important to address remaining design issues as soon as possible.

62. **Exceptional liquidity support from the ECB and BoG remains critical to program success**. Given system fragilities, it is imperative that an adequate amount of exceptional support continue to be available, and that the BoG stand ready to provide ELA as needed to viable banks. Staff welcomes the provisions in the PSI agreement to preserve adequate collateral for continued system support. Post-PSI, prompt recapitalization should leave banks adequately liquid, and the BoG should be prepared to provide adequate liquidity support to banks that have a credible recap plan and have been given time to raise capital from private sources. Looking further ahead, it must be ensured that medium-term funding plans, which inform the planned pace of gradual withdrawal of exceptional support, are kept up to date with the program's macroeconomic and policy framework.

63. **Ambitious privatization targets remain appropriate, but the pace of sales may need to be better aligned with market conditions and technical constraints**. Transferring control of assets to the private sector is a crucial complement to the program's broader structural reform agenda. The authorities can meet near-term program asset sale targets (through 2012), given the efforts that have been made to operationalize the Privatization Fund, transfer assets to it, and hire advisors. The re-phased set of transactions for 2012 now needs to be moved forward expeditiously. Still, if market conditions do not improve, there is a risk that sales objectives will not be met, particularly for the very high peak privatization expected in 2013–14, which already involves more difficult-to-market assets. In this instance, the overall privatization objective could be preserved, but sales would have to be spread out over a longer period of time, with program targets recalibrated further.

64. **Greece is still well away from the critical mass of reforms needed to transform the investment climate**. As noted during previous reviews, the hoped-for recovery will not materialize without a re-invigoration of reforms, and there is a real risk that the economy continues to adjust through a protracted recession and related employment-wage-price

channels, until prices of Greek products are low enough to generate sufficient external demand. Staff supports the introduction of more flexibility within Greece's collective bargaining framework, and the authorities' intention to address minimum wage and labor tax wedge issues. These can help control the burgeoning unemployment problem. But the agenda must necessarily be broad, and many reforms that have suffered implementation delays—liberalization of closed professions, business environment reforms, growth strategies—need to be brought to fruition.

65. **Staff welcomes the creation of a national unity government in Greece and the endorsement of program objectives and policies by the three major political parties.** The previous lack of broad political support for the program in Greece has emboldened vested interests and has thus contributed directly to the slowdown of reform implementation. In the wake of the financing deal agreed, the onus is now on Greece to implement sound polices in a timely manner. It will be vital for the new government to use its wider political mandate to fully implement the program and to secure the €100 billion debt reduction targeted by the forthcoming PSI operation.

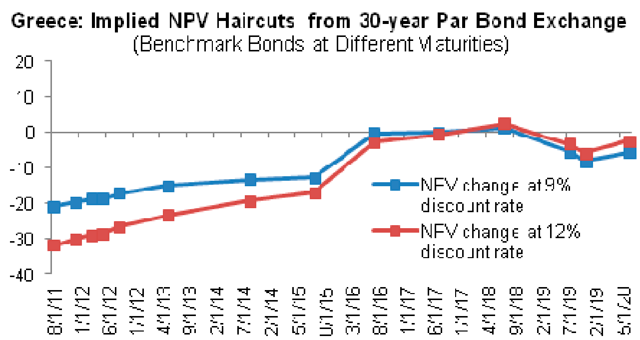
66. **Overall, the Greek authorities have managed to bring the program back on track, and while considerable risks remain, the outlines of a firmer foundation for success are in place**. There are yet significant risks ahead for the authorities' program, including the worsening outlook for the euro area, and the possible failure to agree with creditors on a PSI deal, leading to a non-voluntary outcome. There is also the possibility of a relapse into weak implementation. But the program can help to manage these risks. On the basis of the new government's policy commitments, the commitments of Greece's European partners to support Greece going forward, and the prospects for significant contributions from the private sector, staff supports the completion of the 5th review, the waivers of nonobservance of performance criteria, including on the noncomplying first, second and third purchases, and the modification of performance criteria.

Box 1. Greece: PSI Discussions

PSI discussions were initiated in June 2011. They have involved Eurogroup members and bank representatives from the IIF, with the Fund staff as observers. The discussions started from specific conditions set by Eurogroup members, notably the need to preserve Greek banks' eligibility for ECB refinance and minimize contagion risks to the Euro area. This was understood to require a voluntary scheme not involving a credit event and minimizing any selective default period.

An initial framework for PSI was reached at the July 21st EU Summit. European leaders endorsed a proposal by the IIF targeting high private sector participation through a menu of options designed to appeal to investors with different preferences and accounting needs. Specifically, creditors holding bonds maturing through 2020 could choose from four options, all priced to deliver an NPV haircut of 21 percent from par (calculated at a discount rate of 9 percent). The options included par bonds, discount bonds, and a committed financing facility (rolling over existing GGBs upon maturity). Credit enhancements were offered in the form of full collateralization with zero-coupon AAA bonds (to be purchased by Greece using loans from the EFSF). A debt buy-back operation, funded by €20 billion from the EFSF, was designed to complement the debt exchange.

The initial framework proved inadequate. Concerns were immediately raised that the PSI operation was too generous to private creditors (e.g. those exchanging longer maturity bonds received NPV gains). Notwithstanding this, initial indications of investor preferences showed that participation would not be high (topping out at 70–80 percent for regulated institutions). This pushed the cost of supporting Greece back onto the official sector. Moreover, preferences were heavily skewed towards the par bond exchange option, implying a much lower upfront debt reduction. With the amount of required zero coupon collateral also rising due to falling risk free interest rates, the total collateral need to be financed by the official sector was set to rise despite the low expected participation.

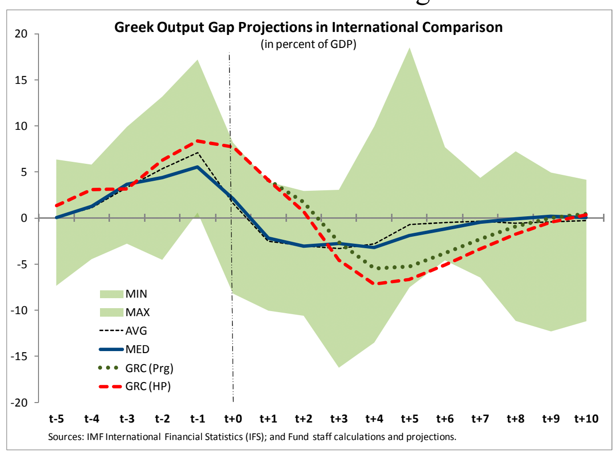


At the recent October 26th EU Summit, European partners agreed on the key targets of a revised PSI operation. Specifically according to the Summit, the revised deal should entail a debt write-down of at least 50 percent of face value by private creditors and involve official support for incentives of no more than €30 billion, with the objective of reaching a ratio of debt to GDP of 120 by 2020. The specific details of the operation remain to be finalized by Greece and its legal and financial advisers over the next weeks, following discussions involving creditor and Eurogroup representatives. A key issue to be addressed is the design of features of the debt operation to deliver a near-universal participation rate by creditors. It is expected that the operation could be undertaken during the first quarter of 2012.

Box 2. Greece: Cyclical Factors in Recession and Recovery

The program's macroeconomic framework assumes a deep decline in output over a prolonged period. In total, output is expected to fall by 14.4 percent from its peak in 2007 to its projected trough in 2012. The output gap (defined by applying an HP filter to projected growth) would peak at 7.1 percent of potential output in 2012 and be fully eliminated by 2018. Estimation of output gaps is of course subject to wide variation; indeed estimates have evolved significantly since the start of the crisis. This Box considers the output gap estimates—the recession and recovery—in a broader context.

International experience can shed light on likely crisis-related output gap dynamics. A sample of 34 crisis episodes in 27 countries that experienced sovereign debt and/or financial crises is considered. The sample includes, among others, the 1980s and early 2000s Latin American crises, the 1997/98 Asian crisis, and the 1987/92 Scandinavian banking crises. The start of a 'post-recovery' period is identified as the year in which the output gap (derived using a simple HP-Filter-based potential growth estimate) closes. The average time period from pre-crisis peak to trough in the observed episodes is about 4 years, and the time from the start of the crisis to the closing of the output gap about 7¼ years. The median peak-to-trough change in the output gap in the sample is 13 ppt. of potential GDP, with a wide range from 5 to 28 ppt.

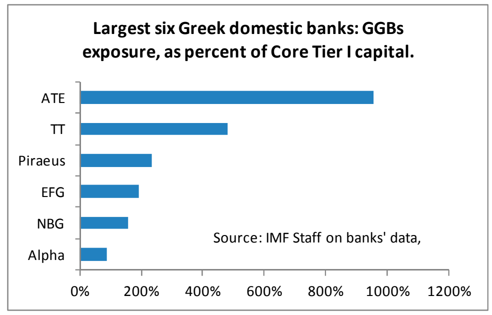


After several years of growth above potential, Greece entered the crisis with a large positive output gap. While the pace and projected depth of the initial downturn match up fairly well with the average, a negative output gap is estimated to have opened only in 2011, the fourth year of the downturn. Furthermore, it is projected that the downturn will be deeper than the sample median (peak-to-trough fall of 14–15 ppt. of potential GDP, putting Greece in the 6th decile), and that it will take Greece much longer to recover and to close the negative output gap (11 years, among the top 20 percent in the sample).

Due to the considerable projected depth and length of the Greek adjustment, it is likely that the drop in output in Greece may have a large permanent component (emphasizing the need for counteracting structural reforms). Deep economic crises—involving structural transformations from non-tradables to tradables production—render obsolete significant portions of the physical and human capital stock. Moreover, extended periods of unemployment lead to an erosion of skills. Securing factors usable under the expected pattern of future production in Greece is a key aim of the structural reform program.

Box 3. Greece: Managing the Impact of PSI on the Banking System

Greek Banks are heavily exposed to Greek sovereign bonds. Current bank portfolios of Greek government bonds (GGBs) have a nominal value of about €45 billion (€39 billion book value after June 2011 impairments), compared to an aggregated core capital of €22 billion. Most of the domestic GGB holdings are with the six largest Greek banks (97 percent).

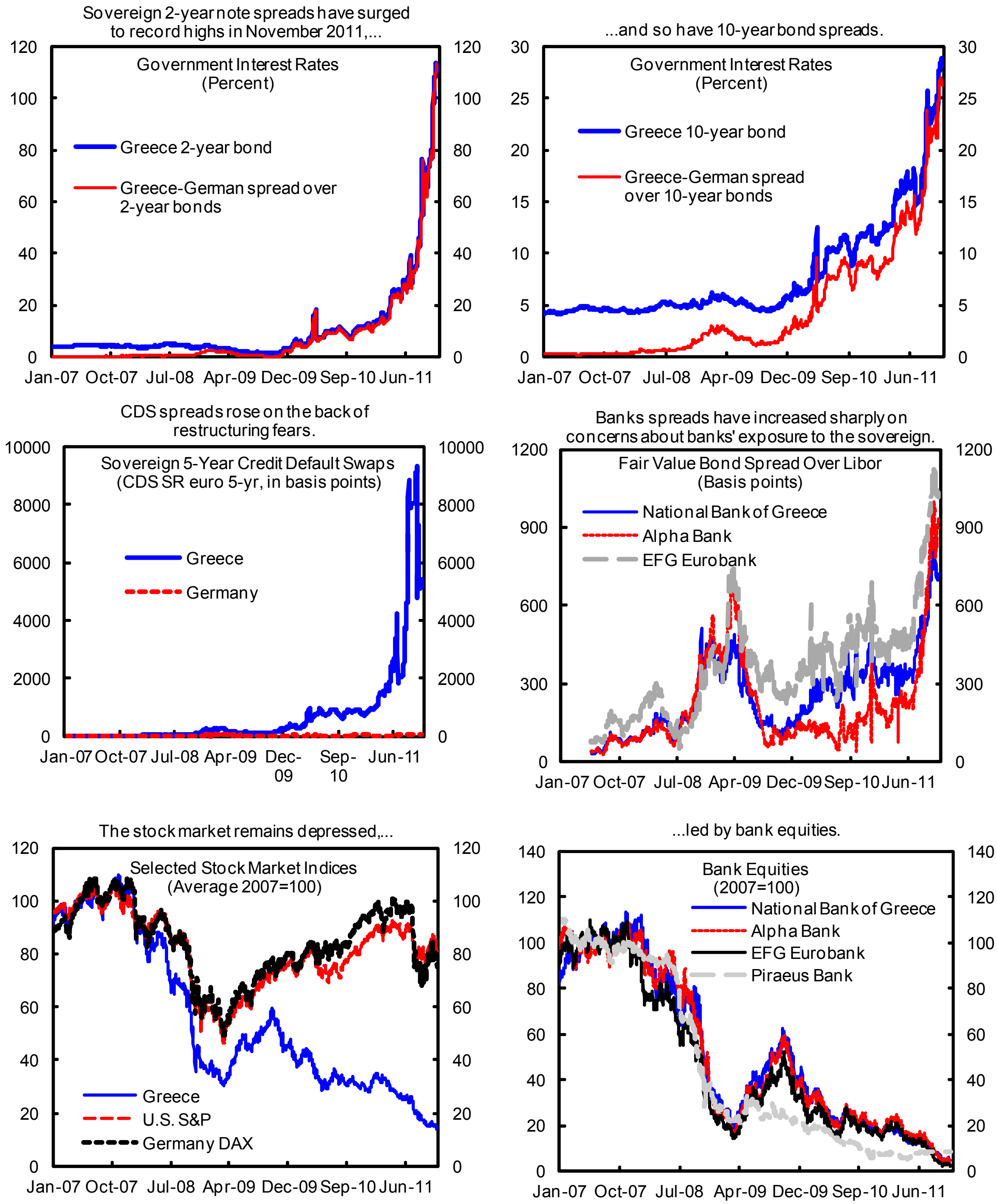


The PSI deal now under discussion would have a deep impact on bank capital. Recapitalization needs for the 6 largest domestic banks (relative to a minimum 10 percent Core Tier I ratio and including impairment of GGBs held in foreign and insurance subsidiaries) could total about €17 billion, in case of a 50 percent haircut. The NPV cut implied by the deal may also need to be immediately reflected in banks' profit and loss statement, leading to further capital needs. Even if banks can account for the bonds at face value in HTM accounts, the program can require them to gradually offset this shortfall with a Pillar II buffer (a continued market perception of undercapitalized banks could contribute to deposit instability and a delayed return to markets).

A core of viable banks can remain in place after the PSI deal. Looking at capitalization post-PSI, and also accounting for the possible impact of the Blackrock exercise, preliminary staff estimates suggest that capital would be wiped out for some banks, with some other banks ending up severely undercapitalized. But this one indicator of viability should be supplemented with metrics of performance on lending and qualitative metrics (i.e. risk management capacity, business model and plans). Based on this wider information set, staff believes that a core of banks can be deemed viable, and given the opportunity to raise capital from markets.

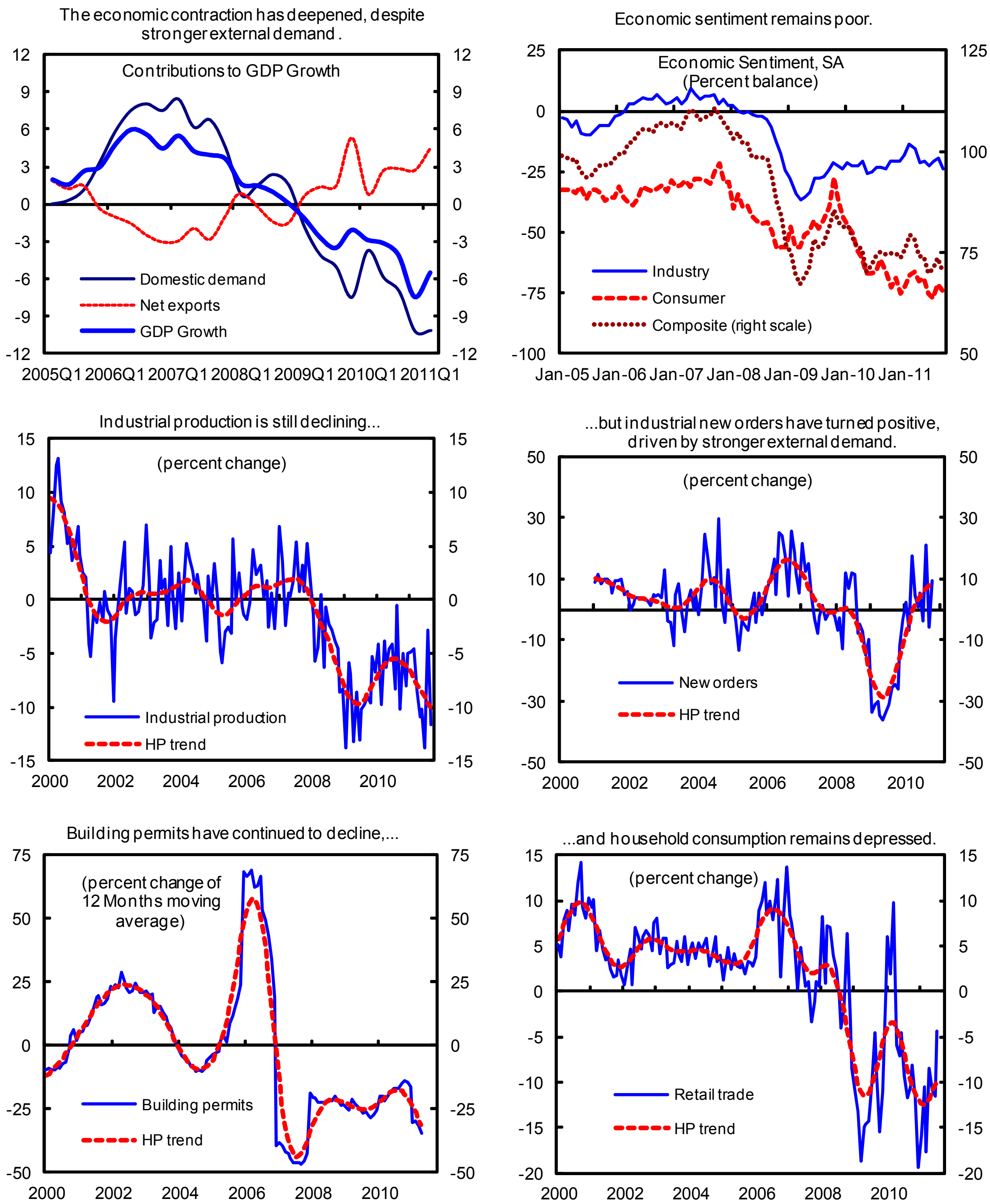
For the core of the banking system, public recap support will likely prove necessary, but can be implemented while preserving private management and some private control. Concerning full public recap, the government of Greece has a poor track record of properly managing state-owned banks and managing its own finances. This suggests that an effort needs to be made to keep a part of the core banking system in private hands, run by competent managers. The program does allow viable banks time to raise capital, (and with a credible plan they could remain eligible for continued liquidity support).

Figure 1. Greece: Financial Indicators



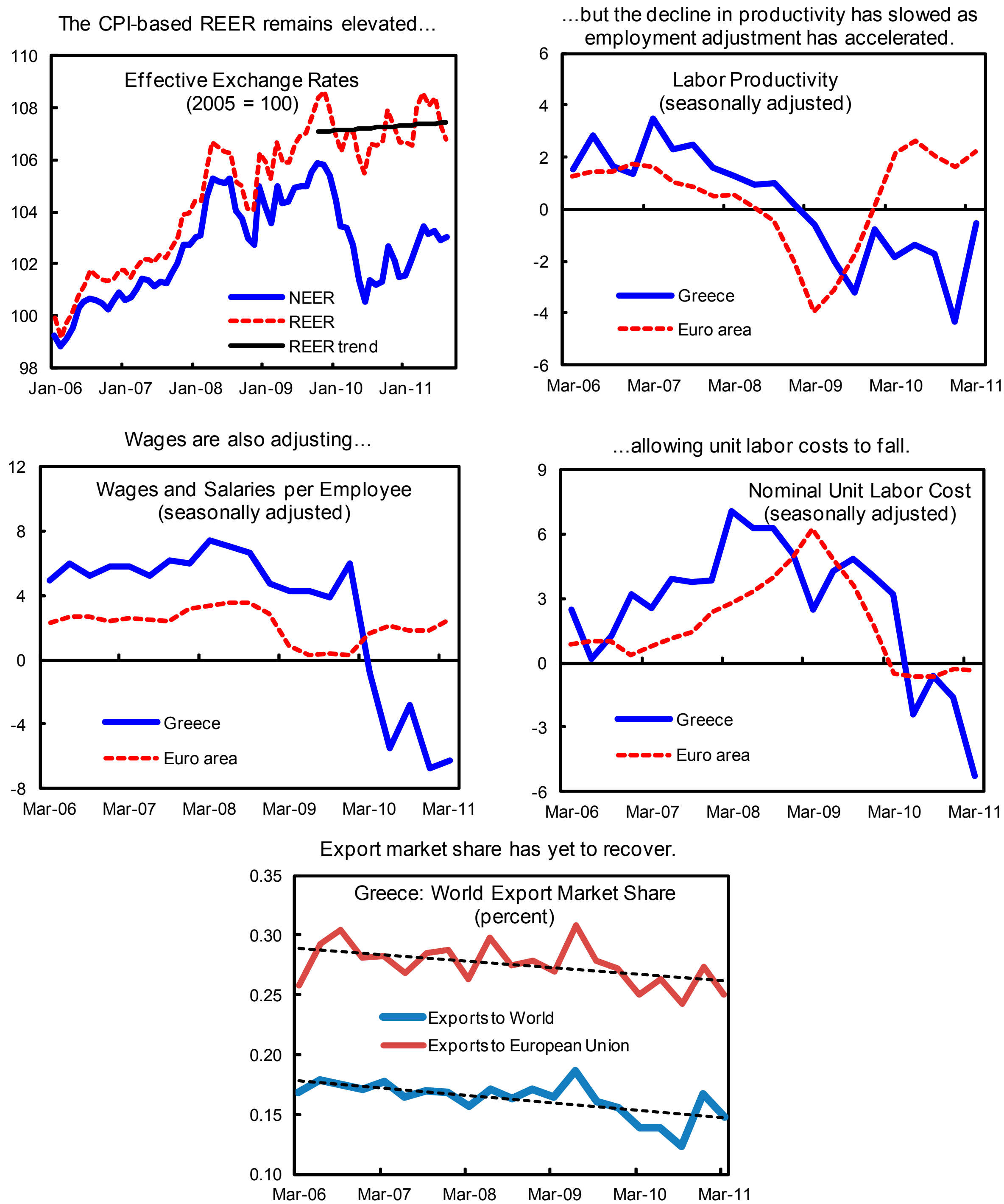
Sources: Bloomberg; and Moody's Creditedge.

Figure 2. Greece: Selected Indicators
(Year-on-year percent change, unless otherwise indicated)



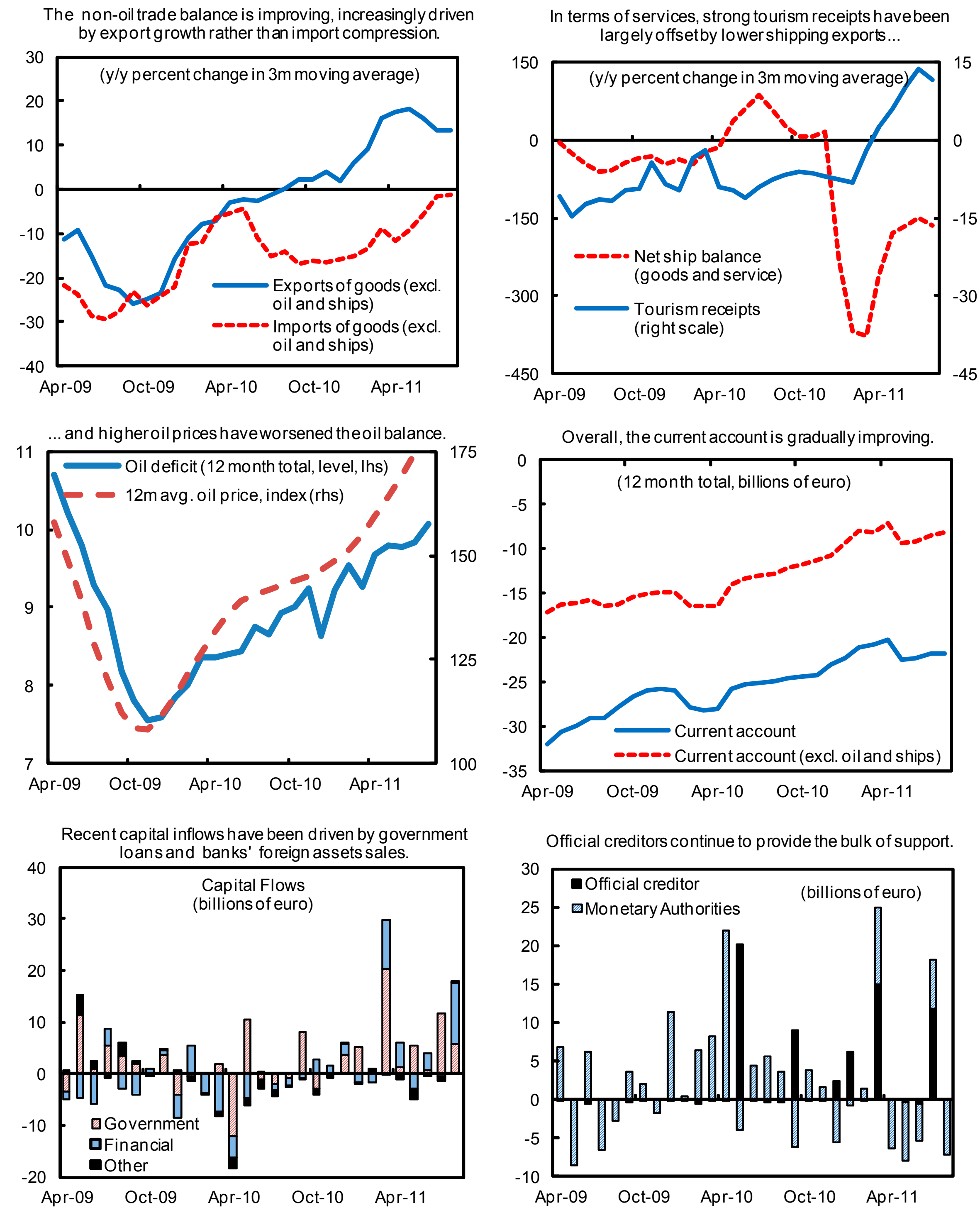
Sources: National Statistical Service; Eurostat; and IMF staff calculations and estimates.

Figure 3. Greece: Competitiveness Indicators
(Year-on-year percent change, unless otherwise indicated)



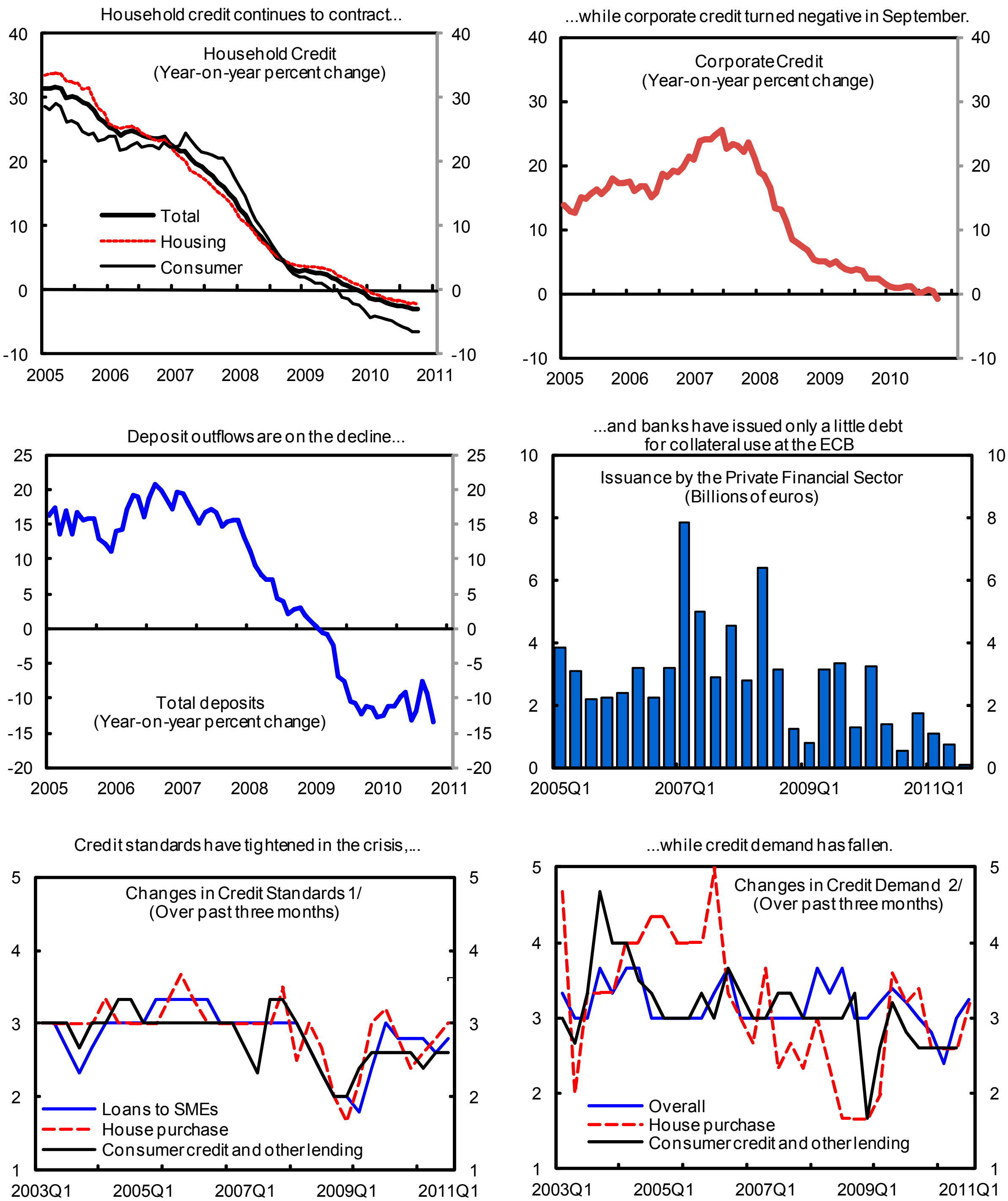
Sources: Eurostat; Elstat; and IMF staff calculations.

Figure 4. Greece: Balance of Payments



Sources: Bank of Greece; and IMF staff calculations.

Figure 5. Greece: Money and Banking Indicators



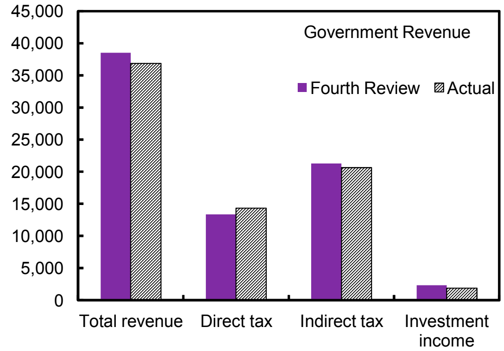
Sources: National Statistical Service; Bank of Greece; Bloomberg; ECB; and IMF staff calculations.

1/ Scale: 1= tightened considerably; 2= tightened somewhat; 3=remain unchanged; 4=eased somewhat
5= eased considerably

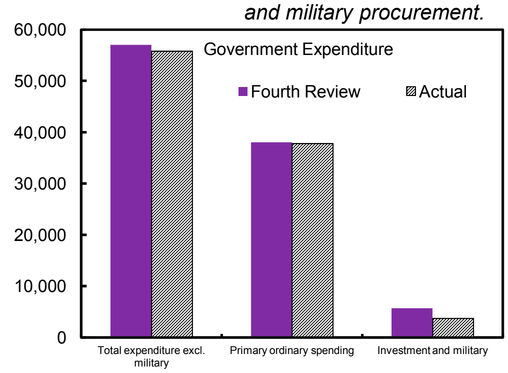
2/ 1= decreased considerably; 2= decreased somewhat; 3=remain unchanged; 4=increased somewhat;
5= increased considerably

Figure 6. Greece: Budget Execution (up to end-September 2011)
(Millions of euro)

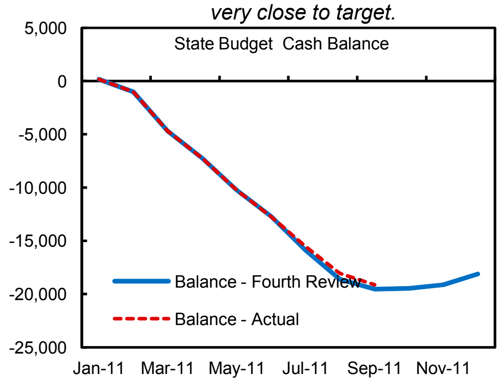
Tax revenue continued to fall behind ...



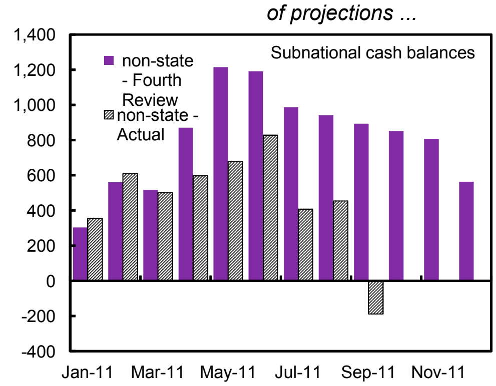
...and spending was lower for investment and military procurement.



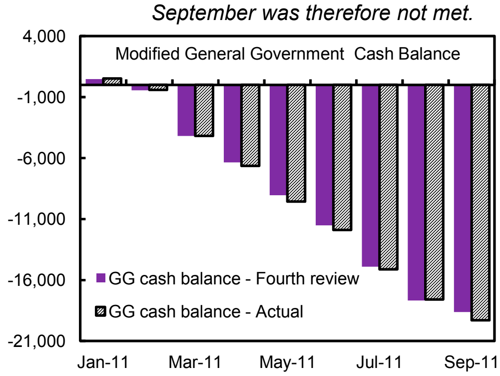
The result has been a cash state budget balance very close to target.



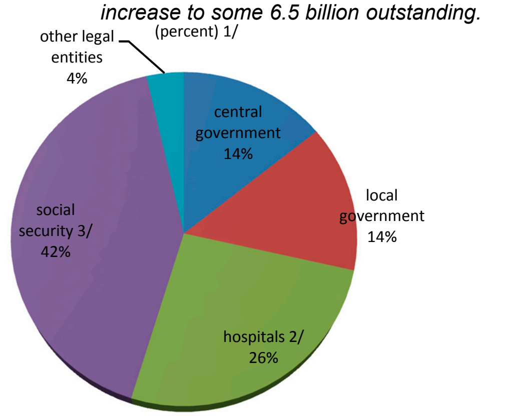
But subnational cash surpluses fell well short of projections ...



... and the primary cash balance at end-September was therefore not met.



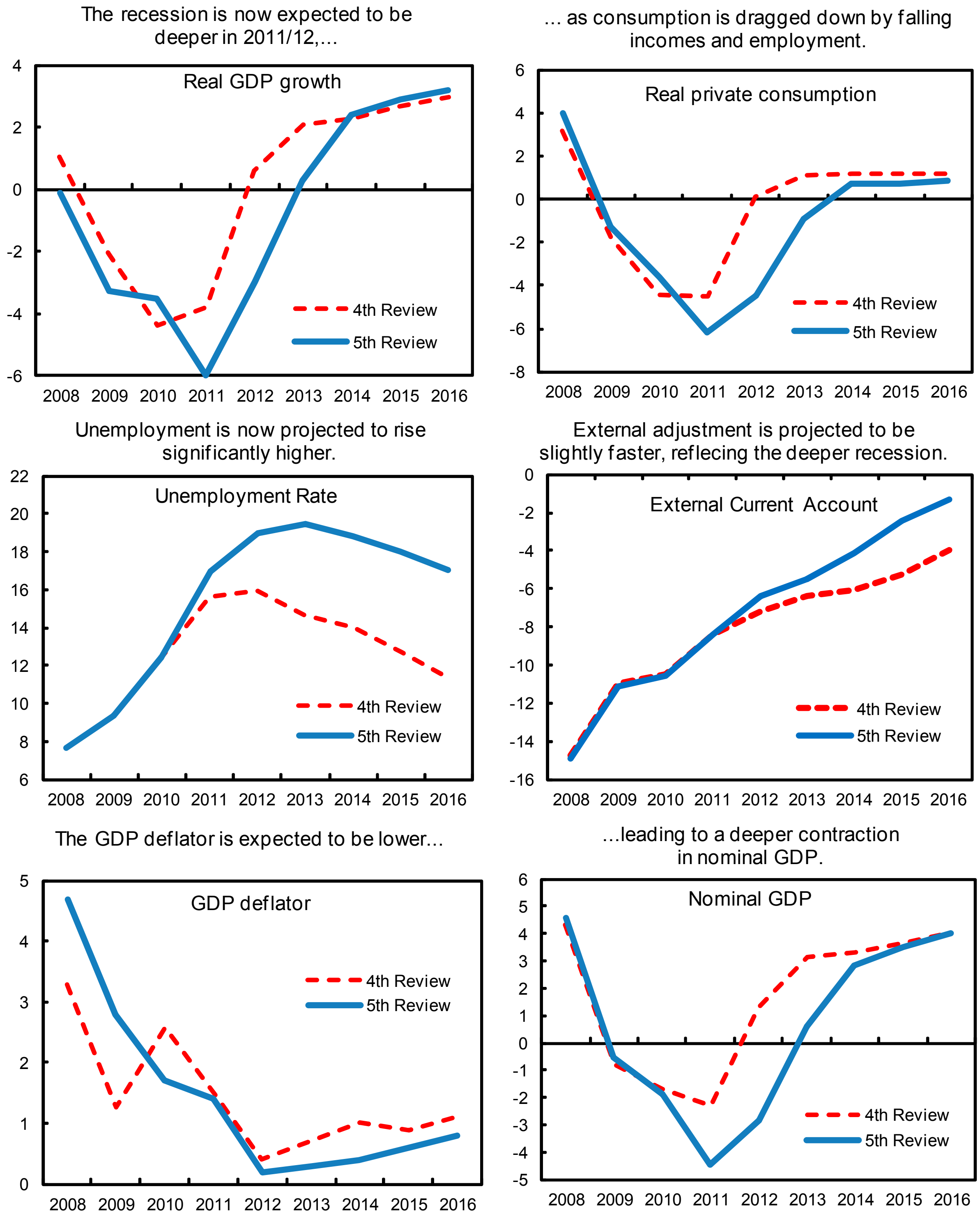
This is partly the result of arrears which continue to increase to some 6.5 billion outstanding.



Sources: National authorities; and IMF staff calculations.

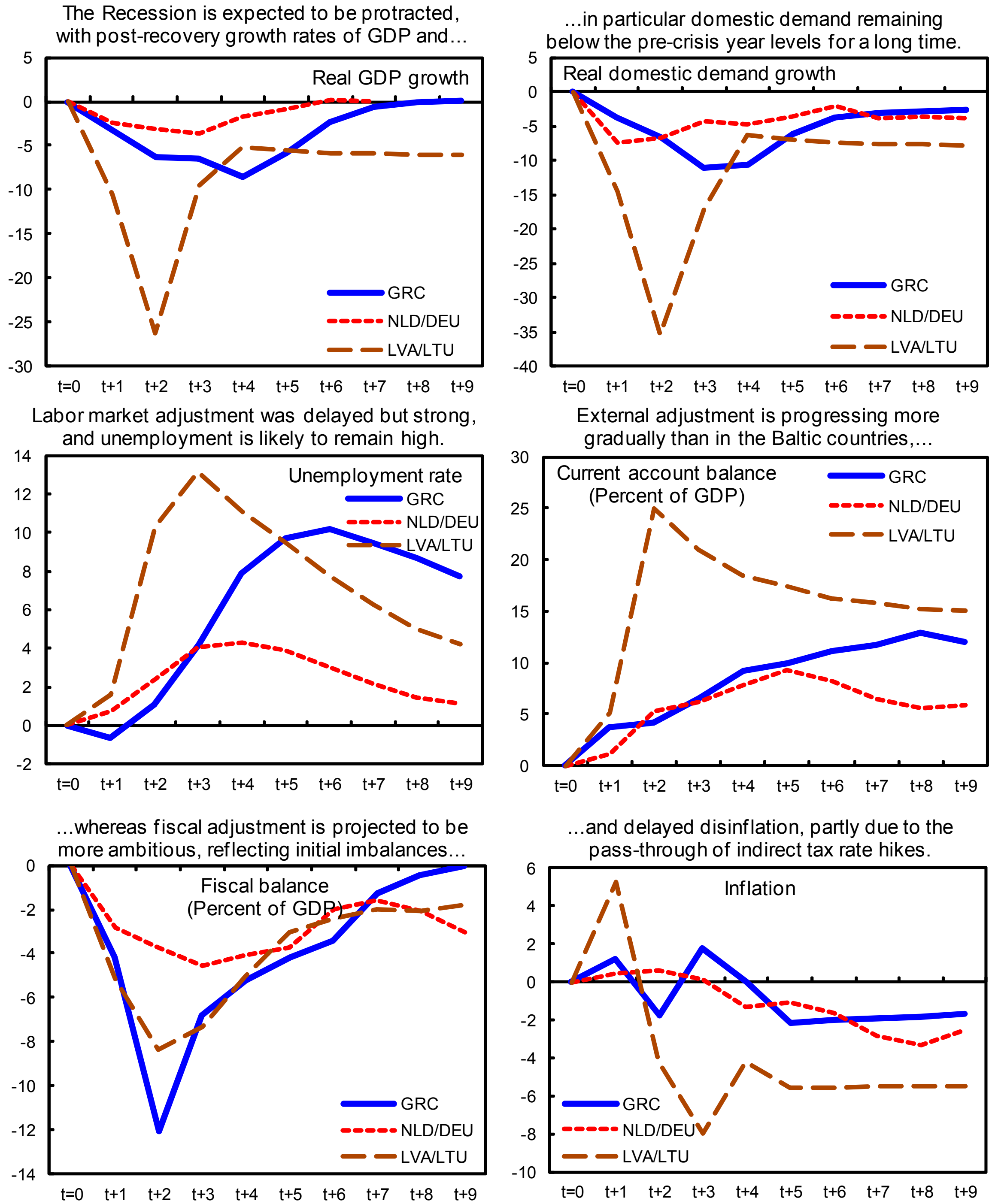
1/ Survey results. Data refer to end-September 2011 and include arrears predating 2010 (pure stock data). 2/ Hospital arrears include 0.1 billion of arrears not yet settled out of the total stock of 5.3 billion of arrears to suppliers known at end-2009. 3/ Social security arrears include 1.1 billion of arrears on lump sum payments to civil servant pensioners related to 2009 and 2010.

Figure 7. Greece: Revised Macro Projections
(Year-on-year percent change)



Sources: National authorities; and IMF staff projections.

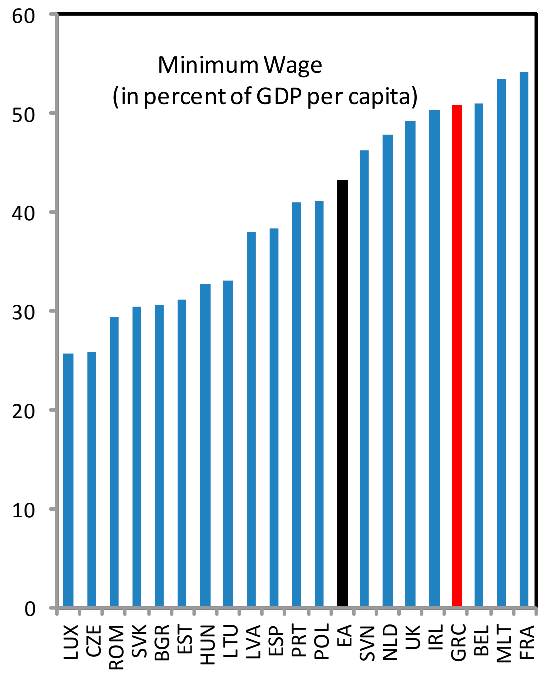
Figure 8. Greece: Macro Projections—International Comparison 1/
(Difference of variable value to pre-recession period in percentage points)

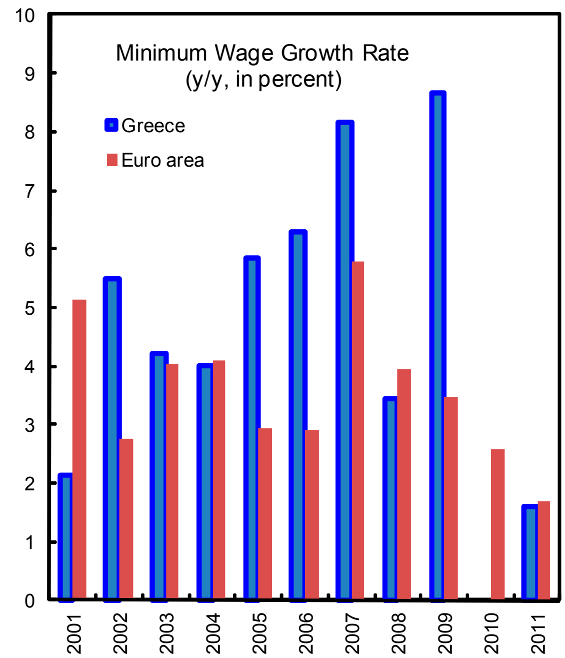


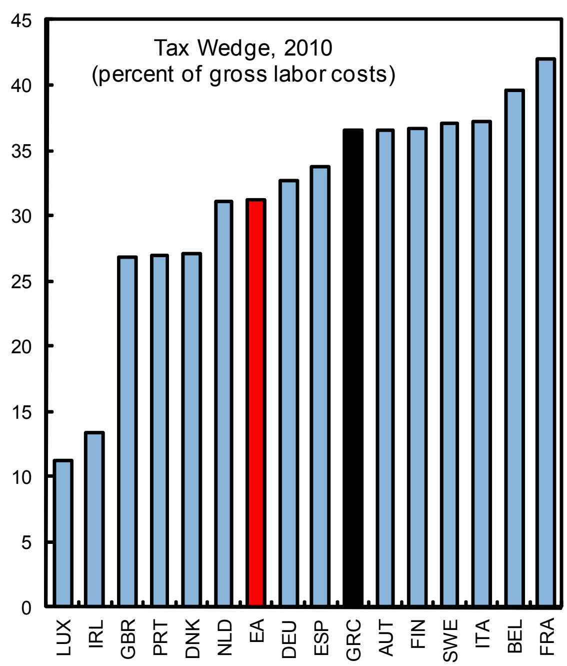
Sources: National authorities; and IMF staff projections.

1/ Comparison is with deep recessions in other countries with fixed or quasi-fixed exchange rate regimes. t=0 is the last year before an economic downturn (NLD 1979; DEU 2000; GRC, LVA, and LTU all 2007). Comparators are the unweighted averages of NLD/DEU and LVA/LTU, respectively. NLD/DEU are historical data; projections starting from t+4 for GRC, LVA, and LTU.

Figure 9. Greece: Minimum Wage and Tax Wedge 1/







	Employee	Employer	Total
Social Insurance Contribution Rates			
Pensions and medical care			
Medical care	2.55	5.10	7.65
Basic pensions	6.67	13.33	20.00
Supplementary pensions	3.25	3.25	6.50
Total pensions and medical care	12.22	21.43	34.15
Unemployment insurance	1.33	2.67	4.00
Other			
Military service benefits	-	1.00	1.00
Family allowances	1.00	1.00	2.00
Training programs	0.10	0.86	0.96
Council Homes	1.00	0.75	1.75
Labor Union recreational programs	0.25	0.25	0.50
Total other	2.35	3.86	6.21
Addition for health-hazardous occupations	3.45	3.15	6.60

Sources: Eurostat; OECD; and IKA.

1/ For a one-earner married couple at 100 percent of average earnings, with two children.

Table 1. Greece: Selected Economic Indicators, 2006–11

	2006	2007	2008	2009	2010	2011	
						Prog.	Proj.
	(Percentage change, unless otherwise indicated)						
Domestic economy							
Real GDP	4.6	3.0	-0.1	-3.3	-3.5	-4.5	-6.0
Output gap (percent of pot. output)	6.3	8.5	7.9	4.4	2.1	-3.3	-2.7
Total domestic demand	6.1	5.9	0.4	-5.7	-6.0	-6.3	-8.4
Private consumption	4.2	3.8	4.0	-1.3	-3.6	-5.4	-7.0
Public consumption	2.3	7.6	-2.1	4.8	-7.1	-6.3	-8.5
Gross fixed capital formation	20.6	5.0	-7.9	-18.4	-14.5	-11.0	-16.0
Change in stocks (contribution)	0.4	0.8	1.1	-2.2	0.1	0.1	0.3
Foreign balance (contribution)	-1.8	-1.2	0.9	3.4	3.3	2.4	3.2
Exports of goods and services	3.1	6.9	3.0	-19.5	4.2	5.8	5.0
Imports of goods and services	8.3	14.6	3.3	-20.2	-7.2	-3.8	-6.5
Unemployment rate (percent) 1/	8.9	8.3	7.7	9.4	12.5	16.5	17.0
Employment 1/	1.9	1.2	1.1	-1.0	-2.7	-5.3	-6.0
Unit labor costs	2.5	1.3	0.4	4.2	-0.4	-2.9	-2.5
Consumer prices (HICP), end of period	3.0	4.0	2.0	2.6	5.1	2.1	2.1
Consumer prices (HICP), period average	3.2	2.9	4.1	1.2	4.7	2.9	3.1
Core prices, period average 1/	2.4	3.1	3.1	2.3	2.2	...	...
GDP deflator	3.4	3.5	4.7	2.8	1.7	1.0	1.6
	(Percent of GDP)						
Balance of payments							
Current account	-11.4	-14.6	-14.9	-11.1	-10.1	-8.1	-8.4
Trade balance	-9.5	-11.2	-11.6	-7.8	-6.6	-4.1	-4.8
Export of goods and services	21.3	21.9	23.1	18.3	20.0	22.7	22.6
Imports of goods and services	30.9	33.1	34.7	26.1	26.7	26.7	27.4
Total transfers	1.6	0.7	1.2	0.6	0.1	0.4	0.4
Net income receipts	-3.5	-4.2	-4.6	-3.9	-3.6	-4.5	-4.0
Net international investment position	-85.3	-96.3	-76.9	-87.9	-99.0	-110.0	-112
Public finances (general government)							
Total revenues	39.5	40.7	40.5	37.9	39.5	40.9	40.5
Total expenditures	45.7	47.5	50.5	53.6	50.1	49.2	49.5
Primary expenditures	41.0	42.8	45.5	48.3	44.6	42.3	42.7
Overall balance	-6.2	-6.8	-10.0	-15.7	-10.6	-8.3	-9.0
Primary balance	-1.5	-2.0	-4.9	-10.4	-5.0	-1.4	-2.3
Gross debt	107	107	113	129	145	167	162
Interest rates and credit							
Long-term lending interest rate 2/	6.3	7.0	7.4	5.7	8.2	...	...
Private credit growth 2/ 3/	21.1	21.5	15.9	4.2	-0.2	...	...
Exchange rates							
Nominal effective exchange rate 2/	1.8	1.9	2.1	0.4	-3.7	...	...
Real effective exchange rate (CPI-based) 2/	2.5	2.3	2.0	1.6	-1.2	...	...
Real effective exchange rate (man. ULC-based) 2/	5.0	-0.7	-1.7	4.2	-1.1	...	...
Memorandum item:							
Nominal GDP (billions of euros)	209	223	233	232	227	222	217
Nominal GDP (percentage change)	8.2	6.6	4.6	-0.5	-1.9	-3.5	-4.5

Sources: National Statistical Service; Ministry of Economy and Finance; Bank of Greece; and IMF staff estimates.

1/ Core prices exclude energy, food, alcohol, and tobacco. Data for 2010 refer to August.
2/ As of November 2010.
3/ Domestic credit growth of households and enterprises.

Table 2. Greece: Monetary Survey, 2006–11

	2006	2007	2008	2009	2010				2011			
					Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11 proj.
					(in billions of euro)							
Aggregated Balance Sheet of Monetary Financial Institutions (MFIs)												
Total assets	356.5	434.6	536.1	579.2	603.9	677.8	662.0	654.6	629.0	660.0	650.3	620.3
Cash (held by credit institutions)	2.6	2.7	2.7	2.5	2.3	2.2	2.1	2.1	2.1	2.2	2.2	2.3
Claims on Bank of Greece	4.6	7.2	7.9	8.2	4.7	10.1	9.1	10.6	9.9	10.8	6.0	7.0
Claims on other MFIs	51.3	76.8	130.3	163.2	187.7	211.4	199.0	186.0	167.8	186.0	157.1	144
Claims (Loans) on non MFIs	182.2	213.7	234.6	222.7	224.3	289.4	286.9	289.0	281.1	279.7	279.5	276.8
Domestic	177.4	205.6	222.0	209.7	210.5	282.4	280.1	282.5	274.9	273.2	272.8	270.4
General government	20.5	21.8	21.6	20.3	21.5	24.0	23.6	26.3	21.1	21.2	21.2	20.4
Other sectors 1/	156.9	183.7	200.4	189.3	188.9	258.4	256.6	256.2	253.8	252.0	251.5	250.0
Other countries	4.8	8.2	12.6	13.0	13.8	7.0	6.8	6.5	6.2	6.4	6.7	6.4
Securities 2/	73.5	83.6	95.9	116.0	116.2	99.1	99.1	101.2	101.3	113.2	94.2	81.4
Other assets	36.7	45.3	59.5	61.2	64.0	60.8	60.9	60.7	62.0	63.2	106.4	104.1
Fixed assets	5.6	5.2	5.2	5.4	4.6	4.9	4.9	5.0	5.0	4.9	4.9	4.9
Total Liabilities	356.5	434.6	536.1	579.2	603.9	677.8	662.0	654.6	629.0	660.0	650.3	620.3
Liabilities to Bank of Greece	4.9	8.8	40.6	49.7	67.1	94.3	94.5	97.8	88.0	103.1	78.2	70.7
Liabilities to other MFIs	57.9	88.0	121.9	149.4	159.5	170.9	171.5	164.7	148.8	173.6	163.4	172.3
Deposits and repos of non MFIs	212.8	249.7	281.7	280.1	273.6	295.5	290.9	282.5	279.5	251.9	251.5	233.5
Domestic	181.8	206.1	237.4	246.7	240.4	230.9	230.8	225.1	221.9	199.7	195.6	179.6
Other countries	31.0	43.6	44.3	33.4	33.2	64.6	60.1	57.4	57.6	52.2	55.8	53.9
Capital and reserves	26.3	30.6	30.0	41.6	42.5	42.6	44.4	46.7	47.6	48.5	48.9	48.3
Banknotes and coins in circulation	16.0	16.9	19.0	21.6	21.4	21.8	21.8	22.5	22.1	22.6	22.9	22.3
Other liabilities	38.7	40.5	42.8	36.7	39.9	52.8	39.0	40.3	43.0	60.2	85.4	73.3
Money and credit												
Broad money	193.6	219.9	251.4	261.1	248.8	240.2	236.2	232.9	223.2	212.8	207.7	196.0
Credit to the private sector 3/	179.2	215.1	249.3	249.3	250.7	260.0	258.1	257.5	255.0	253.1	252.6	250.3
Credit to government	40.8	36.6	37.1	51.0	57.7	57.5	60.6	63.0	58.8	62.5	58.0	45.2
					(annual percent change)							
Broad money 4/	11.5	13.8	12.4	4.1	-1.9	-9.3	-10.3	-11.2	-9.8	-10.2	-12.0	-15.9
Domestic private sector deposits 5/	10.9	14.3	13.3	4.9	-0.8	-9.6	-10.8	-12.4	-12.3	-12.0	-14.1	-17.8
Credit to the private sector 5/	21.1	21.5	15.9	4.2	3.5	2.7	1.4	0.0	-0.4	-1.2	-2.2	-2.5
Credit to government 5/	-2.7	-8.8	1.3	19.4	9.7	12.1	30.8	28.3	8.7	9.3	3.7	-28.3
					(in percent of GDP)							
Broad money	91.6	96.9	106.1	111.4	106.4	102.7	102.4	101.1	99.8	98.3	96.7	95.6
Domestic deposits	86.1	90.8	100.2	105.3	102.7	98.7	98.9	97.7	97.6	89.2	88.8	82.4
Credit to the private sector	84.8	94.7	105.2	106.4	107.1	111.1	110.6	111.8	112.1	113.1	114.7	114.9
Credit to government	19.3	16.1	15.6	21.8	24.6	24.6	26.0	27.4	25.9	27.9	26.3	20.8
Memorandum items:					(in percent)							
Capital to assets	7.4	7.1	5.6	7.2	7.0	6.3	6.7	7.1	7.6	7.3	7.5	7.8
Credit/deposits	103.3	100.8	101.7	107.2	112.7	107.4	109.6	113.4	112.3	125.3	123.5	126.6
Velocity	2.3	2.3	2.2	2.1	2.2	2.3	2.3	2.3	2.3	2.3	2.3	2.3

Source: Bank of Greece and IMF staff estimates and projections.

1/ As of June 2010, securitised assets are no longer derecognised from the balance sheet of banks that have adopted the International Accounting Standards. The counterpart of these assets is recorded on the liabilities side as deposit liabilities to non-euro area residents.

2/ Holdings of securities other than shares and derivatives.

3/ Credit to domestic non-MFI residents by domestic MFIs excluding the Bank of Greece, including securitized loans and corporate bonds.

4/ Growth rates are calculated from differences in outstanding amounts adjusted for revaluations, exchange rate valuation differences, reclassifications and any other changes which do not arise from transactions.

5/ Rates of change based on actual net flows (i.e. adjusted for reclassifications, valuation adjustments, and write-offs).

6/ Rates of change based on reported end-of-period stocks.

Table 3. Greece: Financial Soundness Indicators, 2005–11
(Percent)

	2005	2006	2007	2008	2009	2010Q1	2010Q2	2010Q3	2010Q4	2011Q1	2011Q2
Regulatory capital to risk-weighted assets 1/	13.2	12.2	11.2	9.4	11.7	11.7	11.2	11.4	12.2	12.3	10.6
Regulatory Tier I capital to risk-weighted assets 1/	10.9	9.9	9.2	7.9	10.7	10.6	10.1	10.1	10.9	11.1	9.6
Nonperforming loans net of provisions to capital	19.2	15.4	16.8	26.1	38.2	40.6	45.4	49.9	47.5	51.2	66.3
Nonperforming loans to total gross loans	6.3	5.4	4.5	5.0	7.7	8.2	9.0	10.0	10.4	11.5	12.8
Sectoral distribution of loans 2/											
Consumer credit	15.2	16.3	15.0	14.1	14.0	13.0	14.4	13.8	13.6	13.5	13.5
Lending for house purchase	31.4	33.4	34.5	32.4	35.0	35.5	31.8	30.8	31.1	31.2	31.2
Non-financial corporations	50.5	47.1	47.2	50.4	47.5	48.0	45.6	46.3	45.3	45.4	45.4
Insurance corporations and pension funds	0.1	0.1	0.2	0.1	0.0	0.0	0.1	0.4	0.4	0.4	0.4
Other financial intermediaries	1.6	1.8	1.5	1.5	1.9	1.9	1.8	1.9	2.2	2.1	2.1
Other	1.2	1.4	1.5	1.5	1.6	1.5	6.4	6.8	7.4	7.4	7.4
Return on assets (after taxes) 3/	0.9	0.8	1.0	0.2	-0.1	-0.6	-0.6	-0.5	-0.6	-0.3	-1.7
Return on equity (after taxes) 3/	15.9	12.7	14.8	3.2	-1.5	-8.7	-9.7	-8.4	-8.7	-3.9	-27.3
Interest margin to gross income 3/	75.5	72.3	71.9	83.1	74.8	98.1	97.4	93.9	90.5	82.5	87.4
Non-interest expenses to gross income 3/	54.5	52.2	52.6	60.0	57.4	65.8	66.0	63.9	62.4	54.1	56.9
Liquid assets to total assets 2/	34.0	33.6	35.1	38.7	45.2	45.9	39.6	36.5	35.2	34.5	35.2
Liquid assets to short-term liabilities 2/	47.0	46.5	48.0	50.0	56.9	57.4	55.0	49.6	46.9	46.4	48.2
Net open position in foreign exchange to capital 1/ 4/	2.8	4.8	3.9	7.9	11.7	10.8	10.7	8.5	10.9	12.0	15.4

Source: Bank of Greece.

1/ Data on a consolidated basis.
2/ On an aggregate resident-based approach (i.e. commercial banks, cooperative banks and foreign branches).
3/ On a non-consolidated basis. From 2004 in accordance with IFRS.
4/ Based on revised figures from 2002 onwards.

Table 4. Greece: Modified General Government Cash Balance, 2011
(in billions of Euro, cumulative)

	2011								
	Mar-11	Jun-11		Jul-11		Sep-11		Dec-11	
	Actual	Progr.	Actual	Progr.	Actual	Progr.	Actual	Progr.	Proj.
I. State budget									
Revenues 1/	11.7	23.3	22.5	28.6	28.0	38.5	36.9	57.8	54.2
Net income Ordinary Budget (A+B-C)	11.1	22.6	21.8	27.4	26.8	36.2	35.0	53.9	50.9
A. Recurrent/ordinary revenue	11.6	24.3	23.8	29.3	28.8	38.1	37.6	55.6	53.7
1. Direct taxes	3.9	8.5	8.4	10.0	10.3	13.4	14.3	20.5	20.4
Income taxes	2.2	5.3	5.4	6.3	6.9	8.6	9.5	14.0	12.6
PIT	1.7	3.5	3.5	3.9	4.5	5.4	6.1	9.7	8.1
CIT	0.0	1.0	1.0	1.3	1.3	2.0	1.9	2.7	2.8
Other	0.4	0.8	0.9	1.0	1.1	1.2	1.5	1.7	1.7
Property taxes	0.0	0.3	0.2	0.5	0.3	0.6	0.4	0.7	1.0
Tax arrears collection	0.7	1.3	1.2	1.6	1.3	2.0	1.5	2.7	2.1
Other direct taxes	1.0	1.6	1.6	1.7	1.8	2.2	2.9	3.0	4.7
2. Indirect taxes	7.1	14.0	13.6	16.7	16.3	21.3	20.6	30.3	29.0
Transaction taxes	4.7	9.3	8.9	11.0	10.8	13.6	13.3	18.5	17.7
VAT	4.5	8.8	8.5	10.5	10.3	12.9	12.7	17.5	16.8
other	0.2	0.4	0.4	0.5	0.5	0.7	0.6	1.0	1.0
Consumption taxes	2.2	4.4	4.3	5.2	5.1	7.1	6.8	10.7	10.4
Tax arrears collections	0.1	0.2	0.2	0.2	0.2	0.3	0.3	0.6	0.6
Other indirect taxes	0.1	0.2	0.2	0.2	0.2	0.3	0.3	0.4	0.3
3. Transfers EU	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2
4. Nontax revenue	0.6	1.8	1.8	2.5	2.2	3.3	2.5	4.6	4.1
B. One-off revenue	0.3	0.8	0.7	1.0	1.2	1.3	1.3	2.1	1.9
C. Tax Refunds (-)	0.8	2.5	2.7	2.9	3.1	3.3	3.9	3.8	4.7
Public investment budget	0.6	0.7	0.7	1.2	1.2	2.3	1.9	3.9	3.3
A. EU flows	0.6	0.6	0.6	1.1	1.1	2.2	1.8	3.7	3.1
B. Own revenues	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2
Total expenditure 1/	16.4	36.0	35.3	44.5	43.6	58.0	56.0	75.9	76.8
Total ordinary spending	15.3	32.6	32.6	40.2	40.4	51.9	51.8	66.4	67.7
Total ordinary primary spending	12.1	25.7	25.6	30.2	30.2	38.0	37.8	50.4	51.4
A. Remuneration and pensions	5.1	10.7	10.7	12.7	12.7	16.1	16.3	21.6	21.5
B. Insurance and Healthcare	4.2	9.0	9.2	10.3	10.7	12.4	13.1	15.4	16.7
C. Operating and other expenditure and returned resources	2.5	5.5	5.3	6.7	6.3	8.7	7.9	12.3	12.4
D. Payments in exchange of claims of insurance fund 2/	0.2	0.4	0.4	0.4	0.4	0.5	0.5	0.6	0.6
E. Reserve	0.0	0.0	0.0	0.1	0.0	0.3	0.0	0.6	0.3
Interest expenditure	3.2	6.9	7.0	10.0	10.2	13.8	14.0	16.0	16.3
Transfers to hospitals for the settlement of past debt	0.4	0.5	0.4	0.5	0.4	0.5	0.4	0.5	0.5
Investment spending	0.7	2.7	2.1	3.3	2.6	4.7	3.5	7.6	7.6
Spending on military procurement	0.1	0.3	0.1	0.5	0.1	1.0	0.2	1.5	1.1
State Budget primary spending 1/ *(variable monitored for PC)*	13.4	29.1	28.4	34.5	33.5	44.2	42.0	59.9	61.0
Balance state budget 1/	**-4.7**	**-12.7**	**-12.7**	**-15.9**	**-15.5**	**-19.5**	**-19.1**	**-18.1**	**-22.6**
II. Balance local governments 1/ 3/	0.2	0.5	0.6	0.4	0.6	0.2	0.4	-0.1	0.0
III. Balance social security funds 1/ 3/	0.6	0.3	0.3	0.4	-0.1	0.6	-0.5	0.8	0.8
IV. Balance of extra-budgetary funds (ETERPS) 1/ 3/	0.1	0.4	0.4	0.4	0.5	0.4	0.5	0.4	0.6
V. Called guarantees from non-general govt entities	0.0	0.0	0.0	0.0	0.0	-0.1	0.0	-0.2	-0.2
VI. Change in arrears of line ministries	-0.2	0.0	-0.1	0.0	-0.1	0.0	-0.1	0.0	-0.2
VII. Change in arrears of NHS hospitals	-0.2	0.0	-0.3	0.0	-0.2	0.0	-0.2	0.0	0.9
VIII. Balance of reclassified public enterprises 1/ 3/	…	…	…	-0.2	-0.3	-0.2	-0.3	-0.3	-0.5
IX. Modified general government cash balance 4/	**-4.2**	**-11.5**	**-11.9**	**-14.9**	**-15.1**	**-18.6**	**-19.3**	**-17.5**	**-21.3**
of which: Modified general government primary cash balance *(variable monitored for PC)*	-1.0	-4.6	-4.9	-4.9	-4.9	-4.8	-5.3	-1.5	-5.1
X. Adjustments 5/	…	…	…	…	…	…	…	0.4	1.7
XI. General government balance (ESA 95) before measures	…	…	…	…	…	…	…	**-17.1**	**-19.6**
XII. To be identified measures	…	…	…	…	…	…	…	0.0	…
XIII. General government balance (ESA 95) incl. measures	…	…	…	…	…	…	…	**-17.1**	**-19.6**
Memorandum items									
Floor on the modified general government primary cash balance	-1.0	-4.3	-4.9	-5.1	-4.9	-5.0	-5.3	-1.5	-5.1
Ceiling on state budget primary spending	13	30	28	35	33	45	42	60	61

Source: Greek Ministry of Finance and Fund staff projections.
1/ Including new measures.
2/ For the personnel of the Public Power Company.
5/ Change in net financial assets. Excludes valuation changes.
4/ Including balances of reclassified public enterprises
5/ Cash to accrual, coverage, and other ESA adjustments.

Table 5. Greece: Status of Macro-Structural Reforms

Measures	passage	implementation	Description	Outcomes
			Labor market	
Reducing employment protection	Jul-10	completed	The law facilitated firing (costs and procedures), eased overtime premia, equalized hourly remuneration for permanent and part-time work, extended the duration of temporary contracts, and introduced sub-minimum wages for youth.	Part-time new contracts have increased by 40 percent in H1 2011 relative to H1 2010; existing contract changes (from full time into part-time and intermittent contracts) in H1 2011 was 226% relative to a year ago; 1500 applications forsub-minimum wages were received at end-August.
Facilitating firm-level collective bargaining, mediation, and arbitration	Dec-10	completed	The law allows firms to deviate from the automatic extension of sectoral agreements via opt-outs. Such firms are allowed to undertake special firm-level collective agreements, subject to evaluation of the Labor Inspectorate and consent by sector unions in small firms. The law also provides for symmetric access to arbitration services.	10 SFLCAs were approved until end-September 2011, covering 3,000 employees and allowing for an average wage reduction of about 10 percent.
Allowing for flexible labor contracts and working time management	Jul-11	in progress	The new legislative amendments permit individuals to work longer hours for a longer period, while reducing the use of overtime pay, and lower the severance pay associated with fixed-term contracts as well as limit the times these types of contracts can be renewed. They also allow for term contracts for youth to gain work experience at sub-minimum wages.	N/A
Strengthening the labor inspectorate	Jul-11	in progress	The reform strengthens the Labor Inspectorate, sets quantitative targets on the number of controls to be executed, allows for a limited (in scope and time) pilot study to verify the favorable financial net impact on the overall social security budget of a discount of up to 10 percent on social contributions for those enterprises introducing the labor card.	N/A
Removing labor market rigidities	Oct-11	in progress	New legislation eliminates the "favorability" clause (requiring negotiations to start from the most favorable contract for the worker), suspends the extension of sectoral agreements to firms not represented in negotiations for the duration of the MTFS, and allows for worker representatives (3/5th majority) to negotiate firm level agreements in firms of all sizes.	N/A
			Sectoral deregulation	
Liberalization of cruise ships (cabotage).	Aug-10	completed	The law opens access to cruise ships with non EU flag to dock on/ depart from a Greek port.	No evidence of non-EU flag ships departing from and terminating in a Greek port (contracts are signed 2 years ahead).
Liberalization of road freigh transportation	Sep-10	in progress	The law allows for automatic granting of licenses upon meeting objective criteria set by the law; new entrants would pay an entry fee equal to the goodwill of existing licenses during the 2.5-year transition period, after which the fee will reflect administrative costs. The law also abolishes administratively set transportation tariffs.	Average license prices in secondary markets fell from 100,000 to 15,000-19,000.
Liberalization of regulated professions	Feb-11	in progress	The law removes restrictions to closed professions related to quantity, geography, scale, incorporation, prices, number of licenses, and prior conditions for licenses. The law deals explicitly with lawyers, notaries, engineers, architects, and auditors, where advertisement prohibitions were removed and compulsory minimum fees were eliminated.	N/A (implementation delayed)
Liberalization of tourist coaches	Jul-11	completed	The new legislation removes restrictions on the provision of services for occasional passenger transport by buses, coaches and limousines, by liberalizing entry, limiting license costs and authorization time, and lowering fees.	N/A
Liberalization of the energy sector	Jul-11	in progress	The energy law unbundes transmission and distribution of energy and establishes the independent Regulatory Authority for Energy.	N/A
			Business environment	
One-stop-shops for business start-ups	Jun-10	completed	The law reduces the number of steps (from 11 to 1), days (from 38 to 1), and cost (by more than 50 percent) required to start a business. It also operationalizes the electronic commercial registry (GEMI) and harmonizes IT systems among institutions.	The average number of applications for start-ups doubled in August (200/week) relative to the months before (100/week). Data for 800,000 existing companies was transferred to GEMI.
Fast-track procedure for large investment projects	Jul-05	completed	The law simplifies procedures for approval of large-scale investment projects, centralizes and speeds up the decision process , accelerates licensing procedures (2 month deadline), and provides for a one-stop-shop.	3 projects have been approved (approx euro 1.1 bn total), 4 others (euro 3.6 bn total) are in the pipeline.
Strengthening the Competition Authority	Apr-11	in progress	The law strengthens the independence and continuity of the Competition Authority's Board; maintains its financial capacity, and reinforces its governance and accountability.	N/A
Simplification of business licensing	Jun-11	in progress	The new law accelerates access to the main permits needed for the physical installation of enterprises and sets clear standards for applications and binding deadlines for necessary opinions.	N/A
Simplification of environmental licensing	Sep-11	in progress	The law aims to simplify and shorten procedures to complete studies on environmental impact and to get the approval of environmental terms with a view to reducing the number of projects subject to environmental licensing and the duration of approval procedures to EU average levels. The acceleration of the environmental licensing is assured by committing the authorizing authority to proceed with the approval procedure after a specified time period.	N/A

Source: IMF staff.

Table 6. Greece: Medium-Term Macroeconomic Framework, 2010–16

	2010	2011	2012	2013	2014	2015	2016	2020
		Projections						
	(Percentage change, unless otherwise indicated)							
Domestic economy								
Real GDP	-3.5	-6.0	-3.0	0.3	2.4	2.9	3.2	2.6
Output gap (percent of pot. output)	2.1	-2.7	-5.6	-5.6	-4.1	-2.5	-1.1	0.0
Total domestic demand	-6.0	-8.4	-5.3	-1.3	1.2	1.7	2.1	1.6
Private consumption	-3.6	-7.0	-4.7	-1.4	0.7	0.7	0.8	0.3
Public consumption	-7.1	-8.5	-9.2	-6.0	-4.5	-1.0	1.0	0.1
Gross fixed capital formation	-14.5	-16.0	-3.5	4.0	8.5	8.0	7.5	6.0
Change in stocks (contribution)	0.1	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Foreign balance (contribution)	3.3	3.2	2.7	1.7	1.2	1.2	1.1	1.1
Exports of goods and services	4.2	5.0	6.5	6.5	7.0	7.0	7.0	5.5
Imports of goods and services	-7.2	-6.5	-3.2	0.3	2.7	3.0	3.4	2.8
Unemployment rate (percent) 1/	12.5	17.0	19.0	19.5	18.8	18.0	17.0	13.1
Employment	-2.7	-6.0	-2.5	0.2	1.0	1.2	1.4	1.3
Unit labor costs	-0.4	-2.5	-3.0	-1.5	-0.8	0.0	0.2	1.0
Consumer prices (HICP), end of period	5.1	2.1	0.5	1.0	1.1	1.2	1.3	1.8
Consumer prices (HICP), period average	4.7	3.1	0.8	0.9	1.0	1.1	1.2	1.8
GDP deflator	1.7	1.6	0.2	0.3	0.4	0.6	0.8	1.7
Monetary survey								
Credit to the private sector (percent change)	-0.2	-2.5	-2.3	0.6	3.0	3.7	4.2	4.6
Private sector deposits (percent change)	-12.1	-17.8	-5.8	0.4	5.2	8.4	8.0	6.5
Liabilities to the BoG (in billions of Euro)	97.8	70.7	61.4	57.5	56.4	57.2	54.4	29.9
	(Percent of GDP)							
Balance of payments								
Current account	-10.1	-8.4	-6.4	-5.5	-4.1	-2.5	-1.3	2.0
Trade balance	-6.6	-4.8	-2.3	-0.9	0.3	1.5	2.6	6.2
Export of goods and services	20.0	22.6	24.8	26.3	27.4	28.6	29.6	33.3
Export of goods	7.5	9.3	10.2	10.9	11.3	11.7	12.1	13.3
Exports of services	12.5	13.3	14.6	15.5	16.2	16.9	17.5	20.0
Imports of goods and services	26.7	27.4	27.1	27.3	27.2	27.1	27.1	27.1
Imports of goods	20.0	21.0	20.7	20.9	20.7	20.5	20.4	20.2
Imports of services	6.7	6.4	6.4	6.4	6.5	6.6	6.6	6.9
Total transfers	0.1	0.4	0.4	0.4	0.3	0.3	0.3	0.0
Net income receipts	-3.6	-4.0	-4.4	-4.9	-4.7	-4.3	-4.2	-4.2
Net international investment position	-99	-112	-122	-127	-126	-122	-118	-92
Gross external debt	180	193	192	192	186	179	172	146
Private sector capital flows (net)	-19	-17	-37	2	-1	7	4	1
Public finances (general government, percent of GDP)								
Total revenues	39.5	40.5	42.6	43.1	43.3	43.5	43.4	42.3
Total expenditures 2/	50.1	49.5	47.4	47.0	44.8	44.6	44.3	43.0
Primary expenditures	44.6	42.7	42.4	40.7	38.4	38.6	38.6	38.2
Overall balance 2/	-10.6	-9.0	-4.7	-3.9	-1.4	-1.1	-1.0	-0.8
Primary balance	-5.0	-2.3	0.2	2.4	5.0	5.0	4.8	4.0
Gross financing needs (pct of GDP) 2/	24	28	51	12	15	8	6	5
Memo: GFN (in billion of Euro) 2/	54	61	109	26	32	18	15	15
Memo: Deposit Accumul. (in billion of Euro)	…	2	5	4	0	0	0	0
New private sector borrowing (MLT, billion of Euro) 2/	…	0	0	0	0	7	4	9
Privatization receipts (percent of GDP)	0.0	0.5	2.8	6.6	6.5	2.2	2.1	0.0
Gross debt (in percent of GDP) 2/	145	162	151	149	141	133	124	104

Sources: National Statistical Service; Ministry of Economy and Finance; Bank of Greece; and IMF staff estimates.

1/ Based on Labor Force Survey.

2/ Debt and interest dynamics assume October 26 parameters are implemented.

Table 7. Greece: Summary of Balance of Payments, 2009–16

	2009	2010 Prel.	2011 Projections	2012	2013	2014	2015	2016
	(Billions of euro)							
Current account balance	-25.8	-23.0	-18.2	-13.4	-11.7	-9.0	-5.6	-3.1
Balance of goods and services	-18.1	-15.0	-10.4	-4.9	-2.0	0.6	3.3	6.0
Goods balance	-30.8	-28.3	-25.5	-22.3	-21.2	-20.5	-20.0	-19.7
Exports	15.3	17.1	20.2	21.5	23.1	24.6	26.4	28.4
Imports	46.1	45.4	45.6	43.8	44.3	45.1	46.4	48.1
Services balance	12.6	13.2	15.1	17.4	19.2	21.0	23.3	25.7
Credit	27.0	28.5	28.9	30.8	32.9	35.3	38.1	41.2
Debit	14.3	15.2	13.8	13.4	13.6	14.2	14.8	15.6
Income balance	-9.0	-8.1	-8.7	-9.4	-10.5	-10.3	-9.6	-9.8
Credit	4.3	3.6	3.5	3.2	4.5	6.1	8.1	8.2
Debit	13.3	11.7	12.2	12.6	15.0	16.5	17.7	18.0
Current transfers (net)	1.3	0.2	0.8	0.8	0.8	0.7	0.7	0.7
Capital and financial account balance	26.4	-8.1	-22.2	-92.8	2.3	-3.5	5.6	3.1
Capital account balance	2.0	2.1	3.5	3.5	3.4	3.3	3.2	3.1
Financial account	24.4	-10.1	-25.7	-96.3	-1.1	-6.9	2.4	0.0
Direct investment	0.3	-0.5	-0.1	3.8	10.2	9.7	2.5	2.3
Portfolio investment	22.7	-20.9	-12.6	-33.8	-9.0	-14.3	4.1	-0.5
of which: government	29.1	-26.8	-20.4	-27.3	-8.9	-14.2	4.2	0.2
Other investment (excl. program financing)	1.6	11.1	-11.4	-61.8	1.2	-2.3	-4.2	-1.7
Reserve assets (increase = -)	-0.1	0.1	-1.7	-4.5	-3.5	0.0	0.0	0.0
Net errors and omissions	-0.6	-0.4	-1.0	0.0	0.0	0.0	0.0	0.0
Official Financing	…	31.5	41.5	106.3	9.4	12.6	0.0	0.0
	(In percent of GDP)							
Current account balance	-11.1	-10.1	-8.4	-6.4	-5.5	-4.1	-2.5	-1.3
Balance on goods and services	-7.8	-6.6	-4.8	-2.3	-0.9	0.3	1.5	2.6
Goods balance	-13.3	-12.4	-11.7	-10.6	-10.0	-9.4	-8.8	-8.4
Services balance	5.5	5.8	6.9	8.2	9.1	9.6	10.3	10.9
Income balance	-3.9	-3.6	-4.0	-4.4	-4.9	-4.7	-4.3	-4.2
Current transfers	0.6	0.1	0.4	0.4	0.4	0.3	0.3	0.3
Capital and financial account balance	11.4	-3.5	-10.2	-44.0	1.1	-1.6	2.5	1.3
Capital account balance	0.9	0.9	1.6	1.6	1.6	1.5	1.4	1.3
Financial account	10.5	-4.5	-11.9	-45.6	-0.5	-3.1	1.0	0.0
Direct investment	0.1	-0.2	-0.1	1.8	4.8	4.5	1.1	1.0
Portfolio investment	9.8	-9.2	-5.8	-16.0	-4.2	-6.5	1.8	-0.2
of which: government	12.6	-11.8	-9.4	-12.9	-4.2	-6.5	1.8	0.1
Other investment	0.7	4.9	-5.2	-29.3	0.6	-1.1	-1.8	-0.7
Reserve assets (increase = -)	0.0	0.0	-0.8	-2.1	-1.6	0.0	0.0	0.0
Net errors and omissions	-0.3	-0.2	-0.5	0.0	0.0	0.0	0.0	0.0
Official Financing	…	…	19.1	50.3	4.4	5.7	0.0	0.0
Gross external debt	176.1	179.8	192.9	191.9	192.1	185.9	179.4	172.4
Public sector	115.9	120.7	141.5	152.8	146.1	134.2	123.9	113.9
Private sector	60.1	59.1	51.4	39.1	46.0	51.8	55.5	58.6

Sources: Bank of Greece; and IMF staff estimates.

Table 8. Greece: General Government Operations, 2009–15

	2009	2010	2011		2012	2013	2014	2015
			Progr.	Proj.	Proj.	Proj.	Proj.	Proj.
			(billion of Euro)					
Revenue	87.7	89.9	91.9	87.9	90.0	91.6	94.6	98.4
Taxes on production, and imports	26.1	28.6	29.4	27.7	27.4	28.6	29.8	30.7
Taxes on income, and property	19.0	17.4	16.7	16.4	18.3	18.3	19.9	21.1
Social contributions	29.5	29.7	29.4	29.0	28.3	28.7	29.9	31.0
Other	9.9	9.6	11.8	10.8	10.7	10.9	11.1	11.9
Capital transfers	3.2	4.6	4.7	4.1	5.3	5.1	3.8	3.7
Primary expenditure	111.8	101.3	93.8	92.8	89.5	86.5	83.7	87.2
Wages	30.6	27.2	24.7	24.7	21.9	20.4	19.2	20.6
Social benefits	48.8	47.4	45.1	44.5	43.2	42.5	41.8	43.4
Goods and services	17.2	13.3	11.8	11.7	12.3	11.4	10.5	10.9
Subsidies	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2
Other current	3.6	3.9	3.8	3.5	3.6	3.6	3.7	3.6
Capital	11.5	9.4	8.3	8.3	8.5	8.3	8.4	8.5
Primary balance	-24.1	-11.4	-1.9	-4.9	0.4	5.1	10.9	11.2
Interest payments 1/	12.3	12.6	15.2	14.7	10.4	13.4	14.0	13.6
Overall balance	-36.5	-24.0	-17.1	-19.6	-10.0	-8.3	-3.2	-2.4
Gross debt (Maastricht) 1/	299	329	373	351	319	317	307	300
			(percent of GDP)					
Revenue	37.9	39.5	40.9	40.5	42.6	43.1	43.3	43.5
Taxes on production, and imports	11.3	12.6	13.1	12.7	13.0	13.5	13.7	13.6
Taxes on income, and property	8.2	7.7	7.4	7.6	8.7	8.6	9.1	9.3
Social contributions	12.7	13.0	13.0	13.3	13.4	13.5	13.7	13.7
Other	4.3	4.2	5.2	5.0	5.1	5.1	5.1	5.2
Capital transfers	1.4	2.0	2.1	1.9	2.5	2.4	1.7	1.6
Primary expenditure	48.3	44.6	41.7	42.7	42.4	40.7	38.4	38.6
Wages	13.2	12.0	11.0	11.4	10.4	9.6	8.8	9.1
Social benefits	21.1	20.9	20.0	20.5	20.4	20.0	19.1	19.2
Goods and services	7.4	5.9	5.3	5.4	5.8	5.4	4.8	4.8
Subsidies	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1
Other current	1.6	1.7	1.7	1.6	1.7	1.7	1.7	1.6
Capital	5.0	4.1	3.7	3.8	4.0	3.9	3.9	3.8
Primary balance	-10.4	-5.0	-0.8	-2.3	0.2	2.4	5.0	5.0
Interest payments 1/	5.3	5.5	6.8	6.8	4.9	6.3	6.4	6.0
Overall balance	-15.7	-10.6	-7.6	-9.0	-4.7	-3.9	-1.4	-1.1
Gross debt (Maastricht) 1/	129	145	166	162	151	149	141	133
Memorandum items:								
Nominal GDP (in euro billions)	232	227	225	217	211	212	218	226
Fiscal balance target (in euro billions)	…	…	-17.1	-17.1	-14.9	-11.4	-6.4	…

Source: Greece authorities, and IMF staff estimates.
1/ Debt and interest dynamics assume October 26 parameters are implemented.

Table 9. Greece: Revenue Collection Process

Stage of the Revenue Collection Process	Issues	Actions Taken and Next Steps
1. Assessment		
Taxpayers self-assess taxes due and tax authorities provide services to support taxpayer compliance	• Taxpayer services are decentralized or non-existent.	**Next steps** • Central Taxpayer Service Directorate to be established as part of medium term strategic plan (*Late 2012*).
Taxpayers submit tax returns and pay taxes.	• Tax returns can only be filed if tax due is paid in full. • About 30 percent of VAT returns are not filed or filed late.	**Action taken** • Legislation approved allowing acceptance of VAT tax returns without full payment of taxes contingent to installment arrangements (*March 2011*).
2. Controls		
Tax authorities perform controls and enforce timely filing and payment	• Weak and decentralized filing and payment enforcement with procedures not automated. • Data gathering is ad hoc with no central control for monitoring and enforcing compliance.	**Actions taken** • Anti-evasion plan: a task force is in place to strengthen filing enforcement through centralized control with defined performance targets for VAT filing compliance (*early 2011*). • Legislation approved obliging electronic submission of income tax returns by legal entities and self employed (*March 2011*) **Next steps** • Monitor progress towards achieving performance targets (*Monthly reports*, *2011*).
Authorities identify cases to audit	• Legal requirement to audit all tax returns generally prevents prioritization and risk-based selection audit cases. • Potentially large tax evasion: about 75 percent of self employed professionals declaring taxable income below minimum exemption threshold.	**Actions taken** • Anti-evasion plan: Top taxpayers and high risk wealthy individuals and self-employed have been identified for audit (*Early 2011*). • Legislative obligation of auditing all tax returns eliminated (*March 2011*). • High risk cases selected for audit identified, and audits started (*April-July 2011*) • Medium-term strategic plan approved (*July 2011*), and a large taxpayer office created (*October 2011*). **Next Steps** • As part of the medium-term strategic plan, actions to introduce a risk-based compliance framework for large taxpayers and high wealth individuals (HWI) to be developed (*December 2012*).
Audits are performed and tax due assessed and collected	• Limited use of indirect methods of assessment. Limited legal gateways to collect third party information. • Audit process not centralized. • Collection of assessed tax low.	**Action taken** • Anti evasion plan: centralized audits of top 1,200 taxpayers and 1,700 HWI started (*April-July 2011*). • Legislation approved to centralize and strengthen some audit functions, and enforce data transfers from identified parties (*March 2011*). • Legislative measures to further enhance data collection from third parties and limit bank confidentiality in tax evasion investigations approved (*August 2011*). • Legislative measures enacted to allow better use of indirect methods of assessment (*August 2011*). **Next steps** • Assessment of auditors' qualifications and hiring process of new auditors to be completed (*Early 2012*).
3. Enforcement		
Taxpayers may dispute tax assessments and appeal decisions (administrative and judicial appeals)	• Average time to resolve tax disputes in judicial appeals process is 7 to 12 years and has created a huge backlog of pending cases (165,000). • Administrative tax dispute process not independent from tax administration. • Pre-payment prior to the judicial appeal largely waived by courts, (no cost to appeal).	**Action taken** • Legislation adopted to reform the judicial appeal process (*October 2010*). • Legislation adopted to allow the reform of the administrative tax dispute process and create an independent arbitration process. Legislation aims at: reducing the judiciary dispute period (no longer than 3 years), increasing the payment to access the judicial appeal process, and reducing the instances for payment suspensions granted by courts (*March 2011*). • Independent fast track administrative dispute resolution process for large dispute cases established (*October 2011*). • 19 dedicated chambers for tax cases in main courts established (*September 2011*) **Next steps** • Independent fast track administrative dispute resolution process to be made compulsory (*End-November 2011*). • The newly established arbitration process to be operative (*End 2011*) • 5 additional dedicated chambers for tax cases in main courts to be established (*December 2011*) and all dedicated to be operative (*March* 2012)
Tax assessments under appeal and tax arrears (including penalties and fines) are collected	• Poor collection enforcement: collection of fines and penalties around 1 percent, debt collection not centralized.	**Actions taken** • Legislation approved to facilitate collection of tax debt (*March* 2011). • Central debt directorate established and staffed (*October 2011*) **Next steps** • Monitor progress towards achieving performance targets (*Monthly reports 2011*) • Central debt directorate to be fully operative and collection methods to be developed (*Early 2012*).

Source: IMF staff

Table 10. Greece: Spending Process

Stages of the Spending Process and Issues	Actions Taken and Next Steps
1. Budgeting	
Develop a medium term budget framework •Budget process focused entirely on the year ahead. •Lack of coordination between preparation of State, Social, and Local Government budgets. •No stable, medium-term objectives for fiscal policy.	**Actions taken** • New Fiscal Responsibility and Management Act (FRMA) approved, establishing medium term fiscal strategy (MTFS) covering general government (*August 2010*). • A full MTFS for the period 2011-15 for the GG approved by Parliament. The MTFS sets: (i) the deficits of the GG and its subsectors; (ii) estimates of revenue and expenditure for each subsector, including transfers; and (iii) an expenditure ceiling for the ordinary and investment budgets of the state and line ministries (*June 2011*). **Next steps** • A formal review process to be established to formulate the new MTFS for 2012-15 (*March 2012*).
Prepare the annual budget within the MTFS expenditure ceilings • Budgets prepared in a bottom-up fashion with no hard budget constraints. • Fiscal planning largely confined to the state budget with the MOF only responsible for administration and management. • Budget preparation processes for other general government entities disjointed. Responsibility for social security fragmented with no effective preparation, management, and monitoring of social security budget. • Parliamentary budget oversight weak and no intra-year supplementary budgets required.	**Actions taken** • The FRMA establishes: MOF's responsibilities for setting and controlling budget policies for all GG entities; top-down budget procedures and expenditure ceilings; alignment of budget preparation processes across the general government entities; separate social budget, and supplementary budgets; a Parliamentary Budget Office (*August 2011*). • MTFS 2011-15 approved, including legally binding spending limits for line ministries and central government for 2012 (*June 2011*). • 2012 draft budget prepared within the ceilings and targets set by the MTFS (*October 2011*). **Next steps** • Present and approve consistent sets of GG budgets (for the State, Social Security, and Local Governments) before the start of 2012 (*end-November 2011*) • Issue regulations to fully implement the FRMA, including rules and requirements for fiscal impact assessment of policy initiatives initiated during the year (*December 2011*). • Adopt legislation and regulations to streamline procedures for submission and adoption of within year supplementary budgets (*February 2012*)
2. Spending Controls	
Ensure that expenditure commitments do not exceed appropriations and arrears are avoided • Line ministries do not check or control expenditure commitments. • No central control on incurred commitments. • Execution of budget releases focused on verifying payments.	**Action taken** • Commitment registers established and rolling out process started. A presidential decree issued establishing commitment registers in all line ministries and GG entities (*November 2010*) and implementing circular issued (*January 2011*). First round of inspections of commitment controls completed, highlighting problems with coverage and operation of registers (*July 2011*). • Appointment of acting accounting officers in all GG entities and interim officers in line ministries completed (*May 2011*). Circular clarifying AOs' responsibilities issued (*June 2011*). **Next Steps** • Permanent accounting officers to be appointed and new directorates of financial services to be established in all line ministries (*end-November 2011*). The officers have the responsibility and authority to ensure sound financial controls and that expenditure commitments do not exceed appropriations. • Commitment registers to be made fully operational in all line ministries and major GG entities and provide reliable and broad coverage data on both ordinary and investment budget (*March 2012*). • Summary reports taken from commitment registers showing total appropriation released, commitments made, invoices paid, unpaid bills, and arrears (*March 2012*).
Pay invoices and accounting and audit controls • Cumbersome checking procedures to make payments, with several institutions involved (e.g. the department of financial services of the spending unit, the Fiscal Audit Office (FAO) and the Court of Audit locally stationed). • Controls are mainly compliance-oriented.	**Actions Taken** • FAO have begun sharing payment information with finance offices of line ministries to enable them to maintain commitment registers (*May 2011*) **Next Steps** • Role of Financial Audit Office (FAO) in spending units to be clarified, following the appointment of accounting officers. Procedures for audit clearance and payment orders to be streamlined, including the scaling down of preventive audits (*March 2012*).
3. Reporting	
Collect and analyze information on payments, pending bills and arrears • Limited real-time monitoring of arrears and other pending bills. • Collection of payment information at non-central government level difficult.	**Actions taken** • Accounting officers (appointed on an interim base) have the responsibility, among others, to improve monitoring at spending unit level (*June* 2011). • Work to begin to review the Financial Management Information System (FMIS). Overall functionalities of the FMIS to be reviewed to use the new system to control fiscal operations and report fiscal data for the GG on a pilot basis (*July 2011*). **Next steps** • Commitment registers in use in most GG entities and used to publish arrears data (*March 2012*). • FMIS to be launched to cover for at least 60 percent of GG spending (*December 2011*).
Monitoring and reporting of fiscal developments for general government • Monitor and reporting focused on state budget. No timely in-year monitoring or reporting for general government published. Deviations of GG budget not detected on time.	**Actions taken** • Aggregate monthly fiscal reports for GG published, using financial data for non-central government entities (*September 2010*). • Monthly fiscal reports with aggregate revenues and spending data, and transfers for all GG entities published (*June 2011*). **Next steps** • Detailed monthly fiscal reports for GG to be published, monitoring the composition of revenue and expenditure by sub-sector and major economic category (*Late 2012*). • FMIS to be operational in GG entities, to allow for automated detailed monthly fiscal reporting and financial controls (*Late 2012*).
4. External Auditing	
Parliamentary oversight and general auditing • The Court of Audit does not carry out performance audits on a systematic basis. Audits are mainly ex-ante and focused on the legality of spending. The court does not audit spending from some entities (e.g. public law entities, secret defense and foreign affairs procurement). • The mandate of the Public Finance Committee in Congress is limited to review information provided by the ministry of finance and reports submitted by the Court of Audit.	**Action taken** • Parliamentary Budget Office established (*May 2011*) and issued first report on the government's MTFS (August 2011). • Parliament provided with a first report (*July 2011*). **Next steps** • Parliament continues to receive periodical reports (*During 2012*). • Re-staff the Parliamentary Budget Office (*March 2011*).

Source: IMF staff

Table 11. Greece: Banking Sector: Uses and Sources of Funds, 2006–16

	2006	2007	2008	2009	2010	2011 proj.	2012 proj.	2013 proj.	2014 proj.	2015 proj.	2016 proj.
	(in billions of euro)										
Assets	321.0	391.3	464.5	491.9	515.3	464.9	427.9	417.8	424.1	443.1	466.6
Cash	2.6	2.7	2.7	2.5	2.1	2.2	2.2	2.2	2.3	2.3	2.4
Claims on other MFIs	43.6	66.3	88.5	112.2	87.0	74.2	60.2	55.0	52.1	54.0	56.2
Claims on non-MFIs	227.5	264.8	301.1	309.3	357.8	321.9	303.7	299.1	307.5	322.2	340.8
General government	35.7	31.5	31.6	41.8	63.0	44.3	40.0	40.0	43.8	50.0	56.9
Private sector 1/	170.7	202.4	221.3	211.7	256.9	250.0	242.5	241.6	248.9	257.9	268.9
Corporate	85.6	102.2	124.1	123.8	116.5	113.9	111.4	113.1	119.2	126.2	134.4
Households	85.1	100.2	97.2	87.9	140.4	136.1	131.1	128.5	129.7	131.7	134.5
Other countries	21.1	8.2	12.6	13.0	6.5	6.3	6.1	6.2	6.3	6.6	6.8
Other assets	47.4	57.6	72.2	67.9	68.4	66.6	61.8	61.5	62.2	64.5	67.2
Liabilities	321.0	391.3	464.5	491.9	515.3	464.9	427.9	417.8	424.1	443.1	466.6
Liabilities to other MFIs	45.1	69.1	77.8	91.5	66.3	54.5	47.9	46.4	48.7	53.3	59.7
Deposits of non-MFIs	211.1	248.5	280.2	278.8	280.2	229.8	224.6	229.2	240.2	260.2	284.2
Central government	3.7	4.0	4.2	3.1	9.0	0.0	7.5	11.0	11.0	11.0	11.0
Private sector	177.2	201.0	231.6	242.4	213.9	180.0	170.0	170.7	179.6	194.7	213.1
Other countries 3/	30.1	43.6	44.3	33.4	57.4	49.8	47.1	47.5	49.6	54.5	60.1
Other liabilities	35.2	36.0	37.9	32.6	27.1	40.6	39.8	40.2	41.3	42.8	44.5
Capital and reserves	24.8	28.9	28.0	39.3	44.0	45.9	45.3	46.5	48.5	51.8	55.5
ECB liquidity support	4.9	8.8	40.6	49.7	97.8	94.1	70.3	55.5	45.4	35.0	22.7
	(in percent of GDP)										
Assets	151.9	172.3	196.1	210.0	223.7	213.4	201.7	195.0	192.5	194.3	196.6
Cash	1.2	1.2	1.1	1.1	0.9	1.0	1.0	1.0	1.0	1.0	1.0
Claims on other MFIs	20.6	29.2	37.4	47.9	37.8	34.1	28.4	25.7	23.7	23.7	23.7
Claims on non-MFIs	107.6	116.6	127.1	132.0	155.3	147.8	143.2	139.6	139.6	141.3	143.6
General government	16.9	13.9	13.4	17.9	27.4	20.3	18.8	18.7	19.9	22.0	24.0
Private sector 1/	80.8	89.1	93.4	90.4	111.5	114.8	114.3	112.7	113.0	113.1	113.3
Corporate	40.5	45.0	52.4	52.8	50.6	52.3	52.5	52.8	54.1	55.4	56.6
Households	40.3	44.1	41.0	37.5	60.9	62.5	61.8	60.0	58.9	57.8	56.7
Other countries	10.0	3.6	5.3	5.6	2.8	2.9	2.9	2.9	2.9	2.9	2.9
Other assets	22.4	25.4	30.5	29.0	29.7	30.6	29.1	28.7	28.3	28.3	28.3
Liabilities	151.9	172.3	196.1	210.0	223.7	213.4	201.7	195.0	192.5	194.3	196.6
Liabilities to other MFIs	21.3	30.4	32.8	39.1	28.8	25.0	22.6	21.7	22.1	23.4	25.1
Deposits of non-MFIs	99.9	109.4	118.3	119.0	121.7	105.5	105.9	106.9	109.0	114.1	119.8
Central government	1.8	1.7	1.8	1.3	3.9	0.0	3.5	5.1	5.0	4.8	4.6
Private sector	83.9	88.5	97.8	103.5	92.9	82.6	80.2	79.6	81.5	85.4	89.8
Other countries 3/	14.3	19.2	18.7	14.2	24.9	22.9	22.2	22.2	22.5	23.9	25.3
Other liabilities	16.7	15.9	16.0	13.9	11.7	18.7	18.8	18.8	18.8	18.8	18.8
Capital and reserves	11.7	12.7	11.8	16.8	19.1	21.1	21.4	21.7	22.0	22.7	23.4
ECB liquidity support	2.3	3.9	17.1	21.2	42.5	43.2	33.1	25.9	20.6	15.4	9.6
Memorandum items											
Domestic deposit growth (percent)	9.1	13.4	15.2	3.9	-11.7	-20.1	-1.4	2.4	4.9	8.0	8.9
Private sector credit growth (percent)	21.1	21.5	15.9	4.1	-0.1	-2.7	-3.0	-0.4	3.0	3.7	4.2
ECB liquidity support (in percent of total assets)	1.5	2.2	8.7	10.1	19.0	20.2	16.4	13.3	10.7	7.9	4.9

Source: Bank of Greece and IMF staff estimates and projections.

1/ As of June 2010, securitised assets are no longer derecognised from the balance sheet of banks that have adopted the International Accounting Standards. The counterpart of these assets is recorded on the liabilities side as deposit liabilities to non-euro area residents.

2/ Holdings of securities other than shares and derivatives.

3/ June 2010 reclassification related to liabilities associated with assets disposed of in a securitisation but still recognised on the statistical balance sheet.

Table 12. Greece: Structural Reforms Ahead

Measures	EC MoU deadline	Description	Macroeconomic implications
		Labor market	
Social dialogue on labor market parameters	Q4-11	The government launches a dialogue to examine all labor market parameters affecting the competitiveness of companies and the economy as a whole, with the aim of completing a national tripartite agreement supporting labor market flexibility, growth and employment	Improves competitiveness, and promotes employment and growth.
Establish a framework for reducing the labor tax wedge.	Jun-12	Reduce the employer share of social security contributions, inlcuding by rationalizing and consolidating small earmarked funds and broadening the base (while ensuring that the reform does not affect pension obligations).	Improves competitiveness, and promotes employment and growth.
		Sectoral deregulation	
Liberalization of regulated professions	Dec-11	Government will pass legislation reinstating a limited number of restrictions in the public interest, after consulation with the Hellenic Competition Authority. By end-March the government will complete the screening of existing legislation to make it fully consistent with the new law.	Fosters competition, lowers intermediate costs and promotes investment and growth.
Liberalization of the energy sector	Oct-11	The Ministry of Energy finalizes a plan to ensure competitive access to 40 percent of lignite-fired generation, including through plant sales.	Fosters competition, improves services, facilitates investment and privatization.
Liberalization of road freight transportation	Dec-11	Legislation is passed terminating the transition period and establishing licensing costs in line with administrative costs.	Reduces intermediate costs, promotes investment.
		Promoting sectoral growth	
Sectoral growth strategy	Dec-11	Based on external studies on tourism, retail, food manufacturing, energy, agriculture, etc., the government will finalize action plans defining concrete measures and a timeline for implementation.	Fosters investment and growth.
		Business environment	
Simplification of business and environmental licensing	Oct-11	Main seconday legislation is implemented to operationalize the two new laws. All remaining secondary legislation should be issued by June 2012.	Simplifies regulations to boost investment.
Fast-track investment procedures	Nov-11	Licensing for the 3 approved projects is finalized, and 2 additional projects are approved. The fast track procedure should be generalized over time.	Boosts investment, employment, and growth.
Simplification of export procedures	Dec-11	The government passes new legislation codifying the legislative framework of exports, simplifying the process to clear customs, eliminating the obligation of registration with the exporters' registry, and establishing the framework for an e-customs system (to be implemented by end-June 2012) and electronic export window (to be implemented by end-2012).	Stimulates exports.
		Judicial reform	
Clearing the existing case backlog in courts	Dec-11	The Ministry of Justice will reduce the tax case backlog in all administrative tribunals and courts of appeal by 15 percent and establish a workplan for the full elimination of the backlog by end-July 2013. For all other courts, a study will be finalized by end-June 2012 to inform an action plan for its elimination.	Improves system efficiency, recover tax revenues.
Speeding up case processing	Dec-11	A pliot project on e-filing for the largest court will be impplemented; court registration fees in civil matters will be increased; the government will expand the application of the fast lane for expedited case registration.	Improves system efficiency.
Out-of-court mediation	Dec-11	All necessary secondary legislation will be issued to operationalize the new law on mediation.	Reduces litigation

Source: IMF staff.

Table 13. Greece: Access and Phasing Under the Stand-By Program

Review	Availability Date	Action	Purchase: Millions of SDRs	Purchase: Percent of quota	Total disbursements: Billions of Euro 1/
	May 10, 2010	Board approval of SBA	4,805.9	436.2	5.5
First Review	August 30, 2010	Observance of end-June 2010 performance criteria, completion of first review	2,162.7	196.3	2.5
Second Review	November 30, 2010	Observance of end-September 2010 performance criteria, completion of second review	2,162.7	196.3	2.5
Third Review	February 28, 2011	Observance of end-December 2010 performance criteria, completion of third review	3,604.5	327.1	4.1
Fourth Review	May 30, 2011	Observance of end-March 2011 performance criteria, completion of fourth review	2,883.6	261.7	3.3
Fifth Review	August 30, 2011	Observance of end-July 2011 performance criteria, completion of fifth review	1,922.4	174.5	2.2
Sixth Review	January 31, 2012	Observance of end-December 2011 performance criteria, completion of sixth review	1,201.5	109.0	1.4
Seventh Review	March 15, 2012	Observance of end-December 2011 performance criteria, completion of seventh review	2,403.0	218.1	2.7
Eighth Review	May 30, 2012	Observance of end-March 2012 performance criteria, completion of eighth review	1,441.8	130.9	1.6
Ninth Review	August 30, 2012	Observance of end-June 2012 performance criteria, completion of ninth review	1,441.8	130.9	1.6
Tenth Review	November 30, 2012	Observance of end-September 2012 performance criteria, completion of tenth review	480.6	43.6	0.5
Eleventh Review	February 28, 2013	Observance of end-December 2012 performance criteria, completion of eleventh review	1,441.8	130.9	1.6
Twelfth Review	April 30, 2013	Observance of end-March 2013 performance criteria, completion of twelfth review	480.6	43.6	0.5
Total			26,432.9	2,399.1	30.0

Source: IMF staff projections.

1/ Exchange rate at program approval

Table 14. Greece: General Government Financing Requirements and Sources
(in billion of Euro, unless otherwise indicated)

	2009	2010	2011	2012	2013	2014	2015	2016
			Projections					
Gross borrowing need	70.7	60.8	63.2	142.5	48.8	50.5	36.3	27.5
Overall balance (accrual)	36.5	24.0	19.7	10.1	8.2	3.2	2.5	2.2
Amortization	29.7	28.5	37.3	53.2	36.7	46.9	38.4	29.8
MLT (non-official) 1/	20.3	19.6	28.1	37.0	28.8	33.2	21.7	16.5
Residents	..	3.9	5.6	11.7	19.9	18.8	18.9	12.6
Non-residents	..	15.6	22.5	25.3	9.0	14.4	2.8	3.9
ST	9.4	8.9	9.2	16.2	6.2	6.2	6.2	6.2
Residents	3.9	0.7	8.0	13.0	5.0	4.9	4.7	4.6
Non-residents	5.5	8.2	1.2	3.2	1.2	1.3	1.5	1.6
Official creditors	..	0.0	0.0	0.0	1.7	7.5	10.4	7.1
IMF	..	0.0	0.0	0.0	1.7	7.5	10.4	7.1
EC bilateral loans	..	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other 2/	4.5	8.4	6.2	79.1	4.0	0.5	-4.6	-4.6
Gross financing sources	70.7	29.3	21.7	12.1	20.2	20.3	18.0	15.1
Privatization receipts	0.9	0.0	1.0	5.9	14.0	14.1	5.0	5.0
Other	3.8	0.9	4.5	0.0	0.0	0.0	0.0	0.0
Market access	66.0	28.5	16.2	6.2	6.2	6.2	13.0	10.1
MLT	57.1	19.3	0.0	0.0	0.0	0.0	6.8	3.9
Residents	..	0.8	0.0	0.0	0.0	0.0	0.0	0.8
Non-residents	..	18.4	0.0	0.0	0.0	0.0	6.8	3.1
ST	8.9	9.2	16.2	6.2	6.2	6.2	6.2	6.2
Residents	..	8.0	13.0	5.0	4.9	4.7	4.6	4.4
Non-residents	..	1.2	3.2	1.2	1.3	1.5	1.6	1.8
Official financing already disbursed	..	31.5	33.5	0.0	0.0	0.0	0.0	0.0
IMF (3/11)	..	10.4	7.4	0.0	0.0	0.0	0.0	0.0
EC bilateral loans (8/11)	..	21.1	26.2	0.0	0.0	0.0	0.0	0.0
Financing gap (including not yet disbursed)	..	0.0	8.0	130.3	28.7	30.3	18.2	12.4
Financing provided by PSI	..	..	0.0	24.1	19.3	17.7	18.2	12.4
Official financing	..	..	8.0	106.3	9.4	12.6	0.0	0.0
Remaining under the 107 billion package	..	..	8.0	29.0	5.0	0.0	0.0	0.0
New financing needed 3/	..	..	-0.1	77.3	4.4	12.6	..	..
Net market access	..	0.0	-21.1	-47.0	-28.9	-33.2	-14.9	-12.6
Residents	..	4.3	-0.7	-19.7	-20.0	-19.0	-19.0	-12.0
MLT	..	-3.1	-5.6	-11.7	-19.9	-18.8	-18.9	-11.8
ST (net increase)	..	7.3	4.9	-8.0	-0.1	-0.2	-0.2	-0.2
Non-residents	..	-4.2	-20.4	-27.3	-8.9	-14.2	4.2	-0.6
MLT	..	2.8	-22.5	-25.3	-9.0	-14.4	4.0	-0.8
ST (net increase)	..	-7.0	2.1	-2.0	0.1	0.2	0.2	0.2
Rollover rates of existing MLT debt (in percent)	..	98.6	0.0	0.0	0.0	0.0	31.5	23.5
Total Maastricht debt	299	329	351	319	317	307	300	292
Official creditors	..	31	73	179	187	192	182	174
IMF	..	10	20	28	28	21	10	3
(in percent of quota)	..	845	1,623	2,269	2,310	1,696	845	264
EC bilateral loans	..	21	53	151	159	171	171	171
Private sector	..	297	278	140	130	115	118	118
Total Maastricht debt (in percent of GDP)	129	145	162	151	149	141	133	124
Official creditors	..	14	34	85	88	88	80	74
IMF	..	5	9	13	13	10	5	1
EC bilateral loans	..	9	24	72	75	78	76	73
Private sector	..	131	128	66	61	53	52	50
Memo items:								
Financing gap of DSA (incl not yet disbursed)	..	..	8.0	137.6	41.7	42.3	13.8	..
Adjustments to arrive at state financing needs 4/	..	..	..	4.5	3.4	2.4	..	..
State financing needs	..	..	..	134.8	32.0	32.6	..	..

Sources: Ministry of Finance; and IMF staff projections.
1/ Scheduled amortization (before PSI).
2/ Includes bank assistance, cash incentives under the PSI, and stock-flow adjustments.
3/ Coverage and cash-to-accrual adjustments imply higher state financing needs.
4/ These include called guarantees on general government entities, interest paid to general government entities, and cash received as cash incentives by general government entities not reinvested in Greek debt instruments.

Table 15. Greece: External Financing Requirements and Sources, 2009–16
(Billions of euro, unless otherwise indicated)

	2009	2010 Prel.	2011 Proj.	2012 Proj.	2013 Proj.	2014 Proj.	2015 Proj.	2016 Proj.
GROSS FINANCING REQUIREMENTS	**194.4**	**216.7**	**236.2**	**231.1**	**170.8**	**185.3**	**181.2**	**182.3**
Current account deficit	25.8	23.0	18.2	13.4	11.7	9.0	5.6	3.1
Medium- and long-term debt amortization	28.2	22.7	35.5	35.7	18.4	26.2	17.6	13.6
Public sector	15.8	15.6	22.5	25.3	10.6	21.9	13.3	11.0
of which: EC/IMF					1.7	7.5	10.4	7.1
Banks	11.3	6.7	10.7	10.2	5.8	3.7	2.3	1.4
Other	1.1	0.3	2.3	0.2	1.9	0.6	2.0	1.2
Short-term debt amortization	140.3	171.1	182.4	181.9	140.7	150.1	158.0	165.6
Public sector & BoG	40.8	57.2	88.3	102.1	81.3	70.2	62.2	55.8
BoG 1/	35.3	49.0	87.1	98.9	80.0	68.9	60.7	54.2
Public sector 2/	5.5	8.2	1.2	3.2	1.2	1.3	1.5	1.6
Banks	98.3	113.2	93.4	78.9	58.8	79.2	95.0	108.8
Other	1.3	0.6	0.8	0.9	0.6	0.7	0.9	1.0
SOURCES OF FINANCING	**194.4**	**185.2**	**194.7**	**124.8**	**161.4**	**172.7**	**181.2**	**182.3**
Capital account (net)	2.0	2.1	3.5	3.5	3.4	3.3	3.2	3.1
Foreign direct investment (net)	0.3	-0.5	-0.1	3.8	10.2	9.7	2.5	2.3
Inward	1.8	0.3	0.6	4.7	11.7	12.0	5.1	5.3
Equities (net)	-0.2	-2.3	-1.2	-0.9	0.4	0.5	0.5	0.2
by nonresidents	0.5	-1.1	-0.1	0.5	2.0	2.5	3.0	3.3
Assets drawdown (- increase)	-26.1	21.7	8.5	-19.5	-2.3	-0.9	0.5	-0.9
New borrowing and debt rollover	219.8	164.1	186.7	142.4	153.3	160.1	174.6	177.7
Medium and long-term borrowing	48.8	-18.4	4.8	1.7	3.2	2.1	8.9	5.1
Public sector	**39.8**	**-5.7**	**0.0**	**0.0**	**0.0**	**0.0**	**6.8**	**3.9**
Banks	-1.3	-12.3	2.7	1.5	2.6	1.8	1.2	0.7
Other	10.3	-0.4	2.1	0.2	0.6	0.3	0.9	0.5
Short-term borrowing	171.1	182.4	181.9	140.7	150.1	158.0	165.6	172.6
Public sector & BoG	57.2	88.3	102.1	81.3	70.2	62.2	55.8	50.6
BoG 1/	**49.0**	**87.1**	**98.9**	**80.0**	**68.9**	**60.7**	**54.2**	**48.8**
Public sector 3/	8.2	1.2	3.2	1.2	1.3	1.5	1.6	1.8
Banks 2/	113.2	93.4	78.9	58.8	79.2	95.0	108.8	120.9
Other	0.6	0.8	0.9	0.6	0.7	0.9	1.0	1.1
Other	-1.5	0.1	-2.7	-4.5	-3.5	0.0	0.0	0.0
OFFICIAL FINANCING	**…**	**31.5**	**41.5**	**106.3**	**9.4**	**12.6**	**0.0**	**0.0**
European Union	**…**	21.1	32.0	98.4	7.2	12.6	0.0	0.0
IMF	**…**	10.4	9.5	7.9	2.2	0.0	0.0	0.0
in percent of quota	*…*	*829*	*779*	*645*	*178*	*0*	*0*	*0*
Memo items:								
Greece IMF quota (SDR millions)	1,101.8	1,101.8	1,101.8	1,101.8	1,101.8	1,101.8	1,101.8	1,101.8
Greece IMF quota (Euro millions)	1,226.1	1,226.1	1,226.1	1,226.1	1,226.1	1,226.1	1,226.1	1,226.1

Sources: Bank of Greece; Bloomberg; and IMF staff estimates and projections.

1/ Includes liabilities to Eurosystem related to TARGET.
2/ Includes currency and deposits and securitized loans.
3/ Includes market instruments and trade credits.

Table 16. Greece: Indicators of Fund Credit
(Millions of SDRs, unless otherwise specified)

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Disbursements	9,131	9,612	5,767	1,922	…	…	…	…	…
(in percent of quota)	828.8	872.4	523.4	174.5	…	…	…	…	…
(Projected Debt Service to the Fund based on Existing and Prospective Drawings)									
Total	61	10	877	2,642	7,433	9,826	6,845	2,577	302
Interest	61	10	877	1,170	1,156	634	207	24	2
Amortization	0	0	0	1,472	6,278	9,191	6,638	2,553	300
Total debt service, in percent of									
Exports of goods and services	0.2	0.0	1.9	5.5	14.4	17.7	11.4	4.0	0.4
GDP	0.0	0.0	0.5	1.4	4.0	5.1	3.4	1.2	0.1
(Projected Level of Credit Outstanding based on Existing and Prospective Drawings)									
Outstanding stock	9,131	17,542	24,511	24,961	18,683	9,492	2,854	300	…
(in percent of quota)	829	1,592	2,225	2,265	1,696	861	259	27	…
(in percent of GDP)	4.7	9.4	13.5	13.7	9.9	4.9	1.4	0.1	…
Memorandum items:									
Exports of goods and services (in billion of euros)	45.6	49.1	52.3	55.9	59.9	64.6	69.6	75.1	80.7
GDP (in billions of Euros)	227	217	211	212	218	226	235	245	255
Euro/SDR rate (of November 28, 2011)	1.163								
Quota	1,102								

Source: IMF staff projections.

APPENDIX I. DEBT SUSTAINABILITY ANALYSIS

1. **The DSA has been cast with more conservative assumptions.** Since the fourth review, the situation in Greece has taken a turn for the worse, with the economy increasingly adjusting through recession and related wage-price channels, rather than through structural reform-driven increases in productivity. The authorities have also struggled to meet their policy commitments against these headwinds. For the purpose of the debt sustainability assessment, a revised baseline has been specified, which takes into account the implications of these developments for future growth and for likely policy outcomes. It has been extended through 2030 to fully capture long term growth dynamics.

2. **The assessment shows that an appropriate combination of official support on generous terms and significant debt relief from private creditors is required to put debt on a sustainable path.** Both public and external debt will remain high for the entire forecast horizon, but debt can be brought on a firmly declining path given official support at low interest rates (through the EFSF as agreed at the July 21 Summit) and large PSI (through a 50 percent haircut, as agreed at the October 26 summit). This trajectory would be robust to a range of shocks. Even with the much stronger PSI agreed, large official sector support will be needed for an extended period.

A. REVISED BASELINE

3. **The debt sustainability analysis must be placed on a conservative foundation.** The growth and fiscal policy adjustments assumed under the program individually have precedent in other countries' experience, but experience to date under the program suggests that Greece may not be able to set a new precedent by realizing at the same time and from very weak initial conditions a large internal devaluation, fiscal adjustment and privatization program. More conservative assumptions help provide reassurance that Greece can restore debt sustainability even if the very ambitious program targets cannot be met.

4. **The following set of more (jointly) likely policy and macroeconomic outcomes has been assumed**:

- **A slower recovery**. In keeping with experience to date under the program, it is assumed that Greece takes longer to implement structural reforms, and that a longer timeframe is necessary for them to yield macroeconomic dividends (e.g. due to complementarities). A longer and more severe recession is thus assumed, with output contracting by 5½ percent in 2011 and by 3 percent in 2012. Growth then averages about 1¼ percent per year in 2013–14, 2⅔ percent in 2015–20 (as a cyclical rebound kicks in, and structural reforms start to pay off), and 1⅔ percent per year in 2021–30 (as the economy reverts to potential growth, which is constrained by demographic trends). All told, real output growth is projected to be cumulatively 7¼ percent lower through 2020 versus the projections made at the time of the 4th Review.

- **Lower privatization proceeds.** Given the adverse market conditions and technical constraints faced by Greece, a more conservative but still suitably ambitious path is assumed for privatization proceeds for the purpose of the debt sustainability analysis. Receipts rise from 1½ percent of GDP in 2012 to 2 percent of GDP for the period 2013–14 and peak at 2½ percent of GDP during 2015–17. They fall back at 2 percent of GDP per year for 2018–20. Through 2020, total privatization proceeds would amount to €46 billion, instead of the €66 billion assumed in the program (i.e. the original target of €50 billion plus an additional amount reflecting the fact that bank recapitalization will likely create additional assets to be disposed of). For the purposes of the external DSA, this is assumed to translate into lower FDI.

- **Reduced fiscal adjustment needs**. The primary balances of the program are maintained for 2012–13, and after that, the primary surplus is assumed to remain at 4½ percent of GDP for the period 2014–16. The primary surplus steps down to 4¼ percent of GDP in 2017–20 and to 4 percent of GDP in 2021–25 (a level which in the past Greece has been able to sustain). Since few countries have been able to sustain a 4 percent primary surplus, it is assumed that from 2026 onwards, the primary surplus is maintained at 3½ percent of GDP. Under this path, which requires sustained and unwavering commitment to fiscal prudence by the Greek authorities, the overall fiscal balance would not drop below 3 percent of GDP until 2020.

- **Delayed access to market financing**. The issue of when market financing will be restored is inherently uncertain. For the purposes of this analysis, new market financing is assumed to become available only once Greece has achieved 3 years of growth, three years of primary surpluses above the debt stabilizing level, and once debt drops below 150 percent of GDP. This is admittedly an arbitrary rule and is used for illustrative purposes to give an indication of the scale of official support that could be needed to fill any financing gap until market access is restored in 2021. Spreads are assumed to initially amount to 500 bps, falling to 250 bps over time.

5. **Recent developments—the July 21st and October 26th Summits—also call for a revision of the exceptional financing assumptions used in the DSA**:

- **Official financing**. Official financing assumptions have been updated to reflect the agreements reached at the July 21 Summit. Thus, going forward, financing is assumed to be provided to Greece by the EFSF at 30-year maturities and at funding cost (a 200 bps spread above the German 10-year Bund rate, in line with recent auctions). IMF exposure remains under SBA terms with €30 billion in total access.

- **Private sector involvement**. PSI is assumed to be completed in a manner consistent with the October 26 parameters: a 50 percent face value haircut and €30 billion in cash available upfront for incentives, to deliver a debt-to-GDP ratio no higher than 120 percent of GDP by end-2020. One of a number of possible alternative approaches consistent with these parameters is a debt exchange involving a face value of 100 percent being exchanged for 15 percent in cash and 35 percent in new bonds carrying a coupon of 3.8 percent and long grace periods and achieving near universal participation.

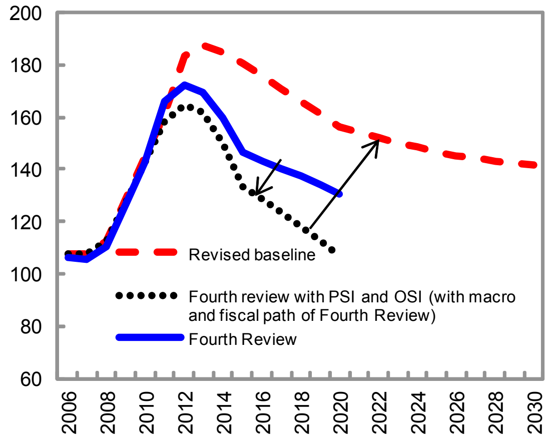
- **Bank recapitalization/HFSF funding**. Total additional banking sector support needs to be covered by official financing, are preliminarily calculated to amount to €30 billion, bringing total HFSF needs to some €40 billion. The additional financing is needed to provision for losses on banks' private loan portfolios and on their government bond holdings (the latter as a consequence of the PSI deal).

B. Public Sector DSA

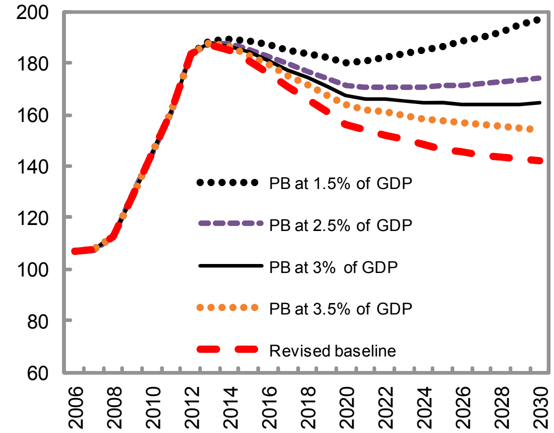
6. **Under the revised macro-policy assumptions, and without the PSI deal reached on October 26th, Greece's public debt cannot be considered sustainable (Figure A1)**. Debt, net of collateral, would peak at a very high level of 187 percent of GDP in 2013, decline to 156 percent of GDP by end-2020, and to 142 percent of GDP by end-2030. Debt would also be extremely sensitive to shocks, failing to decline or stabilizing at very high levels under a lower primary balance, lower growth, lower privatization or higher interest rates. Faster macro adjustment would cause debt to peak above 200 percent of GDP. Hence, even small deviations from the macro and program targets would not bode well for debt sustainability.

Figure A1. Greece: General Government Debt Under PSI Assumptions of July 21st.
(percent of GDP)

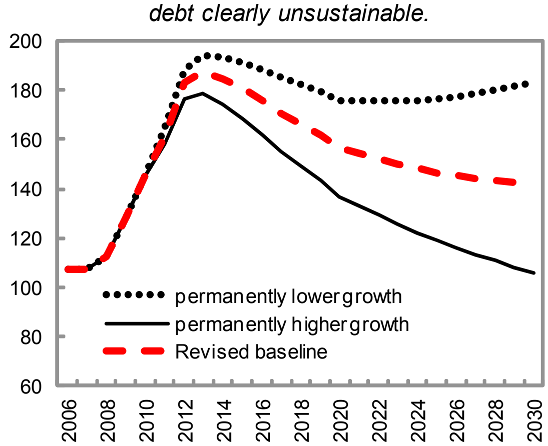
While the OSI and PSI assumptions agreed in July improve the debt compared with the 4th Review, the revised baseline macro and policy assumptions more than offset this.



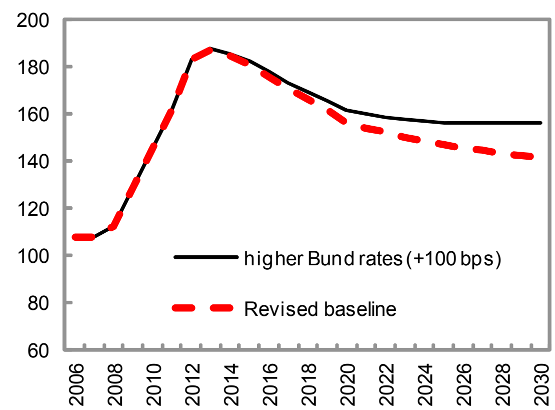
Debt would also be very sensitive to lower primary balances (with a debt-stabilizing primary balance at 3 percent of GDP), ...



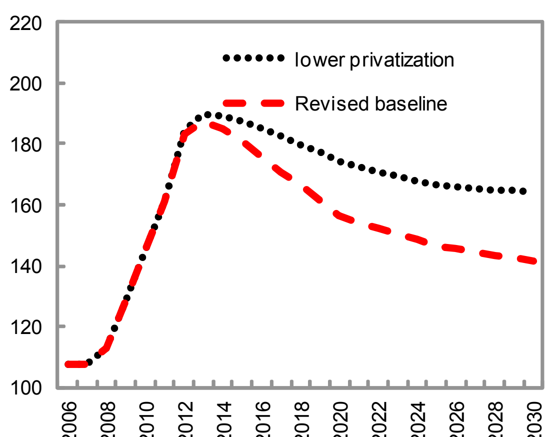
... and to lower growth, which would render debt clearly unsustainable.



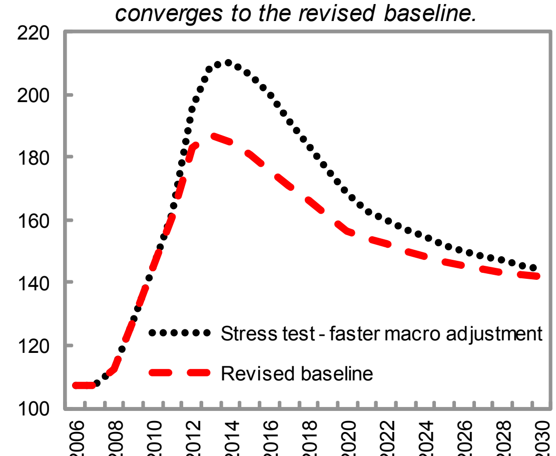
Higher Bund rates would also fail to bring debt on a declining trend ...



...while lower privatization prevent debt from falling below 160 percent of GDP by end-2030.

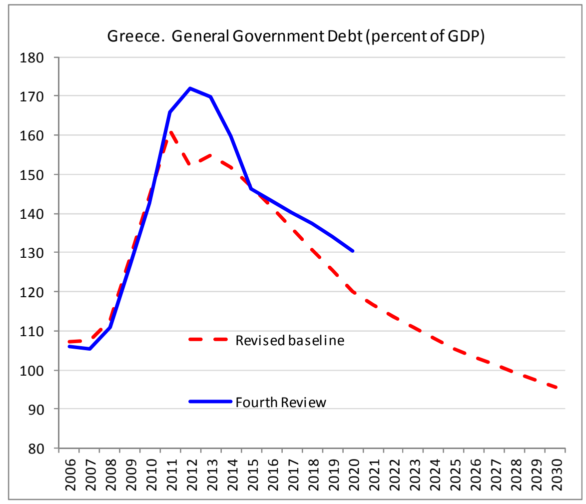


Faster macro adjustment would lead to a dramatic rise in debt, which only over time converges to the revised baseline.



Sources: Eurostat; and IMF staff estimates.

7. **However, with the full range of exceptional support—including the October PSI deal—debt would decline and reach levels consistent with a sustainable position.** Debt would peak at 161 percent of GDP in 2013 and decline to 120 percent of GDP by end-2020[1] (compared to 130 percent of GDP under the Fourth Review) and to 96 percent of GDP by end-2030.



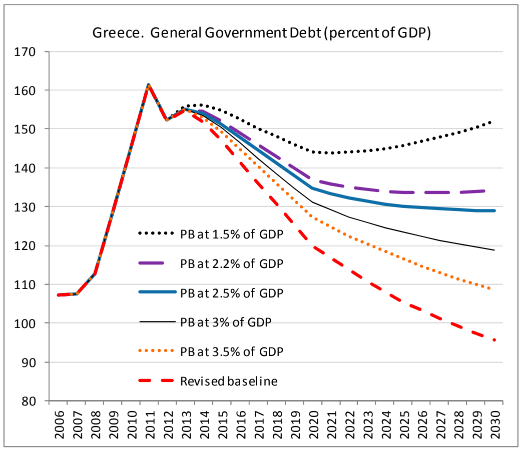
8. **Stress tests show that this debt trajectory is more robust to shocks than the previous program trajectory:**

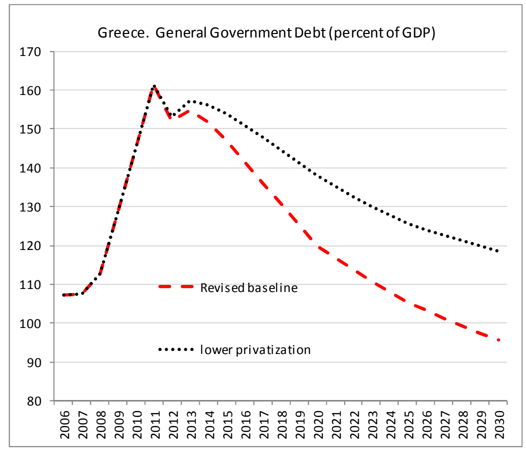
- **A greater range of fiscal and privatization shortfalls can be tolerated:**

  - **Lower primary balances**. If due to policy slippages, the primary balance gets stuck below 2½ percent of GDP (a level which under the program would only be exceeded in 2013), debt would be on an increasing trajectory. At the time of the fourth review, the debt-stabilizing primary balance was calculated to be 3.8 percent of GDP.

  - **Shortfalls with privatization receipts.** Failures with privatization (only €10 of €46 billion realized) would have an impact on the level and rate of decline of debt, but the trajectory would remain firmly downwards, allowing it to eventually fall into a sustainable range. Debt would end at 138 percent of GDP by end-2020 and at 119 percent of GDP by end-2030 (without additional fiscal adjustment to compensate for higher interest payments).

[1] Research suggests 105 to a maximum of 120 percent of GDP as a sustainable range for debt in market access countries ("Modernizing the Framework for Fiscal Policy and Public Debt Sustainability Analysis"; IMF Policy Paper; August 5, 2011.)

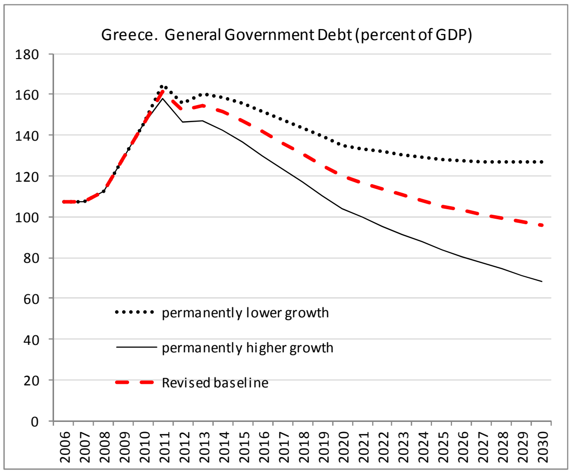


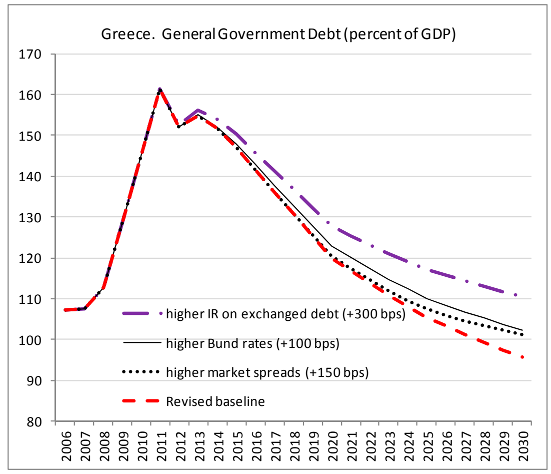


- **Permanent growth and interest rates shocks can be better absorbed**:

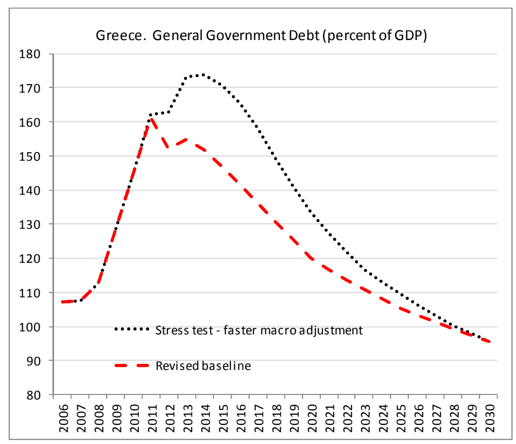
  - **Growth**. Results remain sensitive to growth outcomes. Fixing the primary balance, permanently lower growth (-1 percentage point each year) could be absorbed without debt rising beyond 130 percent of GDP in the long term. Higher growth (+1 percentage point each year) would lead debt to fall to just under 104 percent of GDP by 2020. Allowing fiscal feedbacks—with higher growth making it easier to sustain a higher fiscal adjustment, and lower growth making it easier to fall permanently short of targeted adjustment levels—would reinforce these outcomes, and in the low-growth case would produce an unsustainable outcome. There is also a second endogeneity at play, whereby strong growth will be very hard to achieve unless Greece's high debt overhang is decisively tackled. Overall, the scenario emphasizes the crucial importance of frontloading growth-enhancing structural reforms.

  - **Spreads and Bund rates.** If new market access would take place at slightly different levels, this would not have a large impact on the debt level. For example, if return to markets is at 150 bps higher than the baseline but primary balances are unchanged, debt-to-GDP levels would be only slightly different by 2020. Essentially, Greece is not in the market in this scenario until the second half of the decade, limiting the need for new market financing, and thus the impact of interest rates. Higher Bund rates or a higher EFSF spread (assumed 100 bps higher) would have a level affect on the debt trajectory given the heavy volume of official borrowing, but debt would still end up at a sustainable level (reaching 120 percent of GDP 2 years later, and ending at 102 percent of GDP by end-2030). Higher interest on exchanged debt would affect the end-2020 debt stock more significantly. If the interest rate were to be 300 bps higher, debt at end-2020 would end at 128 percent of GDP, significantly above the sustainable level.





- **A combined shock—to represent a scenario of strong internal devaluation enforced by a much deeper recession—would sharply raise public debt in the near-term, but a more rapid economic recovery would ultimately undo this.** To model this, it is assumed that through much deeper recession and deflation the competitiveness gap is unwound by 2017, instead of during the next decade. The headwinds from the deeper recession are assumed to delay the achievement of fiscal and privatization policy targets by three years. As the economy rapidly shrinks, debt would reach very high levels in the short run, at 174 percent of GDP. If Greece could weather the shock to confidence this could create, the eventual more rapid recovery of the economy would bring debt back down towards the baseline path.



9. **However, a key assumption underpinning the sustainability result is that the PSI operation achieves a near-universal participation rate**. Should the debt exchange only reach 50 percent participation, instead of the near universal participation assumed so far, debt would peak at 179 percent of GDP, and begin to stall at around 145 percent of GDP post-2020. Even if the EFSF covered the financing gap created by lower PSI participation, the debt would end at around 130 percent of GDP by end-2030. In both cases, even before considering the usual range of stress tests, this level is already above what might be considered sustainable and moreover showing an only limited downward trend.

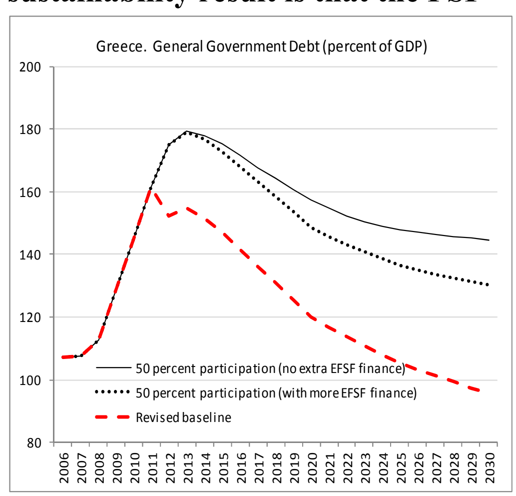


Table A1. Greece: Public Sector Debt Sustainability Framework Revised Baseline Scenario, 2008-2030
(In percent of GDP, unless otherwise indicated)

	Actual			Projections												
	2008	2009	Historical Average	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2030	Debt-stabilizing primary balance 10/
Baseline: Public sector debt 1/	113	129		**145**	**161**	**152**	**155**	**152**	**147**	**142**	**136**	**131**	**125**	**120**	**96**	**1.7**
Change in public sector debt	5.2	16.3		15.6	16.8	-9.3	2.7	-3.0	-4.6	-5.4	-5.5	-5.2	-5.4	-5.4	-1.8	
Identified debt-creating flows (4+7+12)	6.3	17.9		16.7	17.7	30.5	2.7	-3.0	-4.6	-5.4	-5.5	-5.2	-5.4	-5.4	-1.8	
Primary deficit	4.9	10.4		5.0	2.3	-0.2	-2.5	-4.5	-4.5	-4.5	-4.3	-4.3	-4.3	-4.3	-3.5	
Revenue and grants	40.5	37.9		39.5	40.2	39.9	41.0	41.1	41.1	39.4	39.0	38.5	38.2	37.9	37.9	
Primary (noninterest) expenditure	45.5	48.3		44.6	42.4	39.7	38.4	36.6	36.6	34.9	34.6	34.2	33.9	33.6	34.4	
Automatic debt dynamics 2/	0.4	5.9		8.0	13.1	9.6	5.3	3.3	2.2	1.4	1.3	1.1	0.9	0.9	1.7	
Contribution from interest rate/growth differential 3/	0.4	5.9		8.0	13.1	9.6	5.3	3.3	2.2	1.4	1.3	1.1	0.9	0.9	1.7	
Of which contribution from real interest rate	0.2	2.3		3.4	4.1	4.6	5.9	6.2	5.8	5.2	4.8	4.5	4.0	3.6	3.0	
Of which contribution from real GDP growth	0.1	3.7		4.6	9.0	5.0	-0.6	-2.9	-3.7	-3.8	-3.6	-3.4	-3.1	-2.7	-1.3	
Contribution from exchange rate depreciation	0.0	0.0		...	...	...	...	...	...	...	...	...	...	...	...	
Denominator = 1+g+p+gp	1.0	1.0		1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	
Other identified debt-creating flows	1.0	1.6		3.7	2.4	21.1	-0.1	-1.8	-2.3	-2.3	-2.5	-2.0	-2.0	-2.0	0.0	
Privatization receipts (negative)	0.0	-0.4		0.0	-0.5	-1.5	-2.0	-2.0	-2.5	-2.5	-2.5	-2.0	-2.0	-2.0	0.0	
Recognition of implicit or contingent liabilities	1.0	0.3		1.0	2.1	20.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other 4/	0.0	1.6		2.6	0.8	2.3	1.9	0.2	0.2	0.2	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes (2-3) 5/	-1.1	-1.6		-1.1	-0.9	-39.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Public sector debt-to-revenue ratio 1/	277.9	340.5		365.5	401.8	381.0	377.7	368.7	357.5	359.7	349.3	339.4	328.1	316.5	252.3	
Gross financing need 6/	10.0	15.7		19.2	26.2	31.0	12.1	15.7	11.2	9.4	7.2	5.9	5.6	6.2	5.8	
Scenario with key variables at their historical averages 7/				**145**	**146**	**130**	**131**	**130**	**128**	**127**	**125**	**124**	**123**	**122**	**127**	**-3.2**
Scenario with no policy change (constant primary balance) in 2010-2020				**145**	**164**	**160**	**171**	**177**	**183**	**187**	**191**	**196**	**200**	**205**	**285**	**0.3**
Key Macroeconomic and Fiscal Assumptions Underlying Baseline																
Real GDP growth (in percent)	-0.1	-3.3	2.9	-3.5	-6.0	-3.0	0.4	1.9	2.5	2.7	2.6	2.6	2.5	2.2	1.4	
Average nominal interest rate on public debt (in percent) 8/	4.9	4.7	5.5	4.2	4.5	3.0	4.2	4.5	4.6	4.5	4.6	4.7	4.7	4.7	5.1	
Average interest rate on new market debt (incl. T bills)				0.0	3.3	5.0	5.0	5.0	5.0	2.7	4.9	5.1	6.1	6.0	5.8	
Average interest rate on all new debt (includes EU bilateral and IMF debts)				1.2	3.4	4.0	4.1	4.5	4.8	4.8	4.9	4.9	5.0	5.0	5.2	
Spreads above German bund (10-year) 9/				1175	1175	1000	800	495	475	400	345	300	250	250	250	
German bund rate (long)				280	270	300	330	350	360	370	370	370	370	370	370	
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	0.2	1.9	2.0	2.5	2.6	2.8	3.9	4.1	4.0	3.7	3.6	3.4	3.2	3.0	3.2	
Inflation rate (GDP deflator, in percent)	4.7	2.8	3.5	1.7	1.9	0.2	0.3	0.4	0.6	0.8	1.0	1.2	1.5	1.7	1.8	
Growth of real primary spending (deflated by GDP deflator, in percent)	6.2	2.8	5.9	-11.0	-10.5	-9.2	-2.8	-3.0	2.6	-2.2	1.9	1.4	1.5	1.2	1.5	
Primary deficit	4.9	10.4	1.6	5.0	2.3	-0.2	-2.5	-4.5	-4.5	-4.5	-4.3	-4.3	-4.3	-4.3	-3.5	

1/ General government debt.
2/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; α = share of foreign-currency denominated debt; and ε = nominal exchange rate depreciation (measured by increase in euro).
3/ The real interest rate contribution is derived from the denominator in footnote 2/ as r - π (1+g) and the real growth contribution as -g.
4/ Includes build up of deposits, ESM contribution.
5/ For projections, this line includes exchange rate changes. For 2012, large residual can be explained by headline debt reduction following the discount bond exchange.
6/ Defined as general government deficit, plus amortization of medium and long-term general government debt, plus short-term debt at end of previous period.
7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.
8/ Derived as nominal interest expenditure divided by previous period debt stock.
9/ In line with our borrowing rule, market access assumed to start in 2016, therefore, no market borrowing takes place at spreads for 2010-2015.
10/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year (2030).

C. External DSA

10. **External debt dynamics also improve substantially under increased official support on generous terms and significant debt relief from private creditors, despite the macro and policy deterioration since the Fourth Review.** Under the revised baseline assumptions, and the PSI commitments of July 21st, the net external debt-to-GDP ratio would peak at 128 percent of GDP in 2012 (13 percent of GDP higher than in the Fourth Review projections), declining below 100 percent of GDP only by end-2020. However, the revamped financing strategy agreed on October 26th, including deeper PSI haircuts, significantly improves the external debt dynamics, with the net external debt-to-GDP ratio peaking at 109 percent of GDP in 2014 (well below the Fourth Review projections) and declining to 76 percent of GDP by end-2020.

11. **Debt dynamics under the revised financing strategy are more robust to macroeconomic shocks or policy slippages than under previous program projections**:

- **Higher current account deficits:** Weaker external competitiveness, resulting from delays in the response of the economy to structural reforms or from a terms of trade shock (of about 10 percentage points) would slow down export performance and the reduction of the current account deficit, which would remain 2½ percent of GDP higher compared to the revised baseline. As a result, the external-debt ratio would also be significantly higher by about 17 percent of GDP by 2020, but external debt would remain on a declining path.

- **Higher interest rates:** The impact of higher market spreads on external debt dynamics would be mitigated by the increased share of official sector debt. However, a 100 basis points increase in Bund rates, by affecting official borrowing rates, would raise the debt ratio by about 7 percent of GDP in 2020 relative to the revised baseline, slowing down the debt ratio decline over the projection period.

- **Lower FDI:** Reduced FDI from a shortfall in planned privatization receipts (from €46 billion in the revised baseline to €10 billion) would significantly affect external debt dynamics, with a sizable upward shift in the debt-adjustment path, but external debt would remain on a downward trajectory. Specifically, the debt ratio would increase by 17 percent of GDP in 2020 compared to the baseline, as the result of lower non-debt creating flows by almost €30 billion.

- **Combined macro and policy shock scenario:** The capacity of absorbing a combined scenario with both delays in the privatization plan and weaker competitiveness from lagged program implementation would be limited. External debt would end on a significantly higher trajectory, threatening external debt sustainability. The debt ratio would reach 109 percent of GDP by 2020, 33 percent of GDP higher than under the revised baseline.

12. **High participation in the PSI operation is essential to secure a significant improvement in the external debt dynamics.** Low participation rates by private bondholders could substantially reduce the projected gains from the PSI operation. Under an illustrative scenario that assumes a participation rate of 50 percent only and where remaining financing needs are met with EFSF borrowing, net external debt would decline to 92 percent of GDP by 2020, 16 percent of GDP higher than under the revised baseline.

Table A1. Greece: Net External Debt Sustainability Framework, 2006-2020
(In percent of GDP, unless otherwise indicated)

	Actual					Projections										
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	**Debt-stabilizing non-interest current account 7/**
Baseline: External debt	62.0	67.7	75.7	87.0	103.0	**116.1**	**105.0**	**108.8**	**108.5**	**105.2**	**100.4**	**94.7**	**88.5**	**82.2**	**75.9**	**-1.1**
Change in external debt	3.9	5.7	8.0	11.3	15.9	13.1	-11.1	3.9	-0.4	-3.2	-4.8	-5.7	-6.2	-6.4	-6.2	
Identified external debt-creating flows (4+8+9)	1.2	4.0	7.0	8.0	9.5	9.5	5.5	-1.2	-4.0	-6.8	-8.2	-8.1	-8.5	-8.6	-8.8	
Current account deficit, excluding interest payments	7.3	9.6	9.1	6.0	5.1	3.0	0.4	-0.7	-2.6	-4.5	-5.6	-6.5	-7.4	-8.3	-9.1	
Deficit in balance of goods and services	9.5	11.0	11.6	7.8	6.6	4.9	2.4	1.1	-0.2	-1.5	-2.7	-3.9	-5.0	-6.0	-6.9	
Exports	21.2	21.5	23.1	18.3	20.0	22.5	24.7	26.2	27.5	28.7	29.9	31.1	32.2	33.1	34.1	
Imports	30.6	32.5	34.7	26.1	26.7	27.4	27.2	27.3	27.2	27.2	27.1	27.1	27.2	27.2	27.2	
Net non-debt creating capital inflows (negative)	-3.7	-4.3	-2.0	-0.9	0.3	-1.0	-2.0	-2.8	-2.4	-2.7	-2.4	-2.4	-1.8	-1.3	-1.0	
Automatic debt dynamics 1/	-2.4	-1.4	-0.1	2.9	4.1	7.6	7.1	2.4	1.1	0.3	-0.2	0.8	0.7	0.9	1.3	
Contribution from nominal interest rate	2.0	2.5	2.8	2.5	2.5	3.1	3.7	3.1	3.5	3.6	3.4	3.3	3.1	3.0	3.0	
Contribution from real GDP growth	-2.5	-1.8	0.1	2.5	3.1	6.4	3.6	-0.4	-2.0	-2.6	-2.7	-2.5	-2.5	-2.1	-1.7	
Contribution from price and exchange rate changes 2/	-1.9	-2.1	-3.0	-2.1	-1.5	-1.9	-0.2	-0.3	-0.5	-0.7	-0.8	-1.0	-1.1	-1.3	-1.4	
Residual, incl. change in gross foreign assets (2-3) 3/	2.7	1.7	1.0	3.3	6.4	3.6	-16.6	5.1	3.6	3.6	3.4	2.4	2.3	2.3	2.6	
External debt-to-exports ratio (in percent)	292.9	314.2	327.3	476.5	513.8	515.1	424.8	415.1	395.1	366.7	336.1	304.5	275.3	247.9	222.6	
Gross external financing need (in billions of euros) 4/	73.9	93.2	122.9	194.4	216.7	236.2	230.9	173.2	186.7	180.3	173.6	166.6	162.9	160.1	160.4	
in percent of GDP	35.1	41.2	52.8	83.9	95.3	108.4	109.0	81.2	85.6	80.1	74.5	69.0	64.9	61.3	59.1	
Scenario with key variables at their historical averages 5/						**118.4**	**103.0**	**107.4**	**110.4**	**113.1**	**115.5**	**117.7**	**119.8**	**121.9**	**124.0**	**-5.9**
Key Macroeconomic Assumptions Underlying Baseline																
Real GDP growth (in percent)	4.6	3.0	-0.1	-3.3	-3.5	-6.0	-3.0	0.4	1.9	2.5	2.7	2.6	2.7	2.5	2.2	
GDP deflator (change in percent)	3.4	3.5	4.7	2.8	1.7	1.9	0.2	0.3	0.4	0.6	0.8	1.0	1.2	1.5	1.7	
Nominal external interest rate (in percent) 6/	3.8	4.3	4.4	3.3	2.8	2.9	3.1	3.0	3.3	3.5	3.3	3.4	3.5	3.6	3.8	
Growth of exports (euro terms, in percent)	7.4	9.6	10.4	-21.5	7.7	7.7	6.6	6.8	7.2	7.8	7.8	7.8	7.5	7.3	7.0	
Growth of imports (euro terms, in percent)	20.2	14.3	9.6	-25.2	0.3	-1.4	-3.8	1.2	2.1	2.9	3.4	3.6	4.0	4.1	4.0	
Current account balance	-11.3	-14.4	-14.9	-11.1	-10.1	-8.4	-6.6	-5.8	-4.6	-2.7	-1.2	-0.2	0.8	1.6	2.1	
Net non-debt creating capital inflows	3.7	4.3	2.0	0.9	-0.3	1.0	2.0	2.8	2.4	2.7	2.4	2.4	1.8	1.3	1.0	

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g=real GDP growth , e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

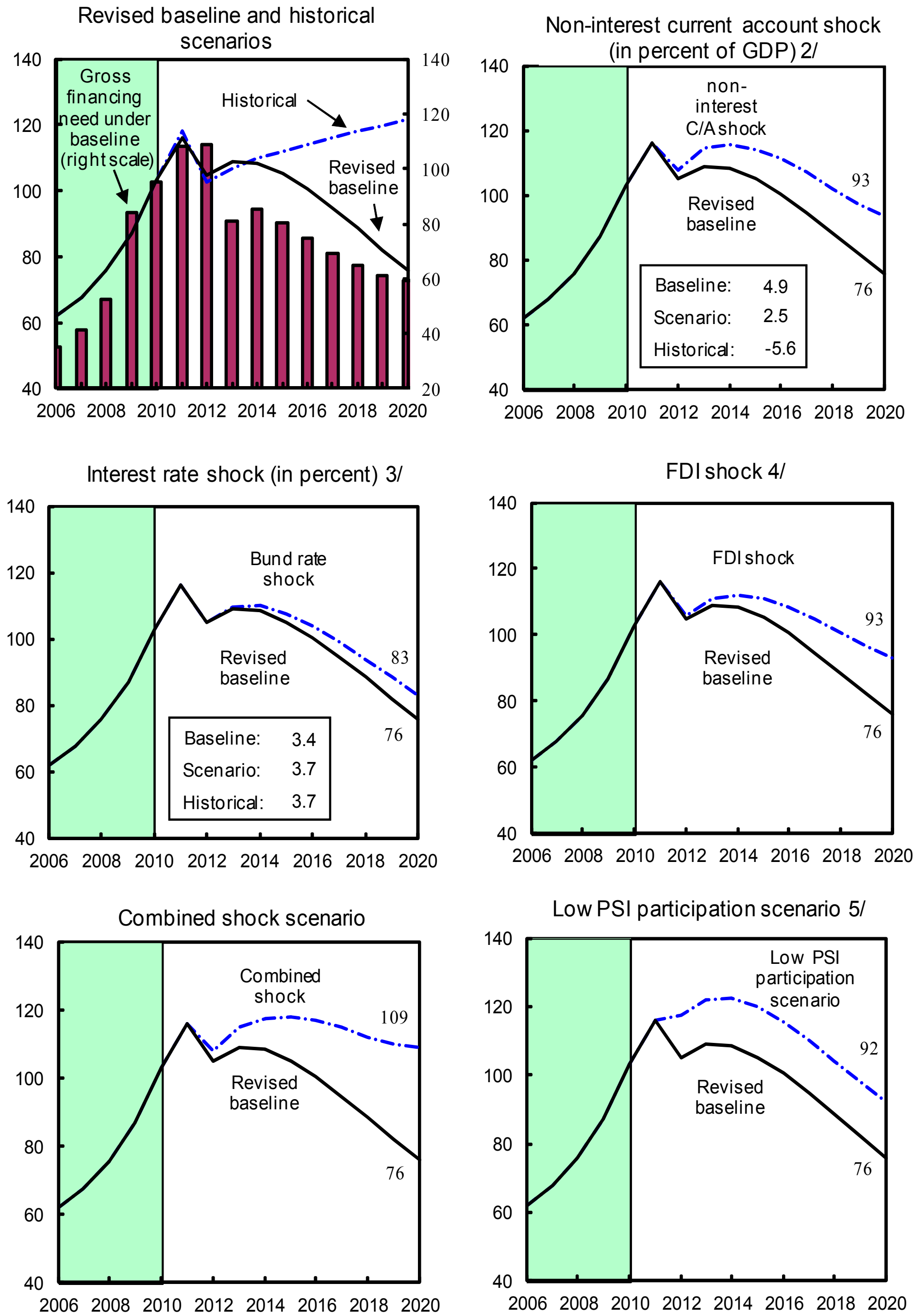
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ The external DSA is based on net external debt while the interest rates in the public sector DSA are based on gross debt. Nevertheless, average interest rates generally follow a rising trend, and are more closely correlated at the end of the projection period, as more new debt is contracted at higher interest rates.

7/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Figure A1. Greece: External Debt Sustainability: Bound Tests 1/
(Net external debt in percent of GDP)



Sources: Greek authorities, and staff estimates.
1/ Shaded areas represent actual data. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year (pre-crisis) historical average for the variable is also shown.
2/ Current account balance lower by 2.4 percent of GDP due to delayed program implementation and term-of-trade shock.
3/ Impact of 100bps shock to Bund rates on Greece's official interest rates and income balance.
4/ Decline in FDI due to reduced privatization receipts.
5/ Illustrative scenario with 50 participation rate in the PSI operation.

Appendix II. Fund Relations

(As of October 31, 2011)

I. **Membership Status**: Joined December 27, 1945. It has accepted the obligations of Article VIII, Sections 2, 3, and 4.

II. **Exchange Rate Arrangements**: Greece's currency is the euro, which floats freely and independently against other currencies. It maintains an exchange system free of restrictions apart from those resulting from European Council regulations, which were last notified to the Fund in accordance with Decision 144 under EBD/08/35, 4/18/08.

III. **General Resources Account**:	**SDR Million**	**Percent Quota**
Quota	1,101.80	100.00
Fund holdings of currency	16,480.56	1,495.79
Reserve position in Fund	240.65	21.84

IV. **SDR Department**:	**SDR Million**	**Percent Allocation**
Net cumulative allocation	782.36	100.00
Holdings	623.23	79.67

V. **Outstanding Purchases and Loans**:	**SDR Million**	**Percent Quota**
Stand-by Arrangements	15,619.40	1,417.63

VI. **Latest Financial Arrangements**:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By	May 09, 2010	May 08, 2013	26,432.90	15,619.40

VII. **Projected Payments to Fund (SDR million; based on existing use of resources and present holdings of SDRs)**:

	Forthcoming				
	2011	2012	2013	2014	2015
Principal			1,471.81	6,277.79	6,337.89
Charges/Interest	115.56	451.60	503.81	439.69	143.84
Total	115.56	451.60	1,975.62	6,717.47	6,481.72

VIII. **Implementation of HIPC Initiative**: Not Applicable

IX. **Safeguards Assessment**: A first-time safeguards assessment of the Bank of Greece (BoG) has been conducted in connection with the current Stand-By Arrangement, and was finalized on August 16, 2010. The assessment found a well established safeguards framework at the central bank. The BoG adopted the relevant guidelines and good practices promulgated by the European Central Bank, its financial statements are independently audited and the results are published. The BoG has initiated reforms to strengthen its internal audit function, and an independent audit committee has been established. The assessment recommended a few measures to further enhance the financial reporting and audit mechanisms.

X. **Last Article IV mission:** Discussions for the 2009 Article IV Consultation were held in Athens during May 13–25, 2009. The Staff Report (Country Report No. 09/244) was considered by the Executive Board on July 24, 2009. The report is available at http://www.imf.org/external/pubs/cat/longres.cfm?sk=23169.0. Article IV Consultations with Greece are currently held on a 12-month consultation cycle.

XI. **The Fifth Review:** This took place from August 22–September 2 and from September 26-October 4. The mission met with the Minister of Finance, Governor of the Bank of Greece, and other Cabinet Ministers; and staff in these and other ministries. The mission also met private banks, think tanks, employer associations. The staff team comprised P. Thomsen (head), M. Flanagan, G. Everaert, H. Floerkemeier, D. Velculescu (all EUR); G. Palomba (FAD); M. Goretti (SPR); G. Mitchell Casselle, A. Buffa di Perrero, and N. Jassaud (MCM); and I. Mouysset (LEG). B. Traa, S. Eble, G. Gatopoulos, and M. Athanasopoulou (IMF resident representative office) assisted the mission.

XII. **Technical Assistance**:

Department	Purpose	Date
MCM	Banking supervision	March 2010
FAD	Public financial management: initial analysis and priority reforms	April 2010
FAD	Revenue administration: initial analysis and reform priorities	April 2010
STA	Data quality and misreporting (K-1 Report)	April 2010
FAD	Expenditure Policy	June 2010
FAD	Public financial management: follow-up on priority reforms	June 2010
MCM	Implementation of financial sector components of the SBA program	June 2010
FAD	Tax administration: design of the anti-evasion plan	July 2010
MCM	Implementation of financial sector components of the SBA program	September 2010
FAD	Tax administration: implementation of the anti-evasion plan	September 2010
FAD	Public financial management: implementation status of priority reforms	September 2010
STA	Monitoring of fiscal data for the program	September 2010
FAD	Tax administration: anti-evasion and structural reforms	October 2010
FAD	Health system analysis and proposals	October 2010
STA	Government finance statistics	December 2010
FAD	Tax administration: anti-evasion and structural reforms	February 2011
FAD	Role of accounting officers	February 2011
STA/FAD	Government finance statistics/fiscal reporting	March 2011
FAD	Tax administration: strategic planning	March 2011
FAD	Public financial management: follow-up on implementation of priority reforms	April 2011
FAD/LEG	Tax administration: anti-evasion and structural reforms	April 2011

Department	Purpose	Date
FAD	General tax policy	May 2010
MCM/FAD/LEG	Financial instruments	May 2010
MCM/LEG	Review of the Legal and Operational Framework for Bank Resolution	June 2011
FAD	Tax administration: strategic planning and taxpayer audit	June 2011
FAD	Tax administration: tax collection and tax administration reform	July 2011
LEG	AML and anti-tax evasion: strengthening BoG's supervisory process	September 2011
LEG	AML and anti-tax evasion: review of cross-border financial flows	September 2011
FAD	Safeguarding revenue and encouraging growth	September 2011
FAD	Modernizing the General Accounting office	September 2011
FAD	Preparing the 2012 budgets	September 2011

XIII. **Resident Representatives**: Mr. Bob Traa (Senior Resident Representative) and Mrs. Stephanie Eble (Deputy Resident Representative) assumed their positions in October 2010.

ATTACHMENT I. GREECE: LETTER OF INTENT

Athens, November 30, 2011

Ms. Christine Lagarde:
Managing Director
International Monetary Fund
Washington DC

Dear Ms. Lagarde:

In the attached update to the Memoranda of Economic and Financial Policies (MEFPs) from 2010, February 28 and July 4 2011, we describe progress and policy steps towards meeting the objectives of the economic program of the Greek government, which is being supported by a Stand-By Arrangement.

We continue to make progress with our economic program:

- Concerning our fiscal targets, we have been working to build on the unprecedented fiscal adjustment we have realized since late 2009. However we have been fighting strong headwinds from the recession, and also some delays in putting in place measures. Unfortunately, due to these factors, we missed the end-September performance criterion on the primary cash balance for the general government by a small margin, and also the indicative target on non-accumulation of domestic arrears. However, we have implemented a package of measures to ensure that fiscal policy can be brought back on track, including the full second package of MTFS reforms due in August (a prior action for the review), and on this basis request a waiver of non-observance.

- Fiscal-institutional reforms have been advancing. A structural benchmark on articulating a medium-term strategic plan of revenue administration reforms was observed, and this will inform our strategy in this important area. A second benchmark on publishing three consecutive months of consistent arrears and consolidated general government fiscal reports was partially observed, with data published, but not drawn from commitment registers as anticipated.

- Our policy efforts to support financial system stability continue. Parliament has enacted new bank-resolution legislation that will allow timely and effective intervention and resolution consistent with EU Treaty rules and international sound practices (meeting a September 15 structural benchmark with a small delay).

- Regarding privatization, the Privatization Fund has been established and has become fully operational. While we were able to sign contracts for new concessions during

Q3, the quarterly quantitative performance criterion on cash privatization receipts for end-September was missed, owing to difficult market conditions and delays in preparations. We have prepared a new schedule of sales that will see a number of contracts signed during the remainder of 2011, and 2011 cash-revenue targets met with about a one-quarter delay. On this basis we request a waiver of non-observance.

- Regarding growth-enhancing structural reforms, since June, we have completed some legislative initiatives, including the passage of a law to simplify environmental licensing. As a prior action for the review, we enacted legislation to improve labor market flexibility. We are working to speed up implementation going forward.

- Finally, the external arrears of some local governments which were identified in July, and a small amount of arrears that accumulated subsequently, were fully cleared on August 30th. However, due to the post-July arrears, the continuous quantitative performance criterion on non-accumulation of external arrears was not met. Steps have been taken to ensure that such arrears will not arise again, including improvements to the monitoring of local government debt service payments. On the basis of the minor nature of the nonobservance and repayment of the arrears, we request a waiver of non-observance for this temporary issue.

Alongside our policy efforts, we have secured the financing necessary to support our policies during and beyond the program period. We are working to finalize a debt exchange with private financial institutions. Any remaining financing needs (to cover the government's cash flow needs over the medium term and improve the sustainability of public debt under the program's baseline assumptions) will be covered by the official sector, in line with the commitments received from our euro area partners at a July 21 summit. In parallel, the ECB is working with Greek banks on medium-term funding plans to ensure that they reduce their exposure to exceptional Eurosystem liquidity support at a pace consistent with the program's macroeconomic framework.

On this basis, we request completion of the fifth review under the Stand-By Arrangement, and the sixth purchase under this arrangement in the amount of SDR 1,922.4 million. We also request modification of the end-December performance criteria on the fiscal deficit, primary state spending, and privatization. We propose ceilings and floors for the existing performance criteria for end-March 2012. As detailed below, we propose new structural benchmarks to measure progress against our program objectives. These will apply to: measures to combat tax evasion, completion of a public expenditure review, enactment of tax reforms, completion of a capital needs assessment for the banking system, governance reforms for financial supervision agencies, reforms to reduce the labor tax wedge, and the screening and amending of laws on regulated professions (Table 2).

We believe that the policies set forth in the May 3, 2010 Letter of Intent and MEFP, and subsequent updates (including the one now attached), are adequate to achieve the objectives under the program. We stand ready to take any corrective actions that may become appropriate for this purpose as circumstances change. We will consult with the Fund, as well as with the European Commission and ECB on the adoption of any such actions and in advance of revisions to the policies contained in this letter, in accordance with the Fund's policies on such consultations.

This letter is being copied to Messrs. Juncker, Rehn and Trichet

/s/	/s/
Evangelos Venizelos	George Provopoulos
Deputy Prime Minister and Minister of Finance of Greece	Governor of the Bank

ATTACHMENT II. GREECE: MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

The Economic Outlook

1. **The recession has continued to deepen, necessitating an adjustment of the macroeconomic framework for our program**. Recent short-term economic indicators and provisional GDP data for the second quarter indicate that the economy has not been able to sustain the encouraging performance during the first three months of 2011. The adjustment in the private sector has accelerated, with economic activity constrained by the implementation of needed fiscal austerity measures, tightening credit conditions, delays in structural reforms, and a weakening external environment. Real GDP is now projected to decline by 5½ percent in 2011 and a further 2½–3 percent in 2012. With a deeper recession, we have also adjusted downward our forecasts for inflation and the GDP deflator—cumulatively about 2 percentage points less through 2014. Taking into account both of these factors, nominal GDP in 2014 is now projected to be 8 percentage points lower than projected at the time of the 4th review.

2. **We expect economic activity to turn around in early 2013**. Greece's competitiveness is gradually improving. Unit labor costs have dropped by about 4 percent on average during the 6 months ending June 2011, and will decline further as labor market adjustment gathers momentum. Merchandise exports and tourism receipts are growing. While currently still too small to compensate for the fall in domestic demand, net exports are expected to continue contributing significantly to the economic recovery going forward, as structural reforms drive improvements in competitiveness. Eventually, this should provide a source of sustained growth in output and employment through investment in the tradables sector.

3. **We have modified program policies to cope with the changing macro outlook**. Fiscal policies have been strengthened to secure attainment of program targets; additional support mechanisms and a stronger resolution framework have been put in place toward securing financial stability; the path to meet the end-program privatization target has been recalibrated due to delays in the preparation of assets and difficult market conditions; and the effort to make structural reforms effective will be reinforced. All of these changes, and the revised financing strategy to support it, are discussed in what follows.

Fiscal Policies

4. **The government's priority remains to secure a sustainable fiscal position**. This will require not only steady progress in reducing the fiscal deficit and debt, but also a revival of growth and confidence. The challenge the Government faces is to find a pace that can strike the right balance between these multiple and potentially conflicting objectives. In this review, we have recalibrated the quarterly fiscal target (given the impact of the recession), identified necessary actions to keep the MTFS on track, and firmed up the required fiscal measures.

5. **The government remains committed to achieving an overall general government deficit below 3 percent of GDP by 2014**. This would be consistent with a primary surplus of 5 percent of GDP. For 2011, the significantly deteriorated macro outlook, delays in the implementation of fiscal measures, and the limited time remaining within year for corrective actions have placed a constraint on what we can feasibly achieve. We expect to achieve the 2012–13 targets and will implement the measures necessary to this end (discussed below). With 2012 measures to be implemented in Q4 2011, their initial impact will allow us to achieve an overall balance of 8½–9 percent of GDP in 2011, somewhat above the €17.1 billion or 7¾ percent of GDP target, but still 1½–2 percent of GDP better than in 2010, despite a much deeper recession.

6. **The government will enact the fiscal measures necessary to ensure that program fiscal targets for 2012–14 are met**:

- **Implementation of MTFS reforms**. As a **prior action** for the review, the government will complete key actions to implement the various measures approved in the context of the first MTFS reform bill and anticipated in the second set of reforms bills (Annex I). These actions will include:

    - **Reform of the public sector wage grid**. The reform will reduce wages for standard employees on average by 17 percent (those under special wage regimes will be excluded). This will be done by limiting allowances and more closely aligning wages across ministries, and keeping the entry wage in line with private sector norms. Incentives will be provided via a capped one-off bonus of 3 percent per year and a special bonus for employees involved with the collection and control of public finances. Promotions will be strictly controlled and subject to a performance evaluation. This new scheme will be phased in over two years. Wages in state-owned enterprises and other public entities under private law will be aligned accordingly. The reform will be reviewed by external compensation consultants by September 2012 to identify any issues of design that become evident during implementation.

    - **Closure/merger of extra-budgetary funds**. Ministerial decisions should cover the closure or merger of the 11 identified large entities (KED, ETA, ODDY, National Youth Institute, EOMEX, IGME, OSK, DEPANOM, THEMIS, ERT, ETHYAGE), as well as the closure or merger of 35 smaller entities.

- To help meet our **2012 target,** we have specified an additional €6.4 billion in measures (gross of revenue feedbacks). Enactment of these measures will be a **prior action** for the review:

    - **Spending reductions**. To reduce government spending by €1 billion in 2012, we will adjust pensions and earmarked spending. For pensions, the portion of total main pensions exceeding €1,200 per month will be cut by 20 percent (40 percent on the portion of pensions exceeding €1,000 per month for pensioners below 55 years); supplementary pensions above €150 per month will be cut by 15 or 30 percent depending on the fund (augmented savings targeted by the planned reforms in this area); and lump-sum pensions of civil servants for 2011–12 will be reduced by an additional 10 percent (on top of the cut targeted under the MTFS). Regarding earmarked spending, a ceiling of 5 percent of the stock of deposits will be placed on spending in the "Green fund."

- **Revenue measures**. To generate additional revenues of €5.4 billion in 2012, we have introduced a special levy on real estate and will reduce PIT thresholds and deductions. The special property levy ranges between €3–16 per square meter (with a reduced rate for special categories). To strengthen payment compliance, it will be collected through electricity bills and will supplement the property tax envisaged in the MTFS. Regarding the PIT, the threshold will be reduced to €5,000 (individuals above the age of 65 or below the age of 30 and with income below €9,000 a year will be exempt); the bracket structure will be simplified and the child allowance reduced, starting from the third child. Finally, we will advance the removal of the subsidy for heating fuels originally envisaged for 2013.

- **Clearance of arrears**. A plan for full clearance will be submitted alongside the 2012 budget, with a central appropriation that will be made available to each line ministry and other general government entities for this purpose (based on the amount outstanding at end-2010). Appropriations from this central funding will be made available to the requesting ministry subject to timely compliance with the public financial management reform agenda (below), and on evidence of the effective operation of commitment controls within the relevant entity (no new accumulation of arrears).

- To secure our **2013–14 targets,** we will undertake a thorough review of public expenditure programs to identify 2 percent of GDP in additional measures (and an additional 1 percent of GDP as a buffer). The review will draw on external assistance, and the focus will be on identifying opportunities to: rationalize pensions and social transfers (in a manner that will preserve basic social protections); rationalize defense spending (without prejudice to the defense capability of the country); and restructure the central and local administrations. Completion of the review is proposed as a **structural benchmark** for end-June 2012, and progress will be assessed during upcoming program reviews. We have already identified several additional measures potentially yielding ¾ percent of GDP, including: (i) adjustments to special wage regimes (which now account for about one-third of the public wage bill); (ii) further rationalization of pharmaceutical spending and operational spending of hospitals;

(iii) reductions in welfare cash benefits; and (iv) reform of the system of VAT refunds for farmers.

7. **The government remains committed to better underpin our adjustment with structural spending and revenue reforms**. We have advanced reforms in three key areas:

- **Personnel reductions**. Our overall aim is to reduce general government employment by 150,000 between 2010 and end-2015. To realize this aim we will utilize:

  - **Natural attrition**. A 1:5 hiring to attrition ratio will be applied during the period, and the number of temporary contracts will be reduced by about two-thirds between 2010 and 2015 (including 50 percent in 2011).

  - **Pre-retirement and retirement scheme**. A total of 1,000 individuals now past retirement age whose term has previously been extended will now enter into retirement. A total of about 14,000 public employees will be placed in a pre-retirement scheme by end-2011 (with those to be included in the scheme limited to those with 12–24 months remaining until their retirement).

  - **Labor reserve**. A total of about 15,000 public employees will be furloughed into a labor reserve by end-2011. Additional staff will be placed into the reserve by end-2012. A functional review of government will be used to identify general government units for closure or downsizing, and ministerial staffing plans developed on this basis will identify employees who are redundant. Time spent in the reserve will be limited to 12 months, at no more than 60 percent of the basic wage (excluding overtime and other extra payments). After 12 months those still in the reserve will be separated, and any payments while in the reserve will be counted against any severance pay.

  - **Controls on hiring**. We will: (i) adjust the intake into military and police schools in line with projected staffing needs; (ii) limit rehiring from the labor reserve to no more than 10 percent of the annual hiring target; (iii) augment the labor reserve every year by the amount of employees hired in excess of the natural attrition rule; and (iv) eliminate vacant positions in the context of revising the public sector organizational chart/structure. The Ministry of Public Administration will publish detailed exit and entry figures on a monthly basis.

- **Social security reforms**. Key actions outlined in the 4th review MEFP to be completed in the period ahead include: (i) by end-November, legislation will be adopted to reform the supplementary pension funds to be effective from January 2012; (ii) by end-November, we will also adopt and apply a new restricted list of hazardous professions and start reviewing the disability status according to new definitions of disability; and (iii) by January 1, 2012, and through the new single health fund EOPYY, we will reduce doctors' fees, regulate uniform conditions for the purchase of health services, and introduce a single uniform health package for all EOPYY's members. The draft report of the earlier-commissioned expert health task force and time bound action plan for health reform are now expected by year-end.

- **Tax reform**: By March 2012, we will approve a revenue-neutral tax reform package (**structural benchmark**). The reform will simplify the tax system, broaden the tax base through policy measures so as to allow reductions in selected tax rates, and rebalance the distribution of the tax burden to foster growth and competitiveness. The reform package will include: (i) a simplification of the Code of Books and Records, (ii) the elimination of several tax exemptions and preferential regimes; (iii) simplification of the VAT and property tax rate structures; and (iv) a more uniform treatment of individual capital income. To support this reform and strengthen our fight against tax evasion, we will also enforce more comprehensive information requirements covering received incomes (including from foreign sources and non taxable income) and selected uses.

Fiscal institutional reforms

8. **Reducing tax evasion and improving spending control are important objectives for the Greek government.** Success in these areas would notably improve the fairness of the fiscal adjustment Greece is now undertaking and could indeed help reduce the need to adjust through other policy measures. Success will require deep restructuring of fiscal management institutions, namely the revenue administration and public financial management structures. We recognize that concrete results from these complex institutional reforms will not be easy to achieve quickly, and we are thus determined to undertake the reforms with urgency.

9. **Regarding the revenue administration, we are committed to implement our anti tax-evasion plans and transform over time our institutions and working methods**:

- **Operational targets**. Progress towards the targets defined in our anti tax-evasion plans will be closely monitored via quarterly quantified performance indicators (achieving the targets is a **structural benchmark** for end-December 2011). Towards achieving the targets, we have scaled up risk-based audits and debt collection, and we have initiated audits of 1,700 high-wealth and self-employed individuals identified by the anti tax-evasion task force (new targets for completion of these audits have been included under the benchmark). Looking towards 2012, we will update our operational plans by end-December of this year to introduce new and more ambitious targets for audits and debt collection and the resolution of administrative appeals (meeting the targets is proposed as a new program **structural benchmark** for end-2012). The plan will also include ways to better integrate anti-money laundering tools into the anti tax-evasion strategy from January 2012, with a focus on, inter alia, improving reporting of suspicious transactions by the financial institutions to the Financial Intelligence Unit.

- **Removing barriers to effective tax administration:**

  - Using newly legislated appointment and removal powers, we will review the performance of managers in implementing the anti tax-evasion plan through end-2011, and replace those managers who do not meet assigned performance targets. We will also approve performance-based contracts for auditors and reassess auditors' qualifications (by end-November 2011). New auditors will be hired in 2012.

  - We will also strengthen our tax dispute-resolution system. First, we have appointed the head of the newly created fast-track administrative resolution body; and by end-November we will approve legislation making it compulsory for large dispute cases to be addressed at the administrative level only to this independent body. Second, we will issue secondary legislation to make the recently established arbitration system fully operational, by enabling the certification of arbitrators.

- **Medium-term reforms**. The third area of our work involves implementing the strategic plan for medium-term reforms approved in July. The organizational reforms defined therein should help us deploy resources in a more targeted manner:

  - We have established a new **central directorate for debt collection** (involving approval of the organizational structure, the appointment of the director and senior managers, and starting the process of hiring staff).

  - By end-November, we will also finalize the creation of a **large taxpayer unit**, completing the appointment of senior managers and the transfer of taxpayers' files. The new unit will be designed to perform all key tax administration functions including audit, monitoring of filing and payment obligations, collection of tax debts, and taxpayer services.

  - We are also **consolidating the operations of the tax administration** to improve efficiency. The Ministry of Finance has closed or merged 30 local offices and consolidate key functions (filing, payment enforcement, debt collection, audit, and judicial procedures) into larger offices. However, due to IT limitations, our plan to close a total of 200 local tax offices is now foreseen to be executed in 2012. Following our time-bound plan to update our IT system, we will deploy new hardware by end-February 2012, and complete the development of software applications for corporate income tax, and tax withheld at source by end-June. By the same date, we will also have a list of additional tax offices to be closed. We plan to have the necessary IT capabilities in place by December 2012.

10. **Concerning public financial management, our key tasks include strengthening budget procedures, strengthening spending controls, and improving fiscal reporting:**

- An efficient financial management requires clear **budgeting procedures**. By end-February 2012 we will adopt legislation and regulations for a streamlined procedure for submission and approval of within year supplementary budgets.

- Stronger **spending controls** require securing the effective operation of commitment registers (which will allow control of spending before it is committed, thus helping to prevent new arrears), the establishment of general directorates of financial services, and the appointment of permanent accounting officers in line ministries.

  - **Commitment registers.** Recent onsite inspections have identified a number of problems with the functioning of registers that are being addressed. Starting in October 2011, we have made it compulsory for accounting officers in line ministries and general government entities to report data from their commitment registers into the e-portal of the Ministry of Finance. To enforce this obligation, we will start enacting sanctions, including blocking budget releases to entities not submitting data, and disciplinary actions for accounting officers involved. We expect the commitment registers to be able to provide reliable and broad coverage of data on commitments, payments, unpaid bills, and arrears (for both ordinary and investment spending) by end-March 2012. The coverage will extend to all line ministries and the largest local governments, social security funds, extra budgetary funds, and hospitals.

  - **Other infrastructure**. We have also completed and approved the organizational plan for the new directorates of financial services, and line ministries will be obliged to adopt and implement the new plans by end-November 2011. Finally we will evaluate applications for the positions of permanent accounting officers in line ministries and, despite initial delays, we now expect to complete the appointments by end-November.

- **Fiscal reporting** has improved significantly in terms of coverage. We are now working to improve the quality of reported data and set up systems to collect more detailed revenue and spending information from general government entities. To reduce the discrepancy between financial and fiscal data, we have started revising and updating past data and expanding coverage (e.g. to external financing sources for some public enterprises). In collaboration with Elstat, the Ministry of Finance will reconcile and validate the results of the recent pilot exercise that collected detailed fiscal data from general government entities. This pilot will be expanded to cover at least 60 percent of central and general government spending units by end-2011.

11. **To improve implementation of these institutional reforms, we have set up management frameworks for the most important reform initiatives**. The responsibility of the steering committee overseeing the anti tax-evasion plan will be expanded to coordinate the implementation of the medium term reform plans. Separately, a coordination group has been established under the supervision of a GAO director and is responsible to make fully operational commitment registers in all line ministries and general government entities. The director heading the group will propose sanctions to the Minister on non-reporting entities and will produce monthly reports to the Minister analyzing the main sources of arrear accumulation and quarterly reports on implementation progress.

Financial sector policies

12. **Securing financial stability is the government's priority.** The challenge we face is to ensure stable funding bases for banks and help them regain access to wholesale markets and to the deposits that have left the banking system. Adequate liquidity support in the near term must be consistent with plans to reduce banks' reliance on exceptional central bank support in the medium term. Meanwhile, capital buffers must be built up to instill confidence in individual banks. Moreover, a stronger resolution framework recently enacted allows the competent authorities to address any weak banks in a timely and cost efficient manner while preserving confidence in the system. With this as backdrop, the Bank of Greece is determined to take decisive actions to protect the soundness of the financial sector.

13. **We are committed to preserve sufficient financial system liquidity**. The Eurosystem has been providing exceptional liquidity support through its monetary policy operations. The Bank of Greece, following Eurosystem procedures, will ensure that it continues to stand ready to disburse adequate and appropriate exceptional liquidity assistance in a timely manner. Over the medium term, banks will need to reduce their reliance on central bank borrowing and government guarantees. Regular updates of medium-term funding plans under guidance of the Bank of Greece will be an important tool to ensure that this process proceeds at a pace consistent with the program's macroeconomic, fiscal, and financial framework. The next update will be finalized by end-2011. To this end, banks will be given guidance on the new macroframework discussed above to inform revisions of their plans, and the Bank of Greece will provide feedback on banks' draft plans (to ensure their collective consistency with the macroframework).

14. **We have refined our strategy to help banks strengthen their capital position.** This will help them manage increasing balance-sheet risks, and over time should facilitate earlier access to wholesale funding markets:

- **Banks' consolidated core Tier I minimum regulatory capital requirement will be set at 10 percent from the beginning of 2012**. The core Tier I capital requirements will exclude hybrid capital, but include preference shares issued by banks and subscribed by the Greek government at the onset of the global financial crisis in 2008–09.

- **Banks' books will be carefully scrutinized to reassure that losses are reflected**:

    - The Bank of Greece has required that the outcome of the PSI for government bonds be adequately recognized in bank profit and loss accounts. Further, using its Pillar II powers, the Bank of Greece will ensure an equivalent capital treatment of risks related to Greek government bonds exposures across all institutions, (with reference to the NPV reduction of the PSI). In this context, the Bank of Greece will update its last Pillar II assessment at the latest one month after completion of the PSI exercise.

    - The Bank of Greece has contracted an independent qualified international advisory firm to perform a diagnostic of banks' domestic loan portfolios, under baseline and adverse macroeconomic scenarios, to be concluded by end-year. Based on this exercise, the Bank of Greece will require that losses from loans not adequately provisioned be recognized in banks' profit and loss accounts.

- **The Bank of Greece, under Pillar II supervisory powers, will require additional capital buffers as determined by banks' individual risk profiles**. The minimum capital need for each bank is defined by the 10 percent core Tier I requirement. Capital requirements will be increased if this is needed to maintain a minimum core Tier I target capital ratio of 6 percent in the context of a stress test exercise involving a three-year adverse macroeconomic scenario. This will incorporate projected losses and dynamics in profitability, risk-weighted assets and other risks, including sovereign exposures. Completion of this capital-needs assessment is proposed as a new program **structural benchmark** for end-February 2012.

- **Following the additional capital-needs assessment based on the diagnostic study, banks may be given time to raise this additional capital on the market**. If the Bank of Greece determines that a period of time should be allowed for a bank to meet capital requirements, the relevant bank will be asked to present, by end-April, a viable business plan to this end. Any bank in this circumstance will have to meet capital requirements by no later than end-August 2012. Any such business plan should also demonstrate that the requirements will continue to be met over a three-year period. Any capital to be raised should consist of instruments qualifying as Tier I capital. We will continue to encourage banks to explore strategic alliances with domestic and foreign partners to strengthen capital and address structural funding issues.

- **Public support will be available**. The overall envelope for bank support will be increased in line with estimated bank needs. A bank should first attempt to raise capital from the private sector, and if a substantially discounted rights issue is not taken up, the HFSF may inject capital at prices at or below the level targeted in the rights issue, subject to conditions minimizing downside risks and thus the burden on taxpayers. To facilitate this support, the size of the HFSF will be targeted for increase to adequately backstop estimated bank-capital needs. Funds will be transferred into the dedicated HFSF account upon approval in the context of program reviews. Any support provided with HFSF resources will continue to be in line with EU state aid rules. The government commits not to use the HFSF to recapitalize state-owned banks and instead to exercise its full responsibilities as the main shareholder (and an appropriate amount of funds will be set aside for this purpose).

- **The institutional mechanisms for public support will be strengthened in line with this framework**. In line with EU state-aid rules, we have amended the HFSF law and related legislation to require existing bank shareholders to absorb any losses in full; and to require disposal of any bank holdings within 24 months of a recapitalization, either through sale, or by facilitating a merger, takeover, or transfer of activities to other financial institutions. As a **prior action** for the review, the Bank of Greece and FSF will complete a memorandum of understanding to further strengthen their cooperation (including sharing of appropriate supervisory information).

15. **We have revised our bank-resolution framework to provide additional options for timely and effective resolution processes**. The framework will allow timely and effective intervention and resolution consistent with EU rules and international sound practices. In this context, parliament has enacted amendments to the Banking Law, providing a broad set of tools to safeguard financial stability and improve depositor protection. The new resolution framework has the following key features:

- Available techniques have been expanded to include: (i) transfer of assets and liabilities, and (ii) bridge-bank transactions (transactions involving an interim credit institution (ICI)). In implementing the law, we will ensure that the sale of assets and liabilities (or of shares of a bridge bank/ICI) will be open, transparent, and non-discriminatory. The law further stipulates that shareholders and subordinated bond holders always remain with the transferring entity (bad bank). A regulation will specify that resolutions will be designed using a least-cost principle without prejudice to financial stability.

- The Bank of Greece has been empowered as the competent resolution authority for taking the decisions on all matters in the use of the new resolution techniques (with the exception of decisions pertaining to ICIs, which will be taken by the Ministry of Finance, upon the recommendation of the Bank of Greece). The Bank of Greece will consult with other relevant agencies and the Ministry of Finance in this capacity.

- The Deposit Guarantee Scheme (HDIGF) law has been amended to enable it to assist in the resolution of banks. This includes allowing it to maintain and manage two funds (alongside the existing depositor protection fund, a resolution fund has been established). The law gives the HDIGF creditor preference in resolution to better ensure recovery of guaranteed funds.

- To further strengthen the framework, we will amend the resolution law to give more flexibility in the resolution process, in particular the necessary rights to manage labor contracts and reduce employment in the new ICI for the purpose of enhancing the ICI's viability.

16. **We will review governance arrangements for our financial oversight agencies**. We will review, in consultation with the European Commission, ECB, and IMF staff: (i) the organizational arrangements for the Bank of Greece to ensure that they are in line with best international practice and that any potential conflict of interest in its expanded supervision and resolution role is avoided; (ii) the corporate governance arrangements for the HFSF (including the need for internationally recognized professionals with banking experience to be members of the board with voting rights); and (iii) the governance arrangements for the HDIGF (to address potential conflicts of interest). Enactment of legislation to address any outstanding issues in these areas is proposed as a **structural benchmark** for end-2011.

17. **We will take action to ensure that banks meet regulatory and other requirements:**

- ATE is slated for privatization in 2012. Its share capital increase, to address concerns raised by the CEBS 2010 stress test, closed on 7 July 2011. To preserve financial stability, the government has addressed the shortfall in capital resulting from losses booked through September on government bond holdings. In particular, the bank has convened a shareholders' meeting to authorize a rights issue to bring the bank back into compliance with the existing minimum regulatory-capital requirement as soon as possible. The government has committed to fully subscribe its share in cash and to purchase any other unsubscribed shares (after notification to the EC). An appropriate amount of funds will be set aside for this purpose. This will be reflected in ATE's restructuring plan, an update of which will be resubmitted to the EC by end-November.

- Regarding the Hellenic Consignment and Loan Fund (HCLF), legislation on its unbundling was adopted in early May 2011. An implementing decree has clarified the future tasks of the remaining activities of the HCLF, ensuring that these will not be in competition with commercial activities. A more detailed schedule for transferring the commercial activities has also been specified alongside commitments to comply with state aid rules, and these have been endorsed by Inter-Ministerial Decision. The disposal of the commercial activities branch will be completed on or before end-July 2012.

- Concerning other banks, Proton bank was resolved by setting up an interim credit institution. The Bank of Greece will also require capital shortages in any other institutions to be addressed by end-November, or take the appropriate actions to deal with the situation (by end-November). Until capital shortages have been resolved, the Bank of Greece will closely monitor affected banks and continuously enforce appropriate remedial measures.

Privatization

18. **The government aims to transfer a critical mass of public assets to private sector control**. This is crucial to support the program's growth, financing, and debt reduction strategy. The government is determined to overcome the challenges posed by market conditions and technical and legal complexities. To put the privatization program on a firm footing, we have defined steps towards meeting near-term targets and established an institutional framework for the effective and timely privatization of assets.

19. **The government remains committed to privatizing the assets identified in the privatization plan plus any additional bank equity acquired through recapitalizations**. In particular, we remain committed to achieve our program privatization target—€35 billion through 2014—and to sell €50 billion in assets through 2015 (Annex II). To deal with technical delays to date, we have adjusted our near-term targets (Annex II). A number of steps are underway to help secure the achievement of our privatization targets:

- **We have adjusted our schedule for asset transactions to deal with technical delays to date (Annex II)**. To stay on track to meet our revised near-term targets, we have refocused on asset sales with larger proceeds and on those projects which are more technically advanced. Amongst real estate assets, we will focus on the sale and lease back of government buildings. Operations that require more restructuring activity (such as unbundling utilities or bundling ports) have been rescheduled to 2012. To reach the privatization objective, the government stands ready to offer for sale its remaining minority holdings in state-owned enterprises (with public control, in the form of minority shareholdings, limited only to cases of critical network infrastructure).

- **We will take the necessary procedural steps to allow assets to be sold according to the revised schedule**. As a **prior action** for the review, we will: (i) shift a second group of assets into the privatization fund covering transactions to be completed through end-2012 (Annex II); and (ii) appoint legal, technical, and financial advisors for 14 projects to be completed by end-2012 (advisors for all end-2012 projects would be appointed by end-November). Concerning real estate assets, by end-2011, we will group these into 5–6 categories (according to their potential use). The largest and most mature projects will be transferred to the privatization fund, and portfolios of smaller projects will be managed by a merged entity formed from ETA/KED and placed under professional management (and supervised in coordination with the HRADF).

20. **To facilitate the work, the government has fully operationalized the Privatization Agency (HRADF)**. The HRADF was legally created on August 2, and after appointing a Board of Directors, the Fund began its operations at end-August. Since then, observers nominated by the Eurogroup President and by the Commission have joined the Board, and a Council of Experts, whose opinion is necessary for the exploitation of the assets, has been installed. To complete its establishment internal regulations (including the HR chart and remunerations), and the business plan with quarterly targets have been approved by the Board.

Structural reform policies

21. **The government's priority remains to durably boost Greece's productivity, competitiveness, capital formation, and growth**. To this end, the government is pursuing a comprehensive structural-reform agenda aimed at creating a well-functioning labor market, removing barriers to investment and exports, liberalizing service markets, promoting sectoral growth, and addressing inefficiencies in the judicial system. We recognize the need to reach a critical mass of reforms and reform synergies to jump-start growth. In this regard, the government will speed up implementation of already legislated reforms, and we are working to define additional actions in various areas, including measures promoting wage flexibility, lowering the labor tax wedge, and removing barriers to growth in key sectors.

22. **The government is committed to ensuring greater labor market flexibility and higher employment**. In the past 18 months, several labor market reforms have been implemented aimed at promoting youth employment, permitting the reallocation of human resources to more productive sectors, allowing for more flexible work arrangements, and facilitating collective bargaining, (including by allowing for special firm-level collective agreements to set wages below sectoral floors). Nevertheless, with unemployment rising rapidly and productivity growth yet to take off, the government will enact additional measures to increase wage flexibility and promote employment:

- **Wage flexibility**. To further facilitate collective bargaining at the firm level for companies of all sizes, the government will enact legislation to allow worker representatives to negotiate both special and regular firm-level agreements. Moreover, the "favorability clause" (requiring negotiations to start from the most-favorable existing contract applicable to other similar workers) will be suspended until at least end-2015, in such a manner that firm-level agreements take precedence over sectoral and occupational agreements. In addition, the possibility to extend sectoral agreements to those not represented in the negotiations will be suspended for a period until at least end-2014. Enacting legislation in these three areas will be a **prior action** for this review.

- **Other labor market parameters**. During Q4 2011, the government will launch a dialogue with social partners to examine all labor market parameters that affect the competitiveness of companies and the economy as a whole. The goal is to conclude a national tripartite agreement which addresses the macroeconomic challenges facing Greece, in particular the need to support stronger labor market flexibility, competitiveness, growth, and employment.

- **Labor tax wedge**. To promote employment in the formal sector, the government will take actions that will allow it to reduce the employers' share of social security contributions. These actions may include rationalizing and consolidating small earmarked funds and broadening the base (while ensuring that the reform does not affect pension obligations). Over the medium-term, administration of collections will be improved, including by combining collection functions. Once savings or alternative revenues are realized, the rate will be cut. Enacting the changes in legislation is proposed as a new program **structural benchmark** for end-June 2012.

23. **Barriers to exports and investment will be further reduced by end-year**. These are crucial to jump-starting the recovery and boosting growth. To this end:

- **Licensing**. By end-November, the Ministries of Industry and Environment will put in place the main secondary legislative acts required to make operational the new laws on business and environmental licensing, including those concerning the classification of projects by risk and review requirements. By end-June 2012 all remaining secondary legislation related to these licensing laws will be issued, and the new electronic environmental register will be fully operationalized.

- **Fast-track investment procedures**. By end-November, the three projects that have been approved by the inter-Ministerial Committee will be taken through the fast-track procedure. In addition, two other projects have been submitted to the inter-Ministerial Committee to be processed within a month. As soon as the system is assessed to be functioning well, qualifying thresholds will be lowered (to generalize the system to attract new investments).

- **Export procedures**. By end-December, the government will pass a new law (which enters into effect immediately) that: (i) eliminates the requirement to register with the exporter's registry; (ii) simplifies export-related legislation by repealing and replacing all previous legislative acts; and (iii) sets the framework for the introduction, by end-2012, of a single electronic export window. Also by then, the Ministry of Finance in cooperation with the Regional Development will amend legislation to simplify customs declaration procedures for exports and imports, as well as for local clearance procedures. An e-customs system, now underway, will be fully introduced by June 2012 to help operationalize the single window for exports.

24. **The government will continue the work to bring the liberalization of the service sector to full fruition:**

- **Regulated professions**. The new law entered into effect on July 2, liberalizing all professions and economic activities that generate an income and are subject to licensing restrictions and other requirements. Nevertheless, to ensure restrictions in the public interest are properly in place, the government will pass legislation by end-December allowing a limited number of required restrictions to be reinstated. These restrictions will first be evaluated by the Hellenic Competition Authority. By end-March 2012, the government will complete the screening and amending of existing legislation to ensure full consistency with the new law (proposed as a **structural benchmark**).

- **Transportation and energy sectors**. Regarding transportation services, by end-2011, legislation will be passed to eliminate the transition period for the liberalization of road haulage and establish licensing costs in line with administrative costs. Finally, the Ministry of Energy will finalize a plan to ensure competitive access to 40 percent of lignite-fired generation, including through plant sales, by end-November.

25. **The government of Greece has diagnosed obstacles to growth in key sectors and will specify plans to overcome these**. For the tourism sector, the government will finalize an action plan by end-year aiming to change the profile of tourism in Greece by expanding the tourism season and creating additional niche products. A number of other diagnostic studies will be finalized, covering cross-sectoral barriers to growth, as well as specific sectors with growth potential, such as retail, energy, food manufacturing, agriculture, aquaculture, and regional cargo transport hubs. Based on these, the government will finalize similar action plans defining concrete measures and a timeline for implementation by end-March 2012.

26. **Reforms to Greece's judicial system are progressing**. In the past 18 months, the government has passed laws to simplify and speed up procedures for tax cases, provide for transparency and efficiency through e-justice, allow for out-of court mediation, and improve the administration of civil justice. The Ministry of Justice is currently implementing these changes and working towards the next reform steps. Specifically:

- **Clearing the existing case backlog in courts**: The Ministry of Justice has identified the backlog of tax cases and plans to reduce it by 15 percent by end-2011. By this point, the Ministry will also establish a work plan towards full elimination of the remaining identified tax case backlog by end-July 2013. The Ministry will also conduct—together with an external body—a study of the non-tax backlog of cases for all other courts (by end-June 2012) to inform an action plan for its elimination.

- **Simplifying procedures for tax cases**: Nineteen specialized tax chambers have been established, and 5 additional ones will be added by end-December 2011. By end-

March 2012, the Ministry of Justice will: (i) start to publish individual court data, including on recovery rates for tax cases; and (ii) finalize an assessment of the recent measures increasing the deposit requirement for tax appeals and limiting the number of suspensions of tax cases, making proposals for remedial actions, as needed.

- **Speeding case processing.** The government is committed to introduce e-justice in Greece. A fully operational system for e-registration and e-tracking will be extended to all courts by end-2013, and a pilot project for the introduction of e-filing in the largest court will be implemented by end-2011. In parallel, the Ministry of Justice will work on expanding the application of the pilot project for expedited case registration procedures ('fast lane'). The government is committed to increase court registration fees in civil matters by year-end.

- **Expanding out-of-court procedures**: The government is committed to facilitate out-of-court mediation. To this end, all necessary secondary legislation to make the new law on mediation operational will be issued by end-2011.

- **Reforming the Code of Civil Procedure and designing a performance and accountability framework for courts**: We remain committed to these two medium-term reforms described in the July MEFP aimed to overhaul the current framework to ensure that justice can be delivered effectively and in an accountable manner.

27. **To help our structural reform efforts deliver concrete results, the government will improve reform management and oversight**. The government will implement by end-2011 the recently adopted legislation establishing a directorate of planning, management, and monitoring of reforms. Starting with end-year data, the directorate will publish on the government's website and on a quarterly basis monitoring indicators for each structural reform initiative.

Financing

28. **A clearer picture has emerged of our additional financing needs during the program period (2011–13)**. We remain confident that Greece will be able to restore market access at reasonable rates by 2014. Given projected cash deficits, projected amortization of debt, and our planned asset transactions, we expect that we will require €153 billion in new financing. This is against €42 billion in remaining undisbursed funds from euro area member states and the IMF in the present program.

29. **We are finalizing a debt exchange operation with private sector holders of Greek government bonds**. We expect the PSI operation to be completed by the time of the Sixth Review. Given the importance of achieving our financing and debt sustainability objectives, we will make any needed technical revisions to the design of the PSI operation and require a high participation rate before proceeding with the operation.

30. **To fill any remaining needs, we have secured financing commitments from the official sector.** On July 21, 2011, euro area partners committed to continue to support countries under adjustment programs, like Greece, for as long as it takes to regain market access (provided the program is implemented). New lending would be at extended maturities of up to 30 years and at close to funding costs, using the EFSF as a financing vehicle.

Table 1. Greece: Quantitative Performance Criteria
(Billions of Euro, unless otherwise indicated)

	2011							2012		2013
	Jun-11		Jul-11		Sep-11		Dec-11	Mar-12	Dec-12	Dec-13
	Progr. 1/	Actual	Progr. 1/	Actual	Progr. 1/	Actual	Progr. 1/	Progr. 2/	Progr. 2/ 4/	Progr. 3/ 4/
Performance Criteria (unless otherwise indicated)										
1. Floor on the modified general government primary cash balance	-4.3	-4.9	-5.1	-4.9	-5.0	-5.3	-5.1	-0.4	1.3	7.4
2. Ceiling on State Budget primary spending	30	28.4	34.7	33.5	44.5	42.0	60.8	13.7	58.7	69
3. Ceiling on the overall stock of central government debt	394	365	394	377	394	371	394	409	409	..
4. Ceiling on the new guarantees granted by the central government	1.0	0.3	1.0	0.3	1.0	0.6	1.0	0.0	0.0	0.0
5. Ceiling on the accumulation of new external payments arrears on external debt contracted or guaranteed by general government 5/	0.0	0.005	0.0	0.001	0.0	0.0	0.0	0.0	0.0	0.0
6. Floor on privatization receipts 6/	..	..	0.39	0.39	1.70	0.39	1.70	5.00	11.0	20.0
Indicative Targets										
7. Ceiling on the accumulation of new domestic arrears by the general government 7/	0.0	4.0	0.0	3.9	0.0	3.8	0.0	0.0	0.0	0.0

1/ Cumulatively from January 1, 2011 (unless otherwise indicated).
2/ Cumulatively from January 1, 2012 (unless otherwise indicated).
3/ Cumulatively from January 1, 2013 (unless otherwise indicated).
4/ Indicative targets.
5/ Applies on a continuous basis from program approval (May 9, 2010).
6/ Cumulatively from January 1, 2011.
7/ Calculated on a cumulative basis from January 1, 2010 and applied on a continuous basis from program approval (May 9, 2010).

Table 2. Greece: Conditionality for the Fifth Review and Proposed Structural Conditionality

Measures	Macrocritical relevance	Status
August 15 structural benchmark		
1. Government to enact legislation in the context of MTFS implementation (phase II) to: (i) introduce pension adjustment bill stipulating freezes through 2015, introducing individual social security numbers, caps, means testing, and rationalizing benefits of pension funds; (ii) introduce single public pay scale bill, temporarily freeze automatic progression, and halve productivity allowance; and (iii) close 40 small public entities, merge 25 more small entities, and close an additional 10 large entities under line ministries and in the social security sector.	To reduce the overall deficit to below 3 percent of GDP by 2014.	Converted to prior action.
September 15 structural benchmark		
2. Parliament to pass legislation revising the FSF operating framework (to address conditions for recapitalization) and revising the bank resolution framework (in particular, the deposit guarantee scheme, and the early intervention and bank liquidation frameworks).	To strengthen the resolution framework for problem banks and to allow timely and effective intervention and resolution.	Met with a delay.
Prior actions		
1. Government to complete key actions to implement the various measures approved in the context of the first MTFS reform bill and anticipated in the second set of reforms bills (Annex I), including the reform of the public sector wage grid and the closure and/or merger of extra-budgetary funds.	To reduce the overall deficit to below 3 percent of GDP by 2014.	Completed.
2. Government to enact spending reductions (including pensions and earmarked spending and advanced removal of the heating fuel subsidy); revenue measures (including reducing PIT thresholds and reductions) as described in MEFP paragraph 6.	To help reach the 2012 fiscal target.	Completed.
3. Bank of Greece and FSF to complete a memorandum of understanding to further strengthen their cooperation (sharing of appropriate supervisory information).	To strengthen the institutional mechanisms for public support for the banking system.	Completed.
4. Government to (i) shift a second group of assets into the privatization fund covering transactions to be completed through end-2012 (Annex II); and (ii) appoint legal, technical, and financial advisors for 14 projects to be completed by end-2012.	To allow asset sales according to the revised privatization schedule	Completed.
5. Government to enact legislation to (i) allow worker representatives to negotiate both special and regular firm-level agreements; (ii) suspend the "favorability clause" in wage negotiations until at least 2015; and (iii) suspend until at least the end of 2014 the possibility to extend sectoral agreements to parties not represented in the negotiations.	To increase wage flexibility and employment.	Completed.
Proposed structural benchmarks		
End-December 2011		
1. Government to achieve quantitative targets set under its anti-tax evasion plan.	To combat tax evasion and improve tax collection.	Current structural benchmark, in progress.
2. Government to enact legislation to address outstanding issues regarding the governance arrangements for financial oversight agencies, including (i) organizational arrangements for the Bank of Greece; (ii) the corporate governance arrangements for the HFSF; and (iii) the governance arrangements for the HDIGF.	To strengthen governance arrangements for financial oversight agencies.	Proposed.
End-February 2012		
3. Bank of Greece to complete bank capital needs assessment.	To align capital buffers to banks' individual risk profiles	Proposed.
End-March 2012		
4. Government to screen specific service sector legislation and repeal or modify unnecessary and outdated regulations to ensure full consistency with the new law liberalizing all professions and income-generating economic activities.	To make service sector deregulation fully effective.	Proposed.
5. Parliament to approve a tax reform package, including [(i) a simplification of the code of Books and Records, (ii) the elimination of several tax exemptions and preferential regimes under the corporate income tax and the VAT; (iii) simplification of the VAT and property tax rate structures; and (iv) a more uniform treatment of individual capital income].	To simplify the tax system, improve its efficiency, and broaden the tax base.	Proposed.
End-June 2012		
6. Government to undertake a thorough review of public expenditure programs to identify [3] percent of GDP in additional measures (including a 1 percent of GDP buffer of potential additional measures).	To help reach the 2012 fiscal target.	Proposed.
7. Government to enact legislation to (i) reduce the employers' share of social security contributions, including by rationalizing and consolidating small earmarked funds and broadening the base ; and (ii) improve the administration of security contribution collections, including by combining collection functions.	To reduce non-wage employment cost and increase employment.	Proposed.
End-December 2012		
8. Government to meet newly introduced and more ambitious targets for audits and debt collection and the resolution of administrative appeals.	To combat tax evasion and improve tax collection.	Proposed.

Annex I: Fiscal Measures to be Enacted as a Prior Action for the Review

Actions	Description
From the June Implementation Bill	• Issue ministerial decisions/circulars to the start collection on excise on natural gas, heating oil and vehicle tax measures in line with the effective date stipulated in the law • Issue ministerial decisions to uniformly regulate health benefits for all SSF's. Sign a master contract between the National Organization for Health Service Benefits (EOPYY; participating social security funds), and private hospitals/medical centers. • Legislate withholding as the collection method for the solidarity surcharge starting 2012
From the August Structural Benchmark	• Pass the law on the new wage grid for the general government (including SOEs), which includes a cut in overtime pay and in remuneration in line with MEFP paragraph 6 • Pass law to extend freeze of main and supplementary pension indexation through 2015 • Issue ministerial decisions with respect to the closure/merger of 23 of the entities specified in the second implementation bill • Issue ministerial decision to determine closure/merger of KED, ETA, ODDY, National Youth Institute, EOMEX, IGME, OSK, DEPANOM, THEMIS, ERT • Issue ministerial decisions specifying the disability criteria consistent with achieving the medium-term savings objective • Finalize positive list for pharmaceuticals that establishes price charged to SSFs

Annex II. Greece: Privatization Schedule

Date		Name	State Share Participation	Participation to sell	Type of Sale	**Prior Action** to be transf. to HRADF
2011	Q2	OTE	10.0%	10.0%	share sale	
	Q4	OPAP 1	100.0%	100.0%	Concession	
	Q4	OPAP 2	100.0%	100.0%	Concession	
	Q4	Athens Intl Airport	100.0%	100.0%	Concession	
	Q4	Four Airbus Aircraft	100.0%	100.0%	Sale	
	Q4	Mobile Telephony Licenses	100.0%	100.0%	sale of rights	
2012	Q1	State Lotteries	100.0%	100.0%	share sale of SPV	
	Q1	Real Estate Assets 1	100.0%	100.0%	share sale of SPV	√
	Q1	OPAP	34.0%	29.0%	share sale	√
	Q1	Larco	55.2%	55.2%	share sale	
	Q1	Hellenic Defense Systems (EAS)	99.8%	99.8%	share/asset sale	
	Q1	Casino Mont Parnes	49.0%	49.0%	share sale	
	Q2	Athens Intl Airport (AIA)	55.0%	at least 21%	share sale of SPV	
	Q2	Hellenic Petroleum (ELP)	35.5%	35.5%	share sale	
	Q2	Public Gas Company (DEPA)	65.0%	65.0%	share sale	
	Q2	Public Gas Company (DESFA)	65.0%	31.0%	share sale	
	Q2	Hellenic Horse Racing (ODIE)	100.0%	100.0%	share sale	
	Q2	Egnatia Odos Rd	100.0%	100.0%	share sale of SPV	√
	Q2	Piraeus Port (OLP) 2/	74.1%	23.1%	share sale of SPV	√
	Q2	Thessaloniki Port (OLTH) 2/	74.3%	23.3%	share sale of SPV	√
	Q2	Loan and Consignment Fund	100.0%	100.0%	share sale of SPV	
	Q3	Hellenic Agricultural Bank (ATE)	89.9%	at least 38.6%	share sale	
	Q3	Regional airports 1	100.0%	100.0%	share sale of SPV	√
	Q3	Hellenic Post (ELTA)	90.0%	at least 40%	share sale	√
	Q3	Hellenic Vehicle Industry (ELBO)	51.0%	51.0%	share sale	
	Q3	Public Power Corp plants 3/	51.0%	17.0%	share/asset sale	
	Q3	Ports 1	100.0%	100.0%	share sale of SPV	√
	Q4	Hellenic Postbank	34.0%	34.0%	share sale	
	Q4	Digital dividend 1	100.0%	100.0%	sale of rights	
	Q4	Thessaloniki Water (EYATH)	74.0%	34.0%	share sale of SPV	√
	Q4	Athens Water (EYDAP)	61.3%	61.3%	share sale of SPV	√
	Q4	Hellenic Motorways 1	100.0%	100.0%	share sale of SPV	√
	Q4	Real Estate Assets 2	100.0%	100.0%	share sale of SPV	√
	Q4	Mining rights				
2013		Railway Operator (TRAINOSE)	100.0%	100.0%	share sale	
		Large regional ports	100.0%	100.0%	share sale of SPV	√
		Small regional ports	100.0%	100.0%	share sale of SPV	√
		Hellenikon 1	100.0%	100.0%	share sale of SPV	
		Regional airports 2	100.0%	100.0%	share sale of SPV	√
		Hellenic Motorways 2	100.0%	100.0%	share sale of SPV	√
		Hellenic Goldmines 1	100.0%	100.0%	share sale of SPV	
		Digital dividend 2	100.0%	100.0%	sale of rights	
		Real Estate/land	100.0%	100.0%	share sale of SPV	
	Q4	OPAP 2 3/				
2014		Offshore Gas Storage Fac.	100.0%	100.0%	share sale of SPV	√
		ITGI gas pipeline				
		Hellenikon 2	100.0%	100.0%	share sale of SPV	
		Real Estate/Land	100.0%	100.0%	share sale of SPV	
		Hellenic Motorways 3	100.0%	100.0%	share sale of SPV	
		Hellenic Goldmines 2	100.0%	100.0%	share sale of SPV	

1/ To be conducted as market conditions permit; the share sale may be gradual over several months.
2/ Subsidiaries of Thessaloniki and Piraeus Ports will be sold after combining ports groups.
3/ PPC will be unbundled with divestment of the productive capacity, and a share of infrastructure retained.
4/ Contractual agreement for OPAP 2 (VLT) includes a payment of Euro 86 million in Q4 of 2013.

ATTACHMENT III. GREECE: TECHNICAL MEMORANDUM OF UNDERSTANDING

November 30, 2011

1. This Technical Memorandum of Understanding (TMU) sets out the understandings regarding the definitions of the indicators subject to quantitative targets (performance criteria and indicative targets), specified in the tables annexed to the Memorandum of Economic and Financial Policies. It also describes the methods to be used in assessing the program performance and the information requirements to ensure adequate monitoring of the targets. We will consult with the Fund, European Commission and ECB before modifying measures contained in this letter, or adopting new measures that would deviate from the goals of the program, and provide the European Commission, ECB and the Fund with the necessary information for program monitoring.

2. For program purposes, all foreign currency-related assets, liabilities, and flows will be evaluated at "program exchange rates" as defined below, with the exception of the items affecting government fiscal balances, which will be measured at current exchange rates. The program exchange rates are those that prevailed on May 31, 2011. In particular, the exchange rates for the purposes of the program are set €1 = 1.4385 U.S. dollar, €1 = 116.30 Japanese yen, €1.1128 = 1 SDR.

General Government

3. **Definition**: For the purposes of the program, the general government includes**:**

- The central government. This includes:
    - The entities covered under the State Budget as defined in Chapter 2 of the Law 2362/1995 as being modified by Law 3871/2010 regarding "Public Accounting, Auditing of Government Expenditures and Other Regulations," and other entities belonging to the budgetary central government.
    - Other entities or extra-budgetary funds (EBFs) not part of the State budget, but which are, under European System of Accounts (ESA95) rules (*"ESA95 Manual on Government Deficit and Debt"*), classified under central government. This includes ETERPS and the National Wealth Fund.
    - The following state enterprises and organizations included by the National Statistical Service (ELSTAT) under the definition of central government (ATTIKO METRO, ETHEL, ISAP, HLPAP, TRAM, ELGA, HELLENIC DEFENCE SYSTEMS S.A., OSE, TRAINOSE, ERT, ELECTROMECHANICA KYMI LTD, OPEKEPE, KEELPNO, EOT, INFORMATION SOCIETY IN GREECE, Unit for the Organization and Management of Development Projects S.A.). References to individual

companies are understood to include all of their subsidiaries which are to be consolidated under IFRS requirements.

- Local government comprising municipalities, prefectures, and regional governments including their basic and special budgets, including all agencies and institutions attached thereto, which are classified as local governments according to ESA 95.

- Social security funds comprising all funds that are established as social security funds in the registry of ELSTAT.

- Other extra budgetary entities included by ELSTAT under general government, which are not yet counted under central government.

- This definition of general (central) government also includes any new funds, or other special budgetary and extra budgetary programs that may be created during the program period to carry out operations of a fiscal nature. The government will inform IMF, European Commission and ECB staff of the creation of any such new funds, programs, or entities immediately. The general (central) government, as measured for purposes of the program monitoring in 2011, shall not include entities that are re-classified from outside general (central) government into general (central) government during the course of 2011.

4. **Supporting material**: The Ministry of Finance (MoF) will provide to the European Commission, ECB and IMF detailed information on monthly revenues and expenditures, domestic and foreign debt redemptions, new domestic and foreign debt issuance, change in the domestic and foreign cash balances of the central government at the central bank of Greece, all other sources of financing including capital transactions, and arrears of the general government. The Ministry of Finance, in collaboration with the Ministry of Interior, will provide monthly data on revenues and expenditures for local governments, as collected in the Ministry databank. The Minister of Finance, in collaboration with the Ministry of Labor and Social Security, will provide monthly data on revenues and expenditures in main social security funds (including IKA, OGA, OAEE, OAED). The Bank of Greece will provide detailed monthly data on assets and liabilities of local authorities, social security funds, ETERPS (and other extra-budgetary funds), and state enterprises included in the definition of general government in line with monetary survey data. Data will be provided within four weeks after the closing of each month.

I. QUANTITATIVE PERFORMANCE CRITERIA, INDICATIVE CEILINGS, AND CONTINUOUS PERFORMANCE CRITERIA: DEFINITIONS AND REPORTING STANDARDS

A. Floor on the Modified General Government Primary Cash Balance (Performance Criterion)

5. **Definition**: The modified general government primary cash balance (MGGPCB) is defined as the modified general government cash balance (MGGCB) minus interest payments by the state budget. The MGGCB is defined as the sum of the cash balances of the ordinary state budget, the cash balance of the public investment budget, minus the change in stock of arrears from line ministries, the change in net financial assets of local government, the change in net financial assets of social security funds minus the change in the stock of arrears of public hospitals, the change in net financial assets of ETERPS, the change in net financial assets of reclassified public enterprises (RPEs) minus guarantees called to entities within the general government and the spending by the National Wealth Fund. Privatization receipts, as defined below and the proceeds from the sale of land and buildings will be excluded from cash receipts. Net lending operations by the state budget will be recorded as cash expenditures.

- **The cash balance of the ordinary state budget.** The cash balance of the ordinary state budget will be measured from above the line, based on ordinary budget revenues (recurrent revenue plus non-recurrent revenue, including NATO revenues, minus tax refunds) minus ordinary budget expenditures (ordinary budget expenditures will exclude amortization payments but include salaries and pensions; grants to social security funds, medical care and social protection; operational and other expenditure; returned resources; payments in exchange of claims of insurance fund for the personnel working in the Public Electricity Company; the reserve, interest payments; transfers for the settlement of past debt, payments for military equipment procurement on a cash basis; NATO expenses, capital transfers to social security funds or other entities by bonds; and called guarantees where the state or central government assumes payments on behalf of entities outside of the general government) of the ordinary state budget as published monthly on the official website of the General Accounting Office of the Ministry of Finance, and in line with the corresponding line items established in the ordinary state budget.

- **The cash balance of the public investment budget.** The cash balance of the public investment budget will be measured from above the line, based on investment budget revenues minus investment budget expenditures of the investment state budget as published monthly on the official website of the General Accounting Office of the Ministry of Finance, and in line with the corresponding line items established in the investment state budget.

- **The change in the stock of arrears from line ministries**. The change in stock will be measured on a cumulative basis as the stock of arrears prevailing at the time of measurement of the PC minus the stock of arrears prevailing at the end of the previous year. The stock of arrears will reflect all arrears outstanding, irrespective of the time period in which the unpaid commitments were entered into. The stock of arrears of line ministries or other spending bodies with a vote in the budget (including the Secretariat General of Information/Secretariat General of Communication, Secretariat General of Prefectures, Presidency of the Hellenic Democracy, and the Hellenic Parliament) will include any arrears (as defined under subsection C) related to the activities of the ordinary and investment budgets. Data will be in line with the monthly publications of state budget arrears, published on the Ministry of Finance website, and will be based on survey data, until data from commitment registers are assessed by IMF, European Commission, and ECB staff to provide comprehensive and reliable information.

- **The change in net financial assets of local governments** is defined on a transactions basis, as the change in the total of financial assets minus financial liabilities of local authorities adjusted for valuation changes by the Bank of Greece.

    - Financial assets include (but are not limited to) deposits of local governments in the Bank of Greece and deposits of local governments in domestic credit institutions. Deposits will be measured at face value excluding accrued interest in line with recording for monetary survey data.

    - Financial liabilities include (but are not limited to) short and long term loans from domestic credit institutions to local governments, measured at face value, consistent with recording for monetary survey data.

- **The change in net financial assets of social security funds** is defined on a transactions basis, as the change in the total of financial assets minus financial liabilities of social security funds, adjusted for valuation changes by the Bank of Greece; minus the change in the stock of arrears of public hospitals (NHS hospitals) to entities outside of the general government (as defined below).

    - Financial assets include

        - Deposits of social security funds in the Bank of Greece and deposits of social security funds in the domestic credit institutions and deposits held either directly or indirectly through the IKA mutual fund. Deposits are measured at face value excluding accrued interest, consistent with reporting requirements for monetary survey data.

        - Holdings of shares quoted on the Athens Stock Exchange held by social security funds either directly or indirectly through the IKA mutual fund.

        - Direct or indirect holdings of Mutual Fund units issued by Greek management companies (other than the IKA mutual fund).

        - Holdings of central government bonds, including short and long-term securities issued domestically, long-term securities issued abroad operated from Bank of Greece accounts, and indirect holdings through the IKA mutual fund. Holdings will be measured at nominal value.

        - Holdings of bonds issued abroad and other foreign assets.

    - Financial liabilities include the short and long term loans from domestic credit institutions to the social security funds, measured consistently with monetary survey data.

    - The change in the stock of arrears of public hospitals (NHS hospitals) to entities outside of the general government. Data on arrears of hospitals should be available within four weeks of the end of each month. The change in stock of arrears will be measured on a cumulative basis as the stock of arrears prevailing at the time of measurement of the PC minus the stock of arrears prevailing at the end of the previous year. The stock of arrears will reflect all arrears outstanding, irrespective of the time period in which the unpaid commitments were entered into, but will exclude the 5.34 billion hospital arrears to pharmaceutical companies which were incurred by end-2009 to the extent these are still outstanding. The stock of arrears of public hospitals will include any arrears (as defined under subsection C) related to the activities of the 134 NHS hospitals. Data will be in line with the monthly publications of hospital arrears, published on the Ministry of Finance website, and will be based on survey data, until data from commitment registers are assessed by IMF, European Commission, and ECB staff to provide comprehensive and reliable information.

- **The change in net financial assets of ETERPS** is defined on a transactions basis, as the change in the total of financial assets minus financial liabilities of ETERPS, adjusted for valuation changes by the Bank of Greece.

    - Financial assets include

        - Deposits of ETERPS in the Bank of Greece and deposits of ETERPS in domestic credit institutions. Deposits will be measured at face value excluding accrued interest in line with recording for monetary survey data.

- Holdings of shares, held by ETERPS, quoted on the Athens stock exchange.
- Holdings of Mutual Fund units issued by Greek management companies.
- Holdings of central government bonds.
- Holdings of other bonds issued abroad.

  - Financial liabilities include the short and long term loans from the domestic credit institutions to ETERPS, measured consistently with monetary survey data, or other lending from the Bank of Greece.

- **The change in net financial assets of reclassified public enterprises (RPEs)** is defined on a transactions basis, as the change in the total of financial assets minus financial liabilities of RPEs, adjusted for valuation, minus the amount of guarantees called from entities which are consolidated within the general government. RPEs will include the following organizations: ELGA, KEELPNO, OPEKEPE (excluding the account ELEGEP), EOT, ATTIKO METRO, HELLENIC DEFENCE SYSTEMS S.A., ERT, ETHEL, TRAINOSE, ISAP, HLPAP, ELECTROMECHANICA KYMI LTD, INFORMATION SOCIETY IN GREECE, Unit for the Organization and Management of Development Projects S.A., OSE, and TRAM.

  - Financial assets include

    - Deposits of RPEs in the Bank of Greece and deposits of RPEs in the credit institutions (domestic and foreign). Deposits will be measured at face value excluding accrued interest.
    - Holdings of shares, held by RPEs quoted on the Athens Stock Exchange.
    - Holdings of Mutual Fund units issued by Greek management companies.
    - Holdings of central government bonds.
    - Holdings of other bonds issued abroad.

  - Financial liabilities include the short and long term loans from the domestic credit institutions to RPEs, measured consistently with monetary survey data.

They also include short and long term loans from the foreign banking system, as well as loans from the EIB or other official lenders, as measured by the difference between new loans granted to these entities (as approved by the GAO in line with the Fiscal Responsibility Act) and amortization of these loans through called guarantees of the government or amortization of these loans made by actual payments by the companies themselves, upon monitoring and information provided by the General Accounting Office (D25).

- For the subsidiaries of OASA (Isap, Hlpap, Ethel) where the Bank of Greece data do not record changes in their domestic liabilities as a result of the recording of these debt transactions by the mother holding company, guarantees called to these entities will not be subtracted from the net acquisition of financial assets.

- **The expenditures of the National Wealth Fund** are defined from below the line as the change in deposits of the NWF net of deposit changes due to borrowing for securitization purposes that are remitted to the central government as privatization receipts. Changes in net deposits of the NWF and borrowing are to be measured from the monetary survey data for data on borrowing and on deposits held in commercial banks. For deposits held at the central bank, net deposits are measured directly from the Bank of Greece. Remittance of privatization proceeds to the state will be measured from the inflows into the Treasury Single Account. Expenditures defined in the contracts for hiring external advisors to realize privatization receipts under the privatization program (excluding those privatization receipts agreed to be cash revenues for QPC monitoring in the context of the May 2010 program or the 2011 budget (Second Review) discussions) will be excluded from cash expenditures.

6. **Other provisions**.

- For the purpose of the program, the primary expenditure of the central government that is monitored excludes payments related to bank support, when carried out under the program's banking sector support and restructuring strategy. Transactions that may be excluded from the balance include loans to financial institutions and investments in equity of financial institutions (requited recapitalization); unrequited recapitalization; purchases of troubled assets, and operations related to the FSF. However, any financial operation by central government to support banks, including the issuance of guarantees or provision of liquidity, will be immediately reported to IMF, European Commission, and ECB staff.

- The change in net financial assets of RPEs will be excluded for the end-June PCs in 2011. However, for the measurement of the end-July, end-September and end-December 2011 PCs, the change in net financial assets of RPEs will be included, measured on a cumulative basis from January 1, 2011 onward.

- Capital transfers to social security funds or other entities by bonds shall exclude bond issuance for settlement of end-2009 health related arrears, and the settlement related to the judiciary liabilities, and to the compensation for former Olympic Airways employees.

7. **Supporting material**.

- Data on cash balances of the ordinary and state budgets will be provided to the European Commission, ECB and IMF by the General Accounting Office in the Ministry of Finance within three weeks after the end of each month. Data will include detailed information on revenue and expenditure items, in line with monthly reports published on the official website of the Ministry of Finance. Data will also include data on capital transfers to social security funds or other entities in bonds and called guarantees.

- Data on net financial assets of local authorities and social security funds, extra-budgetary funds including ETERPS, AKAGE, and reclassified public enterprises will be provided to the IMF, European Commission and ECB by the GAO in cooperation with the Statistics Department of the Bank of Greece within four weeks after the end of each month. Monthly data on arrears of public hospitals (NHS hospitals) will be provided by the Ministry of Health and arrears of line ministries by the Ministry of Finance within four weeks after the end of each month.

B. Ceiling of State Budget Primary Spending (Performance Criterion)

8. **Definition**: The state budget primary spending consists of state budget spending (spending of the ordinary state budget plus spending of the public investment budget) minus interest expenditures paid by the state budget plus the change in the stock of the arrears of line ministries to entities outside the general government, in line with the definitions provided above. Primary expenditure of the central government that is monitored for the Performance Criterion excludes any cash payments related to bank restructuring, when carried out under the program's banking sector restructuring strategy. Costs that may be excluded from the balance include loans to financial institutions and investments in equity of listed and non-listed financial institutions (requited recapitalization); unrequited recapitalization; and purchase of troubled assets. However, any financial operation by central or general government to support banks, including the issuance of guarantees or provision of liquidity, will be immediately reported to European Commission, ECB and IMF staff.

9. **Supporting material**. The General Accounting Office of the Ministry of Finance will provide monthly expenditure data of the ordinary and investment state budget, as defined

above. The ministry of Finance will further provide monthly data on the stock of arrears of line ministries.

C. Non-Accumulation of Domestic Arrears by the General Government (Continuous Indicative Target)

10. **Definition**. For the purpose of the program, domestic arrears are defined as the unpaid invoices that have past the due date by 90 days. In case no due date is specified on the supplier contract, an unpaid commitment is considered to be in arrears 90 days after the initiation of the invoice. Data will be provided within four weeks after the end of each month. The continuous non-accumulation of domestic arrears is defined as no increase in the stock of all general government arrears outstanding at the end of every month during which quarter the indicative target is being monitored, irrespective of the time period in which the unpaid commitments were entered into. This does not include the arrears which are being accumulated by the Civil Servants' Welfare Fund. It will also exclude €5.34 billion hospital arrears to pharmaceutical companies which were incurred by end-2009 to the extent these are still outstanding.

11. **Supporting material.** The Ministry of Finance will provide consistent data on monthly expenditure arrears of the general government, as defined above within four weeks after the end of each month, and publish this information on the Ministry of Finance website. The arrears data will be based on survey data, until data from commitment registers are assessed by IMF, European Commission, and ECB staff to provide comprehensive and reliable information. These reports will also include data on accounts payable overdue for more than 30 and 60 days for the central government (line ministries and Decentralized Prefectures). Data on accounts payable overdue for more than 30 and 60 days will be based on the commitment registers.

D. Ceiling on the Overall Stock of Central Government Debt (Performance Criterion)

12. **Definition**. The overall stock of central government debt will refer to ESA95 central government debt, which includes the state debt, debts of extrabudgetary funds and public enterprises that are consolidated into the central government, and other ESA 95 adjustments. It will be defined for the purposes of the program as total outstanding gross debt liabilities. It will include, but not be limited to, liabilities in the form of securities and loans. It will exclude accounts payable. Debt will be measured at nominal value. The program exchange rate will apply to all non-euro denominated debt. Inflation indexation will apply to inflation indexed debt, using the relevant index as specified in the debt instrument. For the purposes of the program, the ceiling on the stock of central government debt will exclude debt arising from payments for bank restructuring, when carried out under the program's banking sector restructuring strategy (this does not cover the debt related to the Financial Stability Fund). This includes loans to financial institutions and investments in equity of financial institutions (requited recapitalization); unrequited recapitalization; and purchase of troubled assets.

However, any financial operation by the central government to support banks, including the issuance of guarantees or provision of liquidity, with the exception of Hellenic Republic intermediation in repos between foreign and domestic financial institutions will be immediately reported to IMF, European Commission and ECB staff.

13. **Adjusters**. For 2011, the ceiling on the overall stock of ESA95 central government debt will be adjusted upward (downward) by the amount of any upward (downward) revision to the stock of end-December 2010 ESA95 central government debt of 353.761 billion. The ceiling shall also exclude the borrowing for collateral for a private sector involvement operation under the program to the extent that such borrowing would be recognized in the gross debt definition.

14. **Supporting material**. Data on the total stock of central government debt will be provided to the European Commission, ECB and IMF staff by the General Accounting Office consistent with the ESA95 definition no later than 30 days after the end of each month**.**

E. Ceiling on New Central Government Guarantees (Performance Criterion)

15. **Definition**. The ceiling on the new central government guarantees shall include new guarantees granted by the state, as well as new guarantees granted by any other entity that is classified under ESA95 under central government, but exclude guarantees to entities whose debt is covered under the ceiling on the stock of central government debt as defined in paragraph 13 and 14. The ceiling shall exclude guarantees to support banks and exclude guarantees related to EIB financed loans. The ceiling shall also exclude guarantees granted by ETEAN up to an amount of € 50 million provided these are fully backed by an equivalent amount of bank deposits. New guarantees are guarantees extended during the current fiscal year. The latter shall include also guarantees for which the maturity is being extended beyond the initial contractual provisions.

16. **Supporting material**. All new central government guarantees will be reported in detail, identifying amounts and beneficiaries. The General Accounting Office will provide the data on a monthly basis within three weeks after the end of each month. Non-state entities classified under the central government shall report the new guarantees they extended to the General Accounting Office on a monthly basis within three weeks after the end of each month.

F. Non-Accumulation of External Debt Payment Arrears by the General Government (Continuous Performance Criterion)

17. **Definition**. For the purposes of the program, an external debt payment arrear will be defined as a payment on debt to non-residents contracted or guaranteed by the general government, which has not been made within seven days after falling due. The performance criterion will apply on a continuous basis throughout the program period.

18. **Supporting material**. The stock of external arrears of the general government will be provided by the General Accounting Office with a lag of not more than seven days after the test date.

G. Floor on Privatization Proceeds (Performance Criterion)

19. **Definition**. Privatization proceeds will be defined as the cash receipts from the asset sales to be carried out by the privatization agency (the National Wealth Fund) and prior to its establishment directly by the government. These will include, but not be limited to, the sale of equity of listed or non-listed companies and banks, shareholdings in public infrastructure, shareholdings in SPVs, leasehold in commercial real estate and publicly held land, sale-lease back operations, securitization of asset-related cash streams, or other assets incorporated in the authorities' privatization program, as well as sale of rights and concessions (including securitization of the proceeds of concessions). Proceeds will be valued in euro and reported on a gross basis, excluding any associated capital expenditure or other restructuring costs as well as the operating costs of the National Wealth Fund. Proceeds will be measured as the inflows of cash received by the National Wealth Fund, and prior to its establishment directly by the government, as deposited in the Special Privatization Account at the Bank of Greece on the day the transaction is settled.

20. **Supporting material**. Quarterly information on the cash receipts from asset sales, quarterly balances of the privatization account, inflows to the account (by project), and outflows to the state budget, will be made available by the Minister of Finance, in collaboration with the National Wealth Fund, no later than two weeks after the end of each quarter. The Ministry of Finance will also provide a quarterly progress report on the Sovereign Wealth Fund activity, including a description of its operations, information on any borrowing (amounts, terms, and collateral), updates on the key steps in the operational plan, and latest estimates of the expected proceeds and timeline for completion of the transactions. In addition, quarterly reports on the National Wealth Fund's activities, along with an audited report of its finances will be published on the website of the Ministry of Finance as from end-December 2011.

21. **Other**. For QPC monitoring, receipts from privatization are generally excluded (in line with paragraph 5 of the TMU) from cash revenue receipts. However, for 2011, 2012 and 2013 where this is applicable, sales of those gaming licenses, telecom licenses, sales of aircrafts, and extension of the airport concession that were agreed in the context of the May 2010 program or the 2011 budget (Second Review) discussions will be recorded as cash revenue receipts and taken into account for the MGGPCB criterion, irrespective of whether the realized proceeds accrue to the privatization agency or not. The privatization agency will provide GAO, analytical data on the gross receipts and expenditures of the above mentioned sources, on a monthly basis—by the end of the 20th of every next month.

H. ESA "Program" Deficit and Overall Monitoring and Reporting Requirements

22. ESA "Program" Deficit. For the purposes of the program, the ESA deficit will exclude the sale of non-financial assets such as land, buildings, and other concessions or licenses, unless these have been agreed in the context of the May 2010 program or the 2011 budget (Second Review) discussions to be deficit reducing measures.

23. Overall Monitoring and Reporting Requirements. Performance under the program will be monitored from data supplied to the EC, ECB, and IMF by the Ministry of Finance, the General Accounting Office, and Bank of Greece. The authorities will transmit to the IMF, EC, and ECB staff any data revisions in a timely manner.

II. Monitoring of Structural Benchmarks

24. **Benchmark on progress in revenue administration, 2011**. Progress in revenue administration in 2011, to be reported by the authorities on a monthly basis will be defined as follows:

- Completion of 75 full-scope audits and 225 VAT audits of large taxpayers, as identified by relevant taskforce, by end-December 2011;

- Collection of 20 percent of all assessed taxes and penalties from new audits of large taxpayers within 3 months of the assessment date; and collection of 30 percent of all assessed taxes and penalties from new audits within 6 months of the date of assessment;

- Collection for the year of 5 percent of the estimated stock of collectable tax debt (€8 billion), with €300 million by end-December 2011.

- Completion of 1000 VAT audits of VAT non-filers as identified by the relevant task force by end-December 2011.

- Collection of 20 percent of all assessed taxes and penalties from new VAT audits of non filers within 3 months of the assessment date; and collection of 30 percent of all assessed taxes and penalties from new audits within 6 months of the date of assessment.

In addition:

- Completion of 400 risked based audits of self employed and high wealth individuals (HWIs), as identified by the relevant task force, by end-December 2011.

- Collection of 20 percent of all assessed taxes and penalties from new audits of HWI within 3 months of the assessment date, and collection of 30 percent of all assessed taxes and penalties from the new audits within 6 months of the date of assessment.

25. **Benchmarks on progress in revenue administration, 2012**. Progress in revenue administration in 2012, to be reported by the authorities on a monthly basis, will be defined as follows

- Completion of 300 full scope and 325 temporary audits (e.g. VAT, withholding, exemptions, etc) of large taxpayers, as identified by the relevant task force, by end-December 2012.

- Collection of 20 percent of all assessed taxes and penalties from new audits of large taxpayers within 3 months of the assessment date, and collection of 30 percent of all assessed taxes and penalties from the new audits within 6 months of the date of assessment.

- Completion of 1,700 risked based audits of self employed and high wealth individuals (HWIs), as identified by the relevant task force, by end-December 2012.

- Collection of 20 percent of all assessed taxes and penalties from new audits of HWI within 3 months of the assessment date, and collection of 30 percent of all assessed taxes and penalties from the new audits within 6 months of the date of assessment.

- Collection during 2012 of at least €1.5 billion of the existing stock of tax debt (as of end-December 2011)

- Completion of 6,000 VAT audits of non-filers as identified by the relevant task force by end-December 2012.

- Collection of 20 percent of all assessed taxes and penalties from new VAT audits of non-filers within 3 months of the assessment date, and collection of 30 percent of all assessed taxes and penalties from new VAT audits of non-filers within 6 months of the date of assessment.

- Increase of at least 7 percent in the number of registered VAT taxpayers filing returns on time with respect the average filings achieved in Q4 2011.

26. **Supporting material**. Monthly information on full-scope audits and temporary audits of large taxpayers, self employed and high wealth individuals, and VAT non filers, and collection of assessed taxes and penalties, and collection of tax debt will be made available by the Minister of Finance, in collaboration with the steering committee on revenue administration, no later than two weeks after the end of each month. First data submission will include data back to the beginning of 2011. Information will continue to be provided after December 2012.

ATTACHMENT IV. GREECE: LETTER OF INTENT TO EC AND ECB

Athens, 31st October 2011

Mr Jean-Claude Juncker,
President,
Eurogroup,
Brussels.

Mr Olli Rehn,
Commissioner for Economic and Monetary Affairs,
European Commission,
Brussels.

Mr Jean-Claude Trichet,
President,
European Central Bank,
Frankfurt am Main.

Dear Messrs. Juncker, Rehn and Trichet,

In the attached update to the Memoranda of Economic and Financial Policies (MEFP) and Memoranda of Understanding on Specific Economic Policy Conditionality (MoU) from 2010, and from 23 February and 2 July 4 2011, we describe progress and policy steps towards meeting the objectives of the economic program of the Greek government, which is being supported by financial assistance by the euro-area Member States, in the context of the Greek loan facility agreement.

We continue to make progress with our economic programme:

- Concerning our fiscal targets, we have been working to build on the unprecedented fiscal adjustment we have realized since late 2009. However, we have been fighting strong headwinds from the recession, and also some delays in putting in place measures. Unfortunately, due to these factors we missed the end-September performance criterion on the primary cash balance for the general government by a small margin, and also the indicative target on non-accumulation of domestic arrears. However, we have implemented a package of measures to ensure that fiscal policy can be brought back on track, including the full second package of MTFS (medium-term fiscal strategy) reforms due in August.

- Fiscal-institutional reforms have been advancing. A structural benchmark on articulating a medium-term strategic plan of revenue administration reforms was observed, and this will inform our strategy in this important area. A second benchmark on publishing three consecutive months of consistent arrears and consolidated general government fiscal reports was partially observed, with data published, but not drawn from commitment registers, as anticipated.

- Our policy efforts to support financial system stability continue. Parliament has enacted new bank resolution legislation that will allow timely and effective intervention and resolution consistent with EU Treaty rules and international sound practices.

- Regarding privatisation, the Privatisation Fund has been established and has become fully operational. While we were able to sign contracts for new concessions during Q3, the quarterly quantitative performance criterion on cash privatization receipts for end-September was missed, owing to difficult market conditions and delays in preparations. We have prepared a new schedule of sales that will see a number of contracts signed during the remainder of 2011, and 2011 cash revenue targets met with about a one-quarter delay.

- Regarding growth-enhancing structural reforms, since June, we have completed some legislative initiatives, including the passage of a law to simplify environmental licensing. Moreover, as a prior action for the review, we have enacted legislation to improve labour market flexibility. We are working to speed up implementation going forward.

- Finally, the external arrears of some local governments which were identified in July, and a small amount of arrears that accumulated subsequently, were fully cleared on 30 August. Steps have been taken to ensure that such arrears will not arise again, including improvements to the monitoring of local government debt service payments.

Alongside our policy efforts, we are working to finalize a debt exchange with private financial institutions. Any remaining financing needs will be covered by the official sector, in line with the commitments received at the 21 July 2011 summit. In parallel, the ECB is working with Greek banks on medium-term funding plans to ensure that they reduce their exposure to exceptional Eurosystem liquidity support at a pace consistent with the program's macroeconomic framework.

On this basis, we request the disbursement of the sixth instalment of financial assistance by the euro-area Member States, pooled by the European Commission, in the amount of EUR 5.8 billion.

We believe that the policies set forth in the 3 May 2010 Letter of Intent, MEFP and MoU, and subsequent updates (including the one now attached), are adequate to achieve the objectives under the program. We stand ready to take any corrective actions that may become appropriate for this purpose as circumstances change. We will consult with the Fund, as well as with the European Commission and ECB on the adoption of any such actions and in advance of revisions to the policies contained in this letter.

This letter is being copied to Ms. Lagarde.

/s/	/s/
Evangelos Venizelos	George Provopoulos
Deputy Prime-Minister and Minister of Finance	Governor of the Bank of Greece

ATTACHMENT V. GREECE: MEMORANDUM OF UNDERSTANDING ON SPECIFIC ECONOMIC POLICY CONDITIONALITY

(Fifth Update)

22 October 2011

The quarterly disbursements of bilateral financial assistance from euro-area Member States are subject to quarterly reviews of conditionality for the duration of the arrangement. The release of the tranches will be based on observance of quantitative performance criteria and a positive evaluation of progress made with respect to policy criteria in Council Decision 2011/734/EU of 7 July 2011 (as amended; hereinafter the Council Decision), the memorandum of economic and financial policies (MEFP) and in this Memorandum.

The annex on data provision is part of the Memorandum and how well it has been respected will be considered in the assessment of compliance.

The authorities commit to consult with the European Commission, the ECB and the IMF staff on the adoption of policies falling within the scope of this Memorandum allowing sufficient time for review. They will also provide them with all requested information for monitoring progress during the programme's implementation. The Government publishes a quarterly report in line with Article 4 of the Council Decision.

1 FISCAL CONSOLIDATION

Budget implementation

The Government implements the revenue and expenditure policies agreed in this and previous memoranda with the aim of minimising any deficit in excess of the deficit ceiling of EUR 17 065 million in 2011, and to reduce the 2012 deficit to below EUR 14 916 million, as established in the Council Decision.

The Government adopts and implements the following measures **prior to the sixth disbursement**:

- A reduction in tax exemptions, in particular the tax-free personal income thresholds, with the aim of increasing revenue by at least EUR 2 831 million in 2012;
- A permanent levy on real estate, collected through the electricity invoices, with the aim of collecting at least EUR 1 667 million in 2011, and increasing amounts in subsequent years;
- An immediate implementation of the revised wage grid for civil servants, which contributes to reduce expenditure by at least EUR 101 million in 2011, and with a carryover of at least EUR 552 million for 2012, additional to savings provided in the MTFS (Medium-Term Fiscal Strategy through 2015, of June 2011). This reform should cover all general government employees, except those covered by special wage regimes. These net savings take into account the impact of this measure on income tax and social security collection, as well as bonuses to be paid to specific employee categories;
- A cut in main, and supplementary, pensions, as well as in lump sums paid on retirement, with the aim of saving at least EUR 219 million in 2011 with a carryover of EUR 446 million in 2012, additional to savings provided for in the MTFS;
- Spending by the Green Fund is capped at 5 percent of their deposits, with the aim of saving EUR 360 million in 2012.

The Government also adopts the following acts (which concern measures included in the MTFS), **prior to the sixth disbursement**:

- Ministerial Decisions or circulars to start collection of excises on natural gas, heating oil and vehicle tax measures;
- Ministerial Decisions to uniformly regulate health benefits for social security funds;
- Legislation for the collection of the solidarity surcharge through withholding;
- Ministerial Decisions that initiate closing, merging or substantially downsizing entities are adopted. This affects KED, ETA, ODDY, National Youth Institute, EOMEX, IGME, OSK, DEPANOM, THEMIS, ETHYAGE and ERT, and 35 other smaller entities specified in the 'second implementation bill';
- Ministerial Decisions specifying the disability criteria consistent with achieving the MTFS saving objectives;
- A Law to freeze the indexation of main and supplementary pensions through 2015;

- Finalise the positive list for pharmaceuticals that establish prices charged to social security funds.

The Government prepares the budget for 2012 **[November 2011]** in line with the MTFS targets, this Memorandum, and the Council Decision's deficit ceilings. Information on the several measures provided for in the MTFS will be updated and made public. The several tax and expenditure legislative acts that are necessary to implement the budget are adopted at the same time of the budget. **[December 2011]**.

In order to prepare the measures that will be adopted with the 2013 and 2014 budgets, the Government initiates a review of public expenditure programmes that should be completed by **June 2012**, with the aim of identifying measures amounting to 3 percent of GDP (including one percent of GDP in contingency measures). The review will draw on external technical assistance and will focus on pensions and social transfers (in a manner that will preserve basic social protection); defence spending without prejudice to the defence capability of the country; and restructuring of central and local administrations. By the same date, adjustments to special wage regimes; further rationalization of pharmaceutical spending and operational spending of hospitals, and welfare cash benefits will also be specified.

The Ministry of Finance ensures a tight supervision of expenditure commitments by the government departments, including extra-budgetary funds, public investment budget, social security funds and hospitals, local governments and state-owned enterprises, and an effective tax collection, in order to secure the programme quantitative criteria (Article 1 (2 and 3) of the Council Decision, and of the MEFP).

The Government stands ready to define and enact additional measures, if needed, in order to respect the budgetary ceilings established in the Council Decision.

2 STRUCTURAL FISCAL REFORMS

2.1 Asset management and privatisation

The Government implements the privatisation programme with the aim of collecting EUR 35 billion by end-2014 and EUR 50 billion by end-2015 (see cumulative quarterly targets in Annex 1, plus the bank equity acquired through recapitalisation).

The Government stands ready to offer for sale its remaining stakes in state-owned enterprises, if necessary in order to reach the privatisation objectives. Public control will be limited only to cases of critical network infrastructure.

To ensure that the plan objectives are achieved, the Government continuously transfers assets to the Hellenic Republic Asset Development Fund (HRADF). In particular, **prior to the sixth disbursement**, it will transfer to the privatisation fund the following assets:

- Alpha Bank (0.619% of shares);
- National Bank of Greece (1.234% of shares);
- Piraeus Bank (1.308% of shares);
- Piraeus Port Authority (23.1% of shares);
- Thessaloniki Port Authority (23.3% of shares);
- Elefsina, Lavrio, Igoumentsia, Alexandropoulis, Volos, Kavala, Corfu, Patras, Rafina, Heraklion port authorities (100%);
- Athens Water and Sewerage Company (27.3%);
- Thessaloniki Water and Sewerage Company (40%);
- Regional state airports (transfer of concession rights);
- Off-shore natural gas storage facility 'South Kavala' (transfer of rights of current and future concessions);
- Hellenic motorways (transfer of economic rights of current and future concessions);
- Egnatia odos (100%);
- Hellenic Post (90%);
- OPAP, SA (29%)
- 4 state buildings.

The legal, technical and financial advisors for at least fourteen of these transactions that are planned until end-2012 are appointed **prior to the sixth disbursement**. For the other transactions planned for 2012, advisors are appointed by **end-November 2011**.

The Government continues compiling and publishing an inventory of state-owned assets, including stakes in listed and non-listed enterprises and commercially viable real estate and land to ensure it is comprehensive. The inventory will be published in successive stages by **end-2011**, **mid-2012** and **end-2012**.

The Government accelerates state land ownership registration, and adopts secondary legislation on tourism housing and on land use **[Q4-2011]**.

A new General Secretariat of Public Property is established and made operational with the aim of improving management of real estate assets, clearing them of encumbrances and preparing them for privatisation. The real estate entities KED and ETA are merged and professionally managed in coordination with the HRDAF. The HRDAF creates six real estate portfolios. **[Q4-2011]**.

Proceeds from privatisation of financial and non-financial assets do not substitute fiscal consolidation efforts and will not be considered when assessing compliance of the annual general government deficit with the ceiling established in the Council Decision (see technical memorandum of understanding).

When restructuring state-owned enterprises with a view to preparing them for privatisation, specific attention will be given to a timely clearance of state aid issues.

2.2 Fighting waste in public enterprises and other public entities

The legal act on the transfer to the State of the mobile and immobile assets of entities that are closed is adopted. **[end-2011]**

Tariffs in OASA, OSE group and other state-owned enterprises increase by at least 25 percent, while their business plans are appropriately updated. **[Q1-2013]**

2.3 Tax policy and revenue administration reforms

In line with the anti-tax evasion action plan, the Government will step up audits of large-scale tax payers, high-wealth individuals and self-employed, it will accelerate the resolution of tax arrears, and better integrate anti-laundering tools into the strategy. Progress will be monitored by quantitative indicators. These quantitative indicators and compliance with these targets will be monitored and made public.

The audits of 1 700 high-wealth and self-employed individuals identified by the anti-evasion task force will be initiated **immediately**.

To advance the reforms of revenue administration, the Government:

- activates a large-taxpayers unit; **[end-October 2011]**
- removes barriers to effective tax administration by implementing the key reforms of the new tax law, including replacing managers who do not meet performance targets **[end-2011]**, reassessing tax auditors' qualifications **[end-2011]** and hiring new auditors in the course of **2012**
- makes operational the newly created fast-track administrative dispute resolution body to deal rapidly with large dispute cases (i.e. within 90 days). **[November 2011]**
- centralises the functions of, and merges, at least 31 tax offices by **end-October 2011**, and merges, transfers competences, eliminates management positions and closes some 200 local tax offices, identified as inefficient, in the course of **2012**
- puts in place a new IT system that interconnects all tax offices.

The preparation of the new IT system involves the following main steps in relation to the new data centre, web-facing and back-office applications:

- 15 new electronic services and enhancements are running by **end-December 2011**. These concern mainly the corporate income tax.
- the new data centre hardware is in place and running by **end-March 2012**;
- 20 more new electronic services and enhancements by **end-June 2012**. These concern mainly taxes withheld at source.
- database and application design and implementation, **by end-October 2012**;
- 8 remaining new electronic services and enhancements by **end-December 2012**. These concern forms filed late with a fine, real-estate tax, and VAT administration.
- system and user tests, user training, and migration of all tax offices to the centralized database: by **end-December 2012**;
- operational use of the new IT infrastructure by all tax offices: **1 January 2013**.

To speed up tax-related judicial appeals, the government has created the possibility of dedicated court chambers for tax cases; 24 chambers are expected to be operational by **end-2011**.

The Government prepares a tax reform that aims at simplifying the tax system, eliminating exemptions, including and broadening bases, thus allowing reductions in tax rates in a prudent and fiscally-neutral manner. This relates to the personal income tax, corporate income tax and VAT, as well as social contributions. The reform will also simplify the Code of Books and Records. **[March 2012]**

2.4 Public financial management reforms

A plan for the clearance of arrears is published in **November 2011**. The Government ensures that the stock of arrears steadily declines from the **sixth disbursement onwards**. Data on arrears are published **monthly** with a lag of not more than [20] days after the end of each month.

To strengthen expenditure control, the Government:

- appoints permanent financial accounting officers in all Ministries **[end-November 2011]**;
- continues the process of establishing commitment registries, which should cover the whole general government; **[Q1-2012]**
- enforces the obligation of accounting officers to report commitments, including by enacting sanctions to entities not submitting the data and disciplinary action for accounting officers; **[Q1-2012]**
- tables legislation streamlining the procedure for submission and approval of supplementary budgets. **[February 2012]**

2.5 To modernise public administration

Functional reviews

The Government assesses the results of the first phase of the independent functional review of central administration. This assessment will result in an action plan for the implementation of operational policy recommendations. These recommendations should determine how to achieve a more streamlined and effective public service, to define clear responsibilities and command lines of ministerial departments, eliminating overlapping competences, and to improve inter- and intra- mobility. **[October 2011]** A second phase of the review will lead to an action plan and to the drafting of framework legislation by **end-2011**.

The ongoing functional review of existing social programmes is finalised **[Q4-2011]**. A second phase will include a more detailed review of specific social programmes, aiming at reducing excessive fragmentation, generating savings and creating efficiencies. [**Q1-2012**]

Public sector wages and human resource management

The Government publishes a medium-term staffing plan **[end-December 2011]** for the period up to 2015, in line with the rule of 1 recruitment for 5 exits. The recruitment/exit rule applies to general government as a whole without sectoral exceptions.

Before **end-2011**, about 15 000 staff currently employed by various government entities are transferred to the labour reserve, while about 15 000 will be placed in pre-retirement. Staff in the labour reserve, and in pre-retirement, will be paid at 60 percent of their basic wage (excluding overtime and other extra payments) for not more than 12 months, after which they will be dismissed. This period of 12 months may be extended up to 24 months for staff close to retirement. Payments to staff while in the labour reserve are considered part of their severance payments.

Additional redundant staff will be transferred to the labour reserve in the course of **2012**, in connection with the identification of entities or units that are closed or downsized, and in case the recruitment rule is violated.

Staff transferred to the Government from either state-owned enterprises or other entities under restructuring are considered as new recruitments. The same applies to staff in the labour reserve that is transferred to other government entities, after screening of professional qualifications by ASEP under its regular evaluation criteria. The overall intake in the professional schools (e.g. military and police academies) is adjusted in line with the staffing plans.

The staffing plans per Ministry and each group of public entities will include tighter rules for temporary staff, cancellation of vacant job post and reallocation of qualified staff to priority areas and takes into account the extension of working hours in the public sector. The staffing plans and monthly data on staff movements (entries, exits, transfers among entities) of the several government departments are published on the web. **[monthly starting end-November 2011]**

The Government commissions an expert assessment of the new wage grid. **[end-2011]** This assessment will focus on the wage drift that is embedded in the new promotion mechanism. If the assessment reveals any excessive wage drift, the promotion rules are adjusted before **end-2012**. No promotion takes place before the assessment and adjustment to the promotion rules.

Public procurement

The Government launches the development of an e-procurement IT platform and sets intermediate milestones in line with the action plan. These milestones include testing a pilot version, availability of all functionalities for all contracts and phasing-in of the mandatory use of e-procurement system for supplies, services and works. **[October 2011]**

A thorough review of the system of redress against award procedures and the role to confer to the SPPA is carried out, in agreement with the European Commission. **[Q4-2011]**

The Government undertakes a review identifying areas to increase the efficiency of the public procurement system outside the SPPA, as specified in the Action Plan. The review includes conclusions and actions in agreement with the European Commission. **[Q4-2011]**

The Government issues decisions, in consultation with the Commission services,

- to provide for the institution and establishment of positions for the SPPA's personnel, as well as for the organisation of human resources and services of the Authority in accordance with the provisions of the law on the SPPA; **[October 2011]**
- to appoint the members of the SPPA; **[October 2011]**
- to provide for the operational regulation of the SPPA. **[Q4-2011]**

The SPPA starts its operations with the necessary resources to fulfil its mandate, objectives, competences and powers as defined in the law on the SPPA and the Action Plan agreed with the European Commission in November 2010. This includes the adoption of the operational regulation of the SPPA. **[January 2012]**

The e-procurement platform is fully operational, and a common website is created for the publication of all procurement procedures and outcomes. **[October 2012]**

2.6 To complete the pension reform

The National Actuarial Authority (NAA) continues the submission of long-term projections of pension expenditure up to 2060 under the adopted reform. The projections encompass the main supplementary (auxiliary) schemes (ETEAM, TEADY, MTPY), based on comprehensive data collected and elaborated by the NAA. The projection will be peer-reviewed and validated by the EU Economic Policy Committee and the European Commission, ECB, and IMF staff. For the remaining supplementary schemes, the same procedure is followed. **[end-November 2011]**

The list of heavy and arduous professions is revised and its coverage is reduced to less than 10 percent of employment. The new list of difficult and hazardous occupations (Law 3863/2010) is published by **end-October 2011** and applies **immediately** to all workers. No profession will be added to the list after its revision.

In addition to an initial cut (see above), the Government proceeds with an in-depth revision of the functioning of secondary/supplementary public pension funds, including welfare funds and lump-sum schemes. The aim of the revision is to stabilise pension expenditure, guarantee the budgetary neutrality of these schemes, and ensure medium- and long-term sustainability of the system. The revision achieves:

– a further reduction in the number of existing funds;
– the elimination of imbalances in those funds with deficits;
– the stabilisation of the current spending at sustainable level, through appropriate adjustments to be made from 1 January 2012;
– the long-term sustainability of secondary schemes through a strict link between contributions and benefits. **[Q4-2011]**

The reform of the secondary/supplementary schemes is designed in consultation with European Commission, ECB and IMF staff, and its estimated impact on long-term sustainability is validated by the EU Economic Policy Committee. The parameters of the new secondary notional defined-contribution system ensure long-term actuarial balance, as assessed by the NAA. **[**legislation: **Q4-2011**; implementation: **Q1-2012]**

The Government identifies the schemes for which lump sums paid on retirement are out of line with contributions paid, **[November 2011]** and adjusts the payments. **[Q1-2012]**

The reform contributes to achieving the overarching target of reducing the overall (basic, contributory, supplementary and any other related scheme, including lump sums at retirement) increase of public sector pension spending, over the period 2009-60, to under 2.5 percentage points of GDP. If the projections by the NAA show that, even after the reforms of the supplementary schemes, the projected increase in the total public pension expenditure exceeds the limit of 2.5 percentage points of GDP over 2009-60, The Government revises also the main parameters of the pension system provided by Law 3863/2010. **[Q4-2011]**

The Health Committees set up by Law 3863/2010 will start operating the planned revision of disability status and produce a first quarterly report of its activities by **end-December 2011**. The objective is to reduce the disability pensions to not more than 10 percent of the overall number of pensions. For this purpose, the definition of disability and respective rules will be revised, and the central evaluation office is operational since **September 2011**.

The Government implements the reform of the secondary/supplementary pension schemes, by merging funds and starting the calculation of benefits on the basis of the new notional defined-contribution system. The Government freezes nominal supplementary pensions and reduces the replacement rates for accrued rights in funds with deficits, based on the actuarial study prepared by the NAA. In case the actuarial study is not ready, replacement rates are reduced, starting from 1 January 2012, to avoid deficits. All funds set up a computerised system of individual pension accounts. **[Q1-2012]**

The Bank of Greece commits not to grant pension privileges to its staff and to revise the main parameters of its pension scheme, so that they remain aligned to those of IKA.

2.7 To modernise the health care system

The Government continues to implement the comprehensive reform of the health care system started in 2010 with the objective of keeping public health expenditure at or below 6 percent of GDP, while maintaining universal access and improving the quality of care delivery. Policy measures include the integration of primary healthcare, strengthening central procurement and e-health capacity.

The Government continues to undertake measures yielding savings on pharmaceuticals of at least EUR 2 billion relative to the 2010 level, of which at least EUR 1 billion in 2011. This will bring average public spending on outpatient pharmaceuticals to about 1 percent of GDP (in line with the EU average) by end 2012.

More specifically, the following measures are implemented:

Governance

The provisions of Article 31 and 32 of Law 3863/2010 are implemented. In particular, the Health Benefit Coordination Council (SYSPY):

- continues the work on establishing new criteria and terms for the conclusions of contracts by social security funds with all healthcare providers, and all other actions envisaged in Article 32 with the aim of achieving the targeted reduction in spending;
- initiates joint purchase of medical services and goods to achieve substantial expenditure reduction of at least 25 percent compared to 2010 through price-volume agreements. **[Q4-2011]**

The Government equalises the common benefit package for the insurers of EOPYY, with the aim of full equalisation of benefits and contributions across funds by **December 2011**.

Contributions paid by OGA members are progressively equalised to those of other members of EOPYY, as envisaged in the medium-term fiscal strategy. The process of equalisation of contributions is legislated by **end-2011**, implemented in **January 2012** and will be completed in 30 months.

EOPYY starts operating by **end-October 2011**. The new fund will lead to a substantial reduction of administrative staff of at least 50 percent and of contracted doctors of at least 25 percent as compared to the four originating funds combined. The aim is to achieve a ratio of patients per doctor in line with the European average.

The Government revokes market regulation 40 (17.12.1990) to abolish the 0.4 percent contribution of wholesale sales prices in favour of the Panhellenic Pharmaceutical Association. **[Q4-2011]**

An action plan is adopted by early November 2011, based on the final report of the task force (see below), including a timetable for concrete actions. **[Q4-2011]**

Pricing of medicines and medical services

The Government updates the complete price list for the medicines in the market, using a new pricing mechanism based on the three EU countries with the lowest prices. The list will be updated on a quarterly basis. **[November 2011]**

Fees for medical services outsourced to private providers are reviewed with the aim of reducing related costs by at least 15 percent in 2011, and by an additional 15 percent in 2012. **[Q4-2011]**

Starting from 2012, the pharmacies' profit margins are calculated as a flat amount or flat fee combined with a small profit margin with the aim of reducing the overall profit margin to no more than 15 percent, including on the most expensive drugs as defined in law 3816/2010. **[Q1-2012]**

Prescribing and monitoring

The Government:

- publishes binding prescription guidelines for physicians defined by EOF on the basis of international prescription guidelines to ensure a cost-effective use of medicines; **[November 2011]**
- publishes and continuously updates the positive list of reimbursed medicines using the reference price system developed by EOF. **[November 2011]**

The Government takes further measures to extend in a cost-effective way the e-prescribing of medicines, diagnostics and doctors' referrals to all social security funds, health centres and hospitals. In compliance with EU procurement rules, the Government conducts the necessary tendering procedures to implement a comprehensive and uniform health care information system (e-health system). **[Q4-2011]**

EOPYY and the remaining social security funds establish a process to regularly assess the information obtained through the e-prescribing system and produce regular reports, at least on a quarterly basis, to be transmitted to the competent authorities in the Ministry of Labour, Ministry of Health, Ministry of Finance and ELSTAT. Monitoring and assessment is carried out through a dedicated common unit under SYSPY. Feedback is provided to each physician at least every quarter and a yearly report is published. Sanctions and penalties will be enforced as a follow-up to the assessment. **[Q4-2011]**

The Government starts to produce a semi-annual report on the prescription and consumption of medicines and diagnostic tests. This report includes information on the rebate received from pharmacies and from pharmaceutical companies and on the volume and value of medicines. The Ministry of Health provides a feedback report to all physicians on their prescription volume and value, at least on a quarterly basis. Monitoring and reporting of misconduct and conflict of interest in prescription behaviour are intensified. **[Q4-2011]**

E-prescribing covers all medical acts (medicines, referrals, diagnostics, surgery) in both NHS facilities and providers contracted by EOPYY and the social security funds. Detailed monthly auditing reports are produced by NHS facilities and by providers. **[Q1-2012]**

Increasing use of generic medicines

Additional measures are taken to promote the use of generic medicines through:

- setting the maximum price of generics to 60 percent of the branded medicine with similar active substance; **[November 2011]**
- establishing and monitoring compulsory e-prescription by active substance and of less expensive generics when available; **[Q4-2011]**
- associating a lower cost-sharing rate to generic medicines that have a significantly lower price than the reference price (lower than 60 percent of the reference price) on the basis of the experience of other EU countries. **[Q1-2012]**

The Government takes further measures to ensure that at least 50 percent of the volume of medicines used by public hospitals is composed of generics with a price below that of similar branded products and off-patent medicines, in particular by making compulsory that all public hospitals procure pharmaceutical products by active substance. **[Q4-2011]**

NHS (ESY) service provision

A plan for the reorganisation and restructuring is prepared for the short and medium term with a view to reducing existing inefficiencies, utilising economies of scale and scope, and improving quality of care for patients. The aim is to reduce hospital costs by at least 10 percent in 2011 and by an additional 5 percent in 2012 in addition to the previous year. This is to be achieved through:

- increasing the mobility of healthcare staff (including doctors) within and across health facilities and health regions. **[Q4-2011]**
- adjusting public hospital provision within and between hospitals within the same district and health region; **[Q4-2011]**
- revising the activity of small hospitals towards specialisation in areas such as rehabilitation, cancer treatment or terminal care where relevant; **[Q4-2011]**

A system for comparing hospital performance (benchmarking) is set up on the basis of a comprehensive set of indicators. **[Q4-2011]** Annual reports will be published as of **Q1-2012**.

Wages and human resource management in the health care sector

The Ministries of Health and Labour, in cooperation with the Ministry of Finance, prepare the first draft report presenting the structure (age, specialty, grade, regional distribution), levels of remuneration (including fees provisions to consultants and doctors) and the volume and dynamics of employment in hospitals, health centres, and health funds. This report will be updated annually and will be used as a human resource planning instrument. The 2011 report will present plans for the allocation and re-qualification of human resources for the period up to 2013. It will also provide guidance for the education system and it will specify a plan to reallocate qualified and support staff within the NHS and health funds. **[Q4-2011]**

The Government extends the use of capitation payments of physicians, currently used by OAEE, to all contracts between social security funds and the doctors they contract. The new payment mechanism starts for each new contract renewed in 2011 and for all contracts from 2012. It defines a minimum number of patients per doctor, on the basis of the experience of other EU countries. The new system will lead to a reduction in the overall compensation cost (wages and fees) of physicians by at least 10 percent in 2011, and an additional 15 percent in 2012, as compared to the previous year. **[November 2011]**

Accounting and control

Internal controllers are assigned to all major hospitals. **[December 2011]**

By **end-October 2011**, the Government starts publishing the monthly report with analysis and description of detailed data on healthcare expenditure by all social security funds with a lag of three weeks after the end of the respective month.

Social security funds start publishing an annual report on medicine prescription. The annual report and the individual prescription reports examine prescription behaviour with particular reference to the most costly and most used medicines. **[Q1-2012]**

All hospitals adopt commitment registers. **[Q1-2012]**

Hospital computerisation and monitoring system

The necessary tendering procedures are carried out to develop the full and integrated system of hospitals' IT systems. **[Q4-2011]**

The Ministry of Health completes the ERP (enterprise-resource planning) programme of hospital computerisation and extends coverage of the web-based platform ESY.net to all hospitals. **[Q4-2011]**

Further measures are taken to improve the accounting, book-keeping of medical supplies and billing systems, through:

- finalising the introduction of double-entry accrual accounting systems and the regular annual publication of balance sheets in all hospitals;
- the calculation of stocks and flows of medical supplies in all the hospitals using the uniform coding system for medical supplies developed by the Health Procurement Commission (EPY) and the National Centre for Medical Technology (EKEVYL) for the purpose of procuring medical supplies;
- timely invoicing of treatment costs (no later than 2 months) to Greek social security funds, other EU countries and private health insurers for the treatment of non-nationals/non-residents. **[Q4-2011]**

The programme of hospital computerisation allows for a measurement of hospital and health centres activity. The Government defines a core set of activity and expenditure indicators in line with Eurostat, OECD and WHO health databases. ELSTAT starts providing data in line with the System of Health Accounts (joint questionnaire collection exercise). **[Q4-2011]**

The programme of hospital computerisation allows for the setting up of a basic system of patient electronic medical records. **[Q4-2011]**

In all NHS hospitals, the Government pilots a set of DRGs (diagnostic-related groups), with a view to developing a modern hospital costing system for contracting (on the basis of prospective block contracts between EOPYY and NHS). To support the development of DRGs, the government develops clinical guidelines. **[Q4-2011]**

Centralised procurement

The Government will move towards a new centralised procurement of pharmaceuticals and medical goods for the NHS through the Supplies Coordination Committee with the support of the Specifications Committee, using the uniform coding system for medical supplies and pharmaceuticals. **[Q1-2012]**

Independent task force of health policy experts

The independent task force of health policy experts produces, in cooperation with the European Commission, ECB and IMF, a first draft of its policy report, with specific recommendations on policies to be implemented. **[end-October 2011]** The report and policies proposals cover the following areas:

- health system governance to reduce the fragmentation of the system;
- financing: pooling, collection and distribution of funds;
- harmonisation of health packages across funds;
- service provision and incentives for providers including:
  - integration between private and public provision;
  - primary care vis-à-vis specialist and hospital care;
  - efficiency in the provision of hospital services;

    - pharmaceutical consumption;
    - human resources;
- public health priorities, health promotion and disease prevention;
- data collection, health technology assessment and assessment of performance;
- expenditure control mechanisms.

The report will provide preliminary quantitative targets in the fields above, in order to contribute to keep public health expenditure --constant at, or below, 6 percent of GDP.

The task force of health policy experts produces the final comprehensive policy report, with specific recommendations on policies to be implemented. **[end-November 2011]**

On the basis of this report, the Government adopts an action plan by **end-2011**, including a timetable for concrete actions.

The taskforce produces an implementation report, revising the policies implemented so far. **[Q2-2012]**

3 FINANCIAL SECTOR REGULATION AND SUPERVISION

Each quarter, the Government transfers EUR 1 000 million to a dedicated government account opened by the General Accounting Office. Funds from this account are regularly paid to the HFSF (Hellenic Financial Stability Fund) to ensure the latter keeps a cash balance of EUR 1 500 million and if programme reviews of bank capital suggest that the resources are necessary. The release of the funds from that account is subject to agreement by the European Commission, ECB and IMF staff. Any support provided with HFSF resources will continue to be in line with state aid rules.

The Bank of Greece and the HFSF complete a memorandum of understanding to further strengthen their cooperation, including sharing of appropriate supervisory information, **prior to the sixth disbursement**.

Over the medium term, banks will need to reduce their reliance on Eurosystem borrowing and government guarantees. Regular updates of medium-term funding plans under guidance of the Bank of Greece will be an important tool to ensure that this process proceeds at a pace consistent with the programme's macroeconomic, fiscal, and financial framework. The next update is finalised by **end-2011**.

Banks' consolidated core tier 1 minimum regulatory capital requirement will be set at 10 percent from **January 2012** on. The core tier 1 capital requirements will exclude hybrid capital, but will include preference shares issued by banks and subscribed by the Greek government at the onset of the global financial crisis in 2008-09.

The Bank of Greece ensures an equivalent capital treatment of risks related to Greek government bond exposures across all institutions (with reference to the NPV reduction of the PSI). In this context, the Bank of Greece updates its last Pillar II assessment [one month] after completion of the PSI.

The diagnostic of bank loan portfolios commissioned by the Bank of Greece will be concluded by **end-December 2011**. The Bank of Greece will ensure that any existing under-provisioning revealed by this exercise will be recognized in banks' profit and loss accounts. The Bank of Greece, in cooperation with the Commission, the ECB, and the IMF staff teams will use the diagnostic results to determine capital needs over the three year horizon, based on a minimum core tier 1 target capital ratio of 6 percent under an adverse stress test scenario. The capital needs will be assessed per bank and disclosed to the market by **end-February 2012**.

Following the additional capital needs assessment based on the diagnostic study, banks may be given time to raise this additional capital on the market. If the Bank of Greece determines that a period of time should be allowed for a bank to meet capital requirements, the relevant bank will be asked to present, by **end-April 2012**, a viable 3-year business plan to this end. Any bank in this circumstance will have to meet capital requirements by no later than **end-**

August 2012. Any capital to be raised to this end should consist of instruments qualifying as Tier I capital.

The governance arrangements of financial oversight agencies will be reviewed in consultation with the European Commission, ECB, and IMF staff:

- the organisational arrangements for the Bank of Greece to ensure that they are in line with best international practice and that any potential conflict of interest in its expanded supervision and resolution role is avoided;
- the corporate governance arrangements for the HFSF (including the need for internationally recognized professionals with banking experience to be members of the board with voting rights); and
- the governance arrangements for the HDIGF (to address potential conflicts of interest).

The enactment of legislation to address any outstanding issues in these areas will be completed by **end-2011**.

The government commits to fully subscribe its share in cash in ATE bank, and to purchase any other unsubscribed shares (after notification to the European Commission). An appropriate amount of funds will be set aside for this purpose. This capital increase will be reflected in ATE's restructuring plan, an update of which will be resubmitted to the European Commission by **end-October 2011**.

Regarding the Hellenic Consignment and Loan Fund (HCLF), an implementing decree and commitments to comply with state aid rules will clarify the future tasks of the remaining activities of the HCLF, ensuring that these will not be in competition with commercial activities. A more detailed schedule for transferring the commercial activities and the above-mentioned commitments will be specified by **end-October 2011** and will thereafter be endorsed by an Inter-Ministerial Decision. The disposal of the commercial activities branch will be completed on or before **end-July 2012**.

Any support provided by the HDIGF and the HFSF in the framework of resolution will be notified to the European Commission under state aid rules.

The Bank of Greece will require capital shortages to be addressed by **end-November 2011**, [or take the appropriate actions to deal with the situation (by **end-November 2011**)] in line with EU state aid rules. Until capital shortages have been resolved, the Bank of Greece will closely monitor affected banks and continuously enforce appropriate remedial measures.

The Bank of Greece commits to continue efforts to reduce remuneration of its staff in light of the overall effort of fiscal consolidation.

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4 GROWTH-ENHANCING STRUCTURAL REFORMS

4.1 To strengthen labour market institutions

Wage setting

The Government initiates discussions **[Q4-2011]** with social partners to examine all labour market parameters that affect the competitiveness of the companies and the economy as a whole. The goal is to conclude a national tripartite agreement which addresses the macroeconomic challenges to support stronger competitiveness, growth and employment.

Moreover, based on a dialogue with social partners and taking into account the objective of creating and preserving jobs and improving the firms' competitiveness, the Government adopts further measures to allow the adaptation of wages to economic conditions.[1] In particular:

- the extension of occupational and sectoral collective agreements is suspended until end-2014;
- the so-called favourability principle is suspended throughout the MTFS period, in such a manner that firm-level agreements take precedence over sectoral and occupational agreements;
- firm-level collective contracts can be signed either by trade unions or, when there is no firm-level union, by work councils or other employees' representations, irrespective of the firms' size.

These amendments are legislated **prior to the sixth disbursement**.

Fighting undeclared work

Quantitative targets on the number of controls of undeclared work to be executed are set for the Labour Inspectorate. A pilot study is implemented in order to verify the favourable financial net impact on the overall social security budget of a discount of up to 10 percent on social contributions for those enterprises introducing the labour card. The pilot study covers a limited scope of firms (maximum 100), over a short period of time (maximum four months). **[December 2011]**

An assessment on the effectiveness of the Labour Inspectorate law will be made six months after its implementation. **[Q4-2011]** Should the law prove ineffective, an appropriate amendment will be adopted. In particular, any wider-scale application of a discount of up to 10 percent on social contributions for those enterprises introducing the labour card will be conditional on the pilot study showing sufficient evidence of a favourable financial impact of the discount on the overall social security budget.

[1] Reforms to collective bargaining do not concern health and safety conditions and are implemented in respect of core labour standards and EU law.

4.2 To improve the business environment and enhance competition in open markets

Regulated professions

In the implementation of Law 3919/2011, any decision to reinstate a restriction considers the need to promote competition and takes into account international best practice. The Government consults widely, and in particular with the Hellenic Competition Commission. [not later than **end-Q4 2011]**

The Government repeals Ministerial Decision YA 648/2011 and issues a new Ministerial Decision significantly reducing the value of a transaction above which the notaries' *pro rata* fee for drafting contracts is the maximum permissible fee. In addition, the new Ministerial Decision defines *pro rata* fees for transactions below this maximum value at successively decreasing rates in inverse proportion to the graduated increase, ensuring a sharp reduction of the fees already charged. To this end, the new ministerial decision reduces *pro rata* fees by at least 30 percent in the first two tranches defined in Ministerial Decision YA 648/2011, with larger cuts in the *pro rata* fees applicable to subsequent tranches. The new Ministerial Decision also lowers fees for copies and for additional pages. **[Q4-2011]**[2]

For the legal profession, the Government issues a Presidential Decree revising the percentages applicable to the reference amounts (Article 96(2) of the Code of Lawyers, as amended), which sets prepaid amounts for each procedural act or court appearances (i.e., it sets a system of prepaid fixed/contract sums for each procedural act or appearance by a lawyer which is not linked to a specific 'reference amount'). **[Q4-2011]**

An audit is launched to assess to what extent the contributions of lawyers and engineers to cover the operating costs of their professional associations are reasonable, proportionate and justified. **[Q4-2011]**

The Government publishes a report, by **mid-November 2011**, on the implementation of Law 3919/2011, including:

- the list of professions falling under the scope of the law;
- the list of professions exempted from the lifting of restrictions by Presidential Decree and the justifications for such exemptions;
- an assessment on whether further measures are needed on the rules on access to, and exercise of the profession, and on pricing to align Greek legislation with EU law and competition rules;

[2] The above reduction will be subject to the results of a comparative study regarding notarial fees in other EU countries in order to determine to which extent the notarial fees in Greece should be reduced.

– a timetable to screen existing legislation and to adopt the necessary changes to the existing specific regulations of the professions (i.e., Presidential Decrees, Ministerial Decisions and Circulars) to make them fully compatible with Law 3919/2011, EU law and competition rules.

Changes to Presidential Decrees, Ministerial Decisions and Circulars following the screening of legislation are adopted. **[March 2012]**.

Measures are identified to ensure that providers of services are not subject to requirements which oblige them to exercise a given specific activity exclusively, or which restrict the exercise jointly or in partnership of different activities, except in the circumstances and under the conditions set in the Services Directive. **[December 2011]**

The Government identifies measures to remove complete prohibitions on commercial communications by the regulated professions and to ensure that professional rules on commercial communications are non-discriminatory, justified by an overriding reason relating to the public interest and proportionate. **[Q4-2011]**

The Government identifies measures to reinforce transparency in the functioning of professional bodies by requiring them to publish an annual report on their webpage regarding their financial performance and statistics on disciplinary actions in defence of consumers' interests. **[November 2011]**

The Government monitors the implementation of Law 3919/2011 and launches a study on how effective such a law is in increasing competition and reducing prices **[October 2011]**. The study is regularly updated, with the first results available by **end-December 2011**. If necessary, adjustments to the law with the aim of increasing competition are adopted by **March 2012**.

The Government presents the results of screening of the regulations of the main regulated professions to assess the justification and the proportionality of the requirements reserving certain activities to providers with specific professional qualifications. **[November 2011]**

The Government prepares acts by **end-2011**, to be adopted by **Q1-2012,** at the latest, in order to:

– abolish provisions of the regulations of the professional chambers on access to, and exercise of, the profession and on pricing, that are against Law 3919/2011 and EU law including competition rules;
– ensure that providers of services are not subject to requirements which oblige them to exercise a given specific activity exclusively, or which restrict the exercise jointly or in partnership of different activities, except in the circumstances and under the conditions set in the Services Directive;
– remove complete prohibitions on commercial communications by the regulated professions and to ensure that professional rules on commercial communications are non-discriminatory, justified by an overriding reason relating to the public interest and proportionate;

- reinforce transparency in the functioning of professional bodies;
- set up contributions of lawyers and engineers to their professional associations that reflect the operating costs of the services provided by those associations. These contributions are paid periodically and are not linked to prices charges by professions;
- simplify the requirements reserving certain activities to the legal and engineering professions that are not justified or proportionate;
- amend Article 6 of Law 3919/2011 to provide for the freedom of incorporation of law firms and the freedom to the opening of branches inside Greece.
- abolish Article 7.1 b) of Law 3919/2011, regarding the powers of the Technical Chamber of Greece to monitor and to open disciplinary proceedings for unusually low fees.
- tackle any other issues identified in the assessment of the implementation of Law 3919/2011.

The Government requests the Hellenic Competition Commission to issue an opinion of the proposed acts. **[Q4-2011]**

Recognition of professional qualifications

All the necessary measures are taken to ensure the effective implementation of EU rules on the recognition of professional qualifications, including compliance with ECJ rulings (*inter alia*, related to franchised diplomas). The Government:

- updates the information on the number of pending applications for the recognition of professional qualifications, and sends it to the Commission; **[October 2011]**
- presents draft legislation by **October 2011**, to be adopted by **end-year**, in order to remove the prohibition to recognise the professional qualifications derived from franchised degrees. Holders of franchised degrees from other Member States should have the right to work in Greece under the same conditions as holders of Greek degrees.

Services Directive

The Government completes the adoption of changes to existing sectoral legislation in key services sectors such as retail (e.g. open air markets and outdoor trade), wholesale (e.g. central markets), agriculture (e.g. veterinary services), employment (employment agencies), and technical services. The Government also adopts changes to the remaining sectoral regulation, ensuring full compliance with the directive.

Regulations should:

- facilitate the establishment by:
    - abolishing or amending requirements which are prohibited by the Services Directive;

  - abolishing or amending unjustified and disproportionate requirements, including those relating to quantitative and territorial restrictions, legal form requirements, shareholding requirements, fixed minimum and/or maximum tariffs and restrictions to multidisciplinary activities.

- facilitate the provision of cross-border services, so that providers of cross-border services are required to comply with specific requirements of the Greek legislation only in exceptional cases (when admitted by Articles 16 or 17 of the Services Directive).
- provide legal certainty for providers of cross-border services by setting out in the respective (sectoral) legislation which requirements can, and which requirements cannot, be applied to cross-border services. **[Q4-2011]**

The Government ensures:

- that the point of single contact (PSC) is fully operational in all sectors covered by the Services Directive;
- that the PSC distinguishes between procedures applicable to service providers established in Greece and those applicable to cross-border providers (in particular for the regulated professions);
- that there is adequate connection between the PSC and other relevant authorities (including one-stop shops, professional associations and the recognition of professional qualifications). **[Q4-2011]**

Sectoral growth drivers

The Government publishes reports analysing:

- the potential contribution of the tourism sector to growth and jobs. In an Action Plan, the Government identifies legislative, administrative and other obstacles hindering competition and market entry to the realisation of sector potential; **[November 2011]**
- the potential contribution of the retail sector to price flexibility, growth and jobs. It should identify legislative, administrative and other obstacles hindering competition and market entry to the realisation of sector potential. **[November 2011]**

The necessary legal acts and other structural actions are adopted **[Q4-2011]** to implement the findings of these reports.

The Government initiates additional studies on manufacturing, energy, and wholesale sectors with a view to removing remaining obstacles to growth in these sectors. On the basis of these studies, the Government prepares concrete actions and a timetable for implementation [**March 2012**].

Business environment

The Government publishes a plan **[October 2011]** for a "Business-Friendly Greece" tackling 30 remaining restrictions to business activities, investment and innovation.

The plan identifies hurdles to innovation and entrepreneurship—ranging from company creation to company liquidation—and presents the corresponding corrective actions. The plan includes measures, among others, in order to:

- simplify and reduce costs linked to company publication requirements;
- complete the setting-up of the General Commercial Registry (GEMI) by promptly taking measures such as the training of OSS and GEMI users, the completion of the GEMI database, the further development of web services and use of electronic signatures, the interconnection of GEMI to the Chamber's information systems and to the PSC, in order to ensure access to online completion of procedures both for company formation and for any administrative procedures necessary for the exercise of their activities;
- simplify location, environmental, building and operating permits;
- eliminate distortions in fuel distribution;
- develop a "single electronic window" centralizing standardized trade-related information and simplifying the number of documents needed to export;
- address restrictions in the transport sector, including the transport of empty containers and of non-hazardous waste;
- reduce the complexity of the Code of Books and Records and provide clarity on all categories of non-deducted expenses.

The Government concludes the screening of Ministerial Decision A2-3391/2009 on market regulations, as well as any other related regulations. The screening is carried out, in cooperation with the Hellenic Competition Commission, with a view to identifying administrative burdens and unnecessary barriers to competition to be eliminated, and developing alternative, less restrictive, policies to achieve government objectives. A draft proposal of market regulation is ready by **[end-December 2011]**.

A comprehensive list of non-reciprocating charges in favour of third parties is presented, identifying beneficiaries and quantifies contributions paid by consumers in favour of those beneficiaries. **[October 2011]**

The Government reviews and codifies the legislative framework of exports (i.e., Law 936/79 and Law Order 3999/59), simplifies the process to clear customs for exports and imports and gives larger companies or industrial areas the possibility to be certified to clear cargo for the customs themselves. The obligation of registration with the exporters' registry of the Chamber of Commerce is abolished. **[December 2011],** while the e-customs system is fully operational. **[June 2012]**

In order to help attract investment in key sectors, the Government speeds up the review of project applications in the pipeline of the fast-track procedure for large investments for at least three large investment projects by **end-November 2011,** with two more projects one month later.

The Decrees necessary for the implementation of the law on fast-track licensing procedure for manufacturing activities and business parks are implemented. **[October 2011]**

The Government accelerates **[Q4-2011]** the completion of the land registry, with a view to:

- tendering cadastral projects for additional 4 million rights by December 2011;
- digitalising the operations of all mortgage and notaries' offices and conveying all newly registered deeds to the cadastre by 2015;
- exclusively-operating cadastral offices for large urban centres by 2015;
- establishing a complete cadastral register and exclusively operating cadastral offices nationwide by 2020.

A Ministerial Decision on market regulations is issued following the screening launched in Q2-2011. **[Q4-2011]**

An *ex post* impact assessment is presented in order to evaluate Law 3853/2010 on the simplification of procedures for the establishment of companies in terms of savings in time and cost to set up a business, as well as to verify that all secondary legislation is in force. **[Q1-2012]**

Transport

Liberalisation of tourist coaches is immediately effective after passing legislation in early August 2011. Secondary legislation establishing the costs and the time required for issuing new licences is adopted by **end-October 2011**. Such costs will not exceed the administrative costs and the required timing will not exceed 20 business days in total.

The Government submits a policy paper, indicating how all regional airports will be merged into groups ensuring that regional airports become economically viable in compliance with state-aid rules, including realistic projections identified by the appointed financial advisors. **[Q4-2011]** After ensuring that regional airports are economically viable, the Government launches an effective transaction strategy leading to their privatisation. **[Q1-2012]**

A report is submitted on the functioning of the regular passenger transport services (KTEL), presenting options for liberalisation. **[Q4-2011]**

The transitional period established in Law 3887/2010 for the reduction in costs for issuing new road transport operator licences is brought to an end on 1 January 2012. The necessary secondary legislation as foreseen in that law (Article 14(11)) is adopted, specifying the cost for issuing new road transport operator licences. This cost is transparent, objectively calculated in relation to the number of vehicles of the road transport operator and does not exceed the relevant administrative cost. **[Q4-2011]**

In line with the policy objectives of Law 3919/2011 on regulated professions, the Government removes entry barriers to the taxis market (in particular, restrictions on the number of licences and price of new licences), in line with international best practice. **[Q4-2011]**

Energy

The Government finalises the remedies to ensure the access of third-parties to lignite-fired electricity generation. **[October 2011]**

The Government ensures that network activities are effectively unbundled from supply activities.

In particular, for electricity:

- all the necessary transfers of staff and assets of the transmission system operator (TSO) are completed; the TSO management, it supervisory body and the compliance officer are appointed in accordance with the Electricity Directive 2009/72/EC; [**Q4-2011]**
- all necessary transfers of staff and assets to the legally unbundled distribution system operator (DSO) are completed; [**Q1-2012]**
- the unbundled TSO is certified by the Greek energy regulator. **[Q2-2012]**

For gas:

- ownership unbundling is implemented as foreseen in the Greek energy law. **[Q1-2012]**
- the unbundled TSO is certified by the Greek energy regulator. **[Q2-2012]**

The Government starts implementing the measures ensuring the access by third parties to lignite-fired electricity generation. **[Q4-2011]**

Detailed plans are presented for ensuring a maximum market opening as regards the non-interconnected system, covering among others, access of suppliers to the non-interconnected system markets in particular in Rhodes and Crete. The Government submits a request for derogation under certain conditions of Article 44 of Directive 2009/72 for small isolated systems. **[Q4-2011]**

Legislation is adopted to award the hydro reserves management to an independent body. **[Q4-2011]**

The Government removes regulated tariffs for customers except households and small enterprises (as defined in the second and third energy liberalisation packages). **[Q4-2011]**

Further measures are adopted to ensure that the energy component of regulated tariffs for households and small enterprises reflects, at the latest by June 2013, wholesale market prices, except for vulnerable consumers. **[Q4-2011]**

The Government completes the implementation of the measures to ensure access by competitors of PPC to lignite-fired electricity generation. Third parties can effectively use lignite-fired generation in the Greek market. **[Q2-2012]**

R&D and innovation

The Government pursues an up-to-date and in-depth evaluation of all R&D and ongoing innovation actions, including in various operational programmes with their costs and benefits. It presents a strategic action plan for policies aimed at enhancing the quality and the synergies between public and private R&D and innovation, as well as tertiary education. This action plan identifies a clear timetable for relevant measures to be taken, taking the budgetary impact into account and harmonising these actions with other relevant initiatives in these areas, in particular the investment law. **[February 2012]**

Better regulation

The Government tables legislation **[November 2011]** to improve regulatory governance covering, in particular:

- the principles of better regulation;
- the obligations of the regulator for the fulfilment of those principles;
- the tools of better regulation, including the codification, recast, consolidation, repeal of obsolete legislation, simplification of legislation, screening of the entire body of existing regulation, *ex-ante* and *ex-post* impact assessments and public consultation processes;
- the transposition and implementation of EU law and exclusion of *gold plating*;
- the setting-up of better regulation structures in each ministry as well as the creation of a Central Better Regulation unit;
- the requirement that draft laws and the most important draft legislative acts (Presidential Decrees and Ministerial Decisions) are accompanied by an implementation timetable;
- electronic access to a directory of existing legislation and an annual progress report on Better Regulation.

On impact assessments, legislation provides that:

- implementing legislation with potentially large significant impact is also subject to the requirement to produce an impact assessment;
- impact assessments address the competitiveness and other economic effects of legislation by making use of the Commission Impact Assessment guidelines and the OECD Competition Assessment toolkit;
- the Central Better Regulation Unit can seek the opinion of other ministerial departments and independent authorities for regulations that fall under their respective competences so as to improve the quality of impact assessment;
- an independent authority and the Central Better Regulation Unit carry out quality checks of impact assessments.
- the Central Better Regulation Unit consults the Hellenic Competition Commission when formulating and drafting the guidelines to be implemented by the ministries' better regulation units;
- impact assessments are published.

The Government identifies priority areas to codify and simplify existing legislation within the better regulation agenda. **[December 2011]**

On administrative burden reduction, the Government submits a list of 13 selected priority areas to the European Commission that will be subject to measurement. It also sets deadlines for the completion of measurements in each area, for the identification of proposals to reduce burdens and for the amendment of the regulations. This policy initiative should reduce administrative burdens by 25 percent (compared with the baseline year 2008) in the 13 priority areas. **[December 2011]**

4.3 To raise the absorption rates of structural and cohesion funds

The Government meets targets for payment claims and major projects in the absorption of EU structural and cohesion funds set down in the table below. Compliance with the targets shall be measured by certified data.

In meeting absorption rate targets, recourse to non-targeted state aid measures is gradually reduced. The Government provides data on expenditure for targeted and non-targeted *de minimis* state aid measures co-financed by the structural funds in 2010 **[October 2011]** and in 2011 **[Q4-2011].**

Legislation is adopted, and immediately implemented, to shorten deadlines and simplify procedures on contract award and land expropriations, including the deadlines needed for the relevant legal proceedings. **[Q4-2011]**

The Government earmarks appropriate amount to:

– complete unfinished projects included in the 2000-06 operational programme closure documentation (ca. EUR 260 million), as well as an appropriate amount for the rest of the implementation and closure of the 2000-06 cohesion-fund projects;

– to cover the required national contribution, including non-eligible expenditure (i.e. land acquisitions) in the framework of the 2007-13 operational programmes. **[Q4-2011]**

The Government identifies EUR 500 million from ERDF within the 2007-13 operational programmes for the creation of a guarantee fund for small and medium-sized enterprises. **[Q1-2012]**

Table 1: Targets for payment claims in the absorption of Structural and Cohesion Funds (programming period 2007-2013) to be submitted through 2013 (in EUR million)

	2011	2012	2013
European Regional Development Fund (ERDF) and Cohesion Fund	2 600	2 850	3 000
European Social Fund	750	880	890
Target of first half of the year	*target:* 1 105 (of which 5 major projects) *outcome: 627 (of which 6 major projects)*	1 231	1 284
Total annual target	**3 350** (of which 15 major projects)	**3 730**	**3 890**

The Government launches a web-based monitoring tool of procedures for the approval of project proposals and for the implementation of public projects, **[October 2011]**, which should be fully operational by **end-2011**.

The managerial capacity of all managing authorities and intermediate bodies of operational programmes under the framework of the National Strategy Reference Framework 2007-13 is certified according to the standard ISO 9001:2008 (quality management). **[Q4-2011]**

The Government provides an impact assessment of measures since 2010, in order to accelerate the absorption of structural and cohesion funds adopted since May 2010, and it indicates any additional measures. **[Q4-2011]**

With the aim of accelerating the absorption of EU financing and in order to adapt itself to the increase in the EU co-financing rates, the Government will, by **December 2011**:

– establish priority projects per operational programme, including, where appropriate major projects, which will have a significant impact on cohesion, growth and employment, and their respective estimated allocation. These projects should be operational by 2015; [**December 2011]**

– activate or eliminate sleeping projects (i.e. projects already approved in the operational programmes but not yet contracted within the timeframes as defined at the national level). For those projects which are retained, it indicates which conditions must be met in order that the co-financing is upheld; [**December 2011]**

– create a central database monitoring compensation and the time elapsed for the completion of expropriations incurred in the framework of the implementation of projects co-financed by the ERDF and the Cohesion Fund; [**Q1-2012]**

– simplify tasks relating to project implementation by mapping responsibilities and removing unnecessary steps in accordance with the management and control systems while also consolidating management capacities where appropriate (e.g. waste treatment). **[Q2-2012]**

4.4 To upgrade the education system

The Government prepares, and starts implementing, an action plan for the improvement of the effectiveness and efficiency of the education system, taking into account the measures recommended by the independent task force's report. **[end-October 2011]**

Based on the recommendations of the blueprint and the action plan, the existing legal/institutional framework for primary, secondary and tertiary education will be amended with a view to increasing the efficiency and effectiveness of the education system. The Government starts publishing a bi-annual progress report on the implementation of the law on quality assurance in Higher Education. **[Q4-2011]**

The new tertiary education framework law, aimed at reducing excessive costs and at improving its overall efficiency and effectiveness, is implemented. **[Q2-2012].**

4.5 To reform the judicial system

In order to improve the functioning of the judicial system, which is essential for the proper and fair functioning of the economy, and without prejudice to the constitutional principles and the independence of justice, the Government:

(i) ensures effective and timely enforcement of contracts, competition rules and judicial decisions;
(ii) increases efficiency by broadening the skills' base of senior judges to whom court management tasks have been assigned;
(iii) speeds up the system by eliminating backlog of courts cases and by facilitating out-of-court settlement mechanisms.

Specifically, the Government:

- launches **[October 2011]**, jointly with an external body of experts, a study of the backlog of non-tax cases in courts. The study includes the Supreme Court and the Supreme Administrative Court, with data available by **end-March 2012** and the analysis by **end-June 2012**.
- puts in place implementing rules for Law 3898/2010 on mediation in civil and commercial matters; **[October 2011]**
- identifies dormant cases, i.e. cases pending before the civil courts in which the relevant court's file records that they have been postponed or never received a hearing date and no party activity for receiving a hearing date has taken place for at least 18 months; [**October-2011**]

The Government presents a working plan for the clearance of the backlog of tax cases in all administrative tribunals and administrative courts of appeal by the end of

July 2013, which provides for intermediate targets for reducing the backlog by at least 15 percent by **December 2011**, 50 percent by **July 2012** and 80 percent by **December 2012**; **[Q4-2011]**

The Government prepares a working plan for the use of e-registration, e-tracking of the status of individual cases in all courts of the country, and for e-filing. The work plan includes deadline for the evaluation and completion of current pilot projects (e.g. e-filing) and their extension to all courts. The plan **[Q4-2011]** envisages that e-registration, and e-tracking is extended to all courts by end-2013;

The Government improves alternative dispute resolution for out-of-court settlement and actively promotes pre-trial conciliation, mediation, and arbitration, with a view to ensuring that a significant amount of citizens and businesses make use of the new legal framework for mediation; **[Q4-2011]**

The Government produces an evaluation or impact assessment of existing and required additional efficiency measures (such as the fast-lane procedure at the Athens Court of First Instance) in order to reduce the processing time of cases, including further simplifying case registration, further rationalizing docket management with a view to allowing the resolution of docketed cases, and providing increased computer support to judges in order to allow the issuance of written decisions in all courts within two weeks from the judge taking the decision; **[Q4-2011]**

The Government takes the necessary measures in order to be able to publish quarterly reports on recovery rates by bailiffs and notaries, duration and costs of corporate insolvency cases and tax cases. For the purposes of this Memorandum, 'recovery rate' refers to the ratio of the amount collected by the creditor in enforcement proceedings -following the issuance of an enforceable title- to the amount adjudicated by the court; **[Q4-2011]**

The Government conducts an assessment on whether the reform of the Code of Administrative Procedure has delivered the results that the legislation had set out to do; **[Q4-2011]**

The Government increases the costs of civil litigation in line with the policy underlying the increase of litigation costs in administrative matters; **[Q4-2011]**

The Government establishes a task force with a mandate to design a performance framework for courts with a view to considering links to resource allocation in future revisions of this Memorandum. The task force will develop by **September 2012**: i) a dependable data management system, a workload measurement system, and a management structure, that is conducive to a more effective, responsible, and accountable judicial management; ii) a fully operational and publicly available database with case data for each court (as well as consolidated data for all courts), giving basic performance data, including number of judges and staff, number of cases (including by case type) and backlogs; iii) a work plan on benchmarking cases for workload measurement, including focusing on delays in case processing, and the types of cases where such delays are most acute. **[Q4-2011]**

In order to improve the efficiency of courts, the Government amends Law 1756/1988 on the organisation of the courts and the situation of court officials, and relevant implementing rules, always respecting the independence of justice, so as to allow and facilitate the introduction of human resource management measures in courts, such as mobility of court officials, incentives for the efficient administration of courts and continuous management training programmes for court officials with management tasks; **[Q1-2012]**

The Government imposes additional dissuasive measures against non-cooperative debtors in enforcement cases; **[Q1-2012]**

The Government presents a qualitative study on recovery rates in enforcement proceedings, evaluating the success rates and the efficiency of the various modes of enforcement. **[Q1-2012]**

The Government decides on the date by when it will open access to the regulated profession of mediator to non-lawyers in line with this memorandum conditionality on regulated professions and presents an action plan ensuring that non-lawyers may offer mediation services on that date. **[Q1-2012]**

The Government establishes a task force that is broadly representative of the legal community, including, but not limited to, academia, practising lawyers, in-house lawyers, lawyers from other EU Member States established or offering their services in Greece, aimed at reviewing the Code of Civil Procedure and bring it in line with international best practices on, *inter alia*, (i) judicial case management, including the possibility of removing dormant cases from court registers; (ii) relieving judges from non-adjudicatory work, such as pre-mortgaging of immovable property, formation and dissolution of incorporated entities and consensual/non-litigious family law applications, (iii) the enforcement of decisions and of orders to pay, in particular small claims cases with a view to reducing the role of the judge in these procedures, and (iv) enforcing statutory deadlines for court processes, in particular for injunction procedures and debt enforcement and insolvency cases. For the purposes of this Memorandum, judicial case management shall mean the possibility of judges to be involved early in identifying the principal factual and legal issues in dispute between the parties, require lawyers and litigants to attend pre-hearing conferences and manage the conduct of proceedings and the progression of the case to achieve the earliest and most cost-effective resolution of the dispute. **[Q2-2012]**

The Government carries out an evaluation **[Q3-2012]** of the backlog reduction plan of tax cases in all administrative tribunals and administrative courts of appeal established in Q4-2011, it also updates the plan and it takes remedial action, should there be deviations in achieving full clearance of the backlog by **end-July 2013**;

By **end-August 2012**, the Government presents, based on the study conducted jointly with an external body of experts, an action plan with specific targets for a reduction of the backlog of non-tax cases in courts of at least 50 per cent by **end-July 2013** and it starts implementing the action plan.

The Government conducts an assessment of whether the enactment of Law 3898/2010 on mediation on civil and commercial matters has delivered the results which the legislation had set out to do, and presents data and analysis concerning costs, time and success rates associated with the enforcement of agreements arising from alternative dispute resolution as compared with the enforcement of judicial decisions. **[Q4-2012]**

The taskforce on the review of the Code of Civil Procedure makes specific recommendations on: (i) case management, (ii) relieving judges from non-adjudicatory work; (iii) the reduction of the role of the judge in the enforcement of decisions and of orders to pay and (iv) on enforcing statutory deadlines for court processes. **[Q1-2013]**

5 REFORM MONITORING AND TECHNICAL ASSISTANCE

The Ministry of Finance's directorate of planning, management and monitoring becomes operational with the aim of improving reform management and oversight. It starts publishing quarterly monitoring indicators for each of the key structural reform initiatives, on a quarterly basis. **[Q4-2011]**

The Government will request technical assistance to be provided by the EU Member States, the European Commission the IMF or other organisations in priority areas. These technical assistance actions will be coordinated by the Commission's technical assistance taskforce.

Annex 1: Privatisation targets

By end of:	Privatisation receipts
	(EUR million)
2011 Q4	1 700
2012 Q1	5 000
Q2	7 000
Q3	9 000
Q4	11 000
2013 Q1	15 000
Q2	17 000
Q3	18 000
Q4	20 000
2014	35 000
2015	50 000

Annex 2: Provision of data

During the programme, the following data shall be made available to the European Commission, the ECB and the IMF staff on a regular basis.

These data should be sent to the following e-mail address:

ecfin-greece-data@ec.europa.eu

This address should also be used for the transmission of other data and reports related to the monitoring of the programme.

To be provided by the Ministry of Finance	
Preliminary monthly data on the state budget execution (including breakdown by main categories of revenue and expenditure and by line ministry). *(Data compiled by the Ministry of Finance)*	Monthly, 15 days after the end of each month; these data should also be included in subsequent transmissions in case of revision.
Updated monthly plans for the state budget execution for the remainder of the year, including breakdown by main categories of revenue and expenditure and by line ministry. *(Data compiled by the Ministry of Finance)*	Monthly, 30 days after the end of each month.
Preliminary monthly cash data on general government entities other than the state. *(Data compiled by the Ministry of Finance)*	Monthly, 30 days after the end of each month, these data should also be included in subsequent transmissions in case of revision.
Monthly data on the public wage bill (of general government, including a breakdown in nominal wage and allowances paid to government employees per line ministry and public entity), number of employees (including a breakdown per ministry and public entities outside the central government) and average wage (including the relative shares of the base wage, allowances and bonuses). *(Data compiled by the Ministries of Interior and Finance)*	Monthly, 30 days after the end of each month (starting in June 2010).
Monthly data on staff: number of employees, entries, exits, transfers among government entities; and from and into the labour reserve, per entity. *(Data compiled by the Ministries of Interior and Finance)*	Monthly, 30 days after the end of each month.
Weekly information on the Government's cash position with indication of sources and uses as well of number of days covered. *(Data compiled by the Ministry of Finance)*	Weekly on Friday, reporting on the previous Thursday.

Data on below-the-line financing for the general government. (Data compiled by the Ministry of Finance)	Monthly, no later than 15 days after the end of each month; these data should also be included in subsequent transmissions in case of revision.
Data on expenditure pending payment (including arrears) of the general government, including the State, local government, social security, hospitals and legal entities. *(Data compiled by the Ministry of Finance on the basis of basic data from the several line ministries)*	Quarterly, within 55 days after the end of each quarter.
Data on use of international assistance loans split among following categories: Financial stability fund, escrow account, debt redemption, interest payments, other fiscal needs, building of cash buffer; per quarter and cumulative	Quarterly, by the end of each quarter.
Data on public debt and new guarantees issued by the general government to public enterprises and the private sector. Data on maturing debt (planned redemptions per month, split between short-term (Treasury bills and other short-term debt) and long-term (bonds and other long-term) debt). Data on planned monthly interest outflows. *(Data compiled by the Ministry of Finance)*	Monthly, within one month.
Data on assets privatised and proceeds collected. *(Data compiled by the Ministry of Finance)*	Monthly.
Data on state-owned enterprises: revenue, costs, payroll, number of employees and liabilities (including maturities of public enterprises' debts) *(Data compiled by the Ministry of Finance)*	Monthly, within three weeks of the end of each month for the ten largest enterprises. Quarterly within three weeks of the end of each quarter for the other enterprises. Quarterly for the maturities of state-owned enterprises' liabilities.
Monthly statement of the transactions through off-budget accounts. *(Data compiled by the Ministries of Finance and Education)*	Monthly, at the end of each month.
Monthly statement of the operations on the special accounts. (Data compiled by the Ministry of Finance)	Monthly, at the end of each month.
Report on progress with fulfilment of policy conditionality. (Report prepared by the Ministry of Finance)	Quarterly before the respective review starts.
Monthly data on health care expenditure by the social security funds with a lag of three weeks after the end of the respective quarter. (Data compiled by the Ministries of Labour and Health)	Monthly, within three weeks of the end of each month. Starting with data for January 2011 for IKA, OAEE, OGA and OPAD, and from April 2011 on for the other funds

To be provided by the Bank of Greece

Assets and liabilities of the Bank of Greece.	Weekly, next working day.
Assets and liabilities of the Greek banking system - aggregate monetary balance sheet of credit institutions.	Monthly, 30 days after the end of each month.
Evolution of the external funding provided by Greek banks to their subsidiaries abroad.	Monthly, 15 days after the end of each month.
Report on banking sector liquidity situation.	Weekly, next working day.
Report on the evolution of financial stability indicators.	Quarterly, 30 days after the publication data of each quarter.
Report on results from the regular quarterly solvency assessment exercise.	Quarterly, 15 days after the end of each quarter depending on data availability.
Weighted average of Loan-to-value (LTV) ratio for new loans with real estate collateral	Yearly.

To be provided by the Hellenic Financial Stability Fund

Detailed report on the balance sheet of the Financial Stability Fund with indication and explanation of changes in the accounts.	Weekly, next working day.

Press Release No. 11/440
FOR IMMEDIATE RELEASE
December 5, 2011

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Fifth Review Under Stand-By Arrangement for Greece and Approves €2.2 Billion Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the fifth review of Greece's economic performance under a program supported by a three-year Stand-By Arrangement (SBA) for Greece. The completion of the review enables the immediate disbursement of an amount equivalent to SDR1.9 billion (about €2.2 billion), bringing total Fund disbursements under the SBA to an amount equivalent to SDR 17.5 billion (about €20.3 billion).

In completing the review, the Executive Board also approved the modification of performance criteria as well as waivers of non-observance of performance criteria related to the primary cash balance for the general government, privatization receipts, and external payments arrears. The Board also approved waivers for the non-observance of the external payments arrears performance criterion following minor data revision after the approval of the arrangement.

The SBA, which was approved on May 9, 2010 (see Press Release No. 10/187), is part of a joint package of financing with Euro area member states amounting to €110 billion over three years. It entails exceptional access to IMF resources, amounting to about 2,400 percent of Greece's new quota as a result of the 2008 quota reform.

Following the Executive Board's discussion, Ms. Christine Lagarde, IMF Managing Director and Executive Board Chair, said:

"Greece has substantial achievements to its credit, including a large fiscal deficit reduction. However, the program is in a difficult phase, with structural reforms proceeding slowly, the economy weak, and the external environment deteriorating. This has warranted a substantial downward revision to the medium-term outlook.

"The creation of a national unity government and the endorsement of program objectives and policies by major parties is an important step. The new government should use its wider mandate to steadfastly implement the program, which is the best way to help Greece manage the risks it now faces.

“Fiscal adjustment remains the most immediate challenge for the authorities. The recent enactment of new measures will help correct implementation slippages. Adjustment efforts will have to be supported by a prompt implementation of underlying fiscal reforms, which are necessary to downsize the public sector and strengthen tax collection.

“Preserving financial sector stability is another key challenge. Plans to recapitalize banks are in place alongside a revised resolution framework that can help avoid disruptions to depositors and contain public sector costs. Viable banks should continue to have access to liquidity support.

“The government’s privatization plan can deliver higher investment, growth, and debt reduction. Preparations must move forward expeditiously, to give the Privatization Agency scope to meet the overall program target in a reasonable timeframe.

“Structural reforms must accelerate to help improve competitiveness via productivity growth. Plans are in place to reduce high labor taxes, and the authorities must also finalize the liberalization of closed professions and implementation of business environment reforms.

“Private sector involvement and prolonged support at low interest rates from European partners are crucial to reduce debt to a sustainable level. Near-universal participation in the proposed private debt exchange will be important to realize a sustainable debt position, meet financing needs, and ensure continued Fund support,” Ms. Lagarde said.

Statement by Panagiotis Roumeliotis, Alternate Executive Director for Greece
December 5, 2011

We thank staff for a comprehensive report, including the in-depth and far-reaching analysis on debt sustainability that contributed substantially to the agreement reached on October 26th by the European Council.

Such an agreement provides for additional financing of up to €130 billion until 2014, including €30 billion for recapitalization of Greek banks. The agreement involves a deeper Private Sector Involvement (PSI), which would bring Greek public debt down to 120 percent of GDP by 2020 and improve Greece's debt sustainability. The exchange of bonds will be implemented at the beginning of 2012.

The newly appointed national unity government, supported by the vast majority of the Greek Parliament, is fully committed to delivering what has been agreed to with the IMF and the EU institutions. To this end the letter of intent signed by the Minister of Finance and the Central Bank Governor has been explicitly endorsed by the leaders of the two main parties supporting the government.

Although between 2009 and 2011 Greece experienced a profound recession of more than 10 percent of GDP, the authorities succeeded in substantially curtailing the general government and the primary deficits. In particular, the latter was cut by almost 10 percentage points of GDP. Nevertheless, the deficit for 2011, at 9 percent of GDP, will likely be higher than earlier projected (7.5 percent of GDP) as a consequence of the much deeper-than-anticipated recession in 2011. Going forward, the 2012 budget will fully compensate for such a deviation.

Under the conditions for a successful negotiation on the PSI, the authorities are firmly decided to further curtail the general government's deficit to 5.4 percent of GDP (on an ESA 95 basis) and to reach a primary surplus of 1.0 percent of GDP in 2012, in order to pave the way for an overall deficit reduction to below 3 percent of GDP by 2014.

In order to achieve such ambitious targets, the authorities decided to promote a number of actions, including a further reduction in the public sector salaries, cuts in pensions, the creation of a labor reserve, significant tax expenditure reductions, and the introduction of a property tax.

The authorities' privatization plan is making progress, as all programs scheduled up to 2014 are ready to be executed more swiftly, now that the Privatizations Fund is operational.

In the context of adequate liquidity provision to the banking system by the ECB, the authorities are committed to implementing measures aimed at further safeguarding financial stability, while they are ready to recapitalize the Greek banks if needed.

Going ahead, the most critical and important task is to get back to positive growth rates, while improving Greece's competitiveness. To this end, the authorities are accelerating the implementation of structural reforms aimed at promoting employment, investment, and market efficiency.

Economic Outlook

According to ELSTAT and the Bank of Greece (BoG), real GDP is expected to contract by 5.8 percent in 2011 and 2.8 percent in 2012, and to move to the positive territory thereafter. In January-September 2011, industrial turnover rose by 10.4 percent y-o-y, and new industrial orders rose by 4.7 percent y-o-y; in the same period, manufacturing production fell by 8.1 percent y-o-y. According to the Federation of Greek Manufacturing Enterprises, while investment (at current prices) fell by 13 percent in 2010, it is expected that it will increase by 18 percent in 2011.

The unemployment rate stood at 16.5 percent in July 2011; it is expected to rise further to 18.4 percent in 2012. For 2011, annual headline inflation is expected at 3.2 percent and core inflation at 1.8 percent. Importantly, headline inflation is expected to slow down to 1.7 percent in 2012 and to further ease to 1.5 percent in 2013.

Owing to a substantial reduction in the non-oil trade deficit, the current account deficit shrank by 8.6 percent y-o-y in January-September 2011 (BoG). At the same time, the value of exports of goods excluding petroleum products and ships rose by 18.8 percent y-o-y and the value of imports of goods excluding petroleum products and ships fell by 4.6 percent in January-September 2011. According to BoG projections, the current account deficit will continue to decline in 2011 to 9.8 percent of GDP (10.4 percent in 2010), and to further reduce to 7.5 percent and 6.4 percent of GDP in 2012 and 2013, respectively.

After a reduction of 3.8 percent in 2010, unit labor costs in total economy is further reducing in 2011 by 2.1 percent.

These estimates reflect a change in the employment conditions of the public and private sector. As for the public sector, average earnings of government employees are estimated to fall by 4.9 percent in 2011 (-8.5 percent in 2010). In parallel, according to BoG, a similar trend is detected in the private sector since January 2011 with a significant shift towards more flexible terms of employment, including wider use of individual contracts.

Fiscal Policy

The authorities have implemented many painful measures during the past 18 months of the program. As a result, the state budget deficit declined by more than 5 percentage points of GDP (from 15.5 percent of GDP in 2009 to 10.6 percent of GDP in 2010) in the first year of the program; a further reduction to 9.0 of GDP is targeted for 2011.

Equally significant, in less than 2 years the primary deficit has decreased by 10 percent of GDP when, at the same time, there was a cumulative recession of almost 10 percent.

Nevertheless, as mentioned above, the 2011 deficit will turn out higher than projected. The deviation can be attributed, to a large extent, to the much deeper GDP contraction (5.8 percent rather than 3.8 percent) than anticipated in June 2011.

The deeper recession in 2011 combined with tighter liquidity conditions, made the implementation of additional measures an unavoidable necessity. In this regard, the budget for 2012 is being formulated in a way to produce a primary surplus in the first half of next year.

During the last two months, a number of actions have already been taken. Additional measures, amounting to 3 percent of GDP, were adopted by the Council of Ministers and include: 1) a further reduction by 20 percent in the public sector salaries, combined with a structural change in the public sector wage grid; 2) a further 4 percent (on average) cut in pensions, complemented by the completion of the pension reforms, including the supplementary pension fund; 3) the creation of a labor reserve to which 30,000 public sector employees will move by the end of 2011; 4) the application of the rule of one recruitment every ten retirements in the public sector; 5) expenditure cuts amounting to 0.6 percent of GDP implemented retroactively from January 2011; and 6) the introduction of a property tax, able to increase revenues by 1.1 percent of GDP per year for the duration of the Medium Term Fiscal Strategy.

The authorities submitted to Parliament the draft budget for 2012. The draft budget moves along the lines of the agreement with the IMF/EC/ECB. It is expected to be approved in the next few days. The 2012 budget also fully compensates the deviation that is being projected in the execution of the 2011 budget, so that the fiscal targets for 2012 will be met, including a primary surplus of approximately 1.0 percent of GDP.

Fiscal adjustment efforts will be supported by continuing in-depth fiscal institutional reforms in the areas of revenue administration, fiscal reporting, public financial management, and spending controls.

The implementation of the decisions of the European Council on October 26-27, in particular those related to the PSI, will contribute to reducing public debt by 50 percent of GDP and interest payments by 5 billion euro in 2012.

On tax evasion, we acknowledge the valuable contribution of the Fund’s Technical Assistance (TA) in helping design new laws that have removed legal impediments to collecting evaded taxes and outstanding debts. In addition, modern data matching and risk-assessment methods have been used to identify high-risk taxpayer groups and prepare enforcement strategies and plans to audit. Nevertheless, we remain fully aware of collection shortfalls, and a large and growing stock of tax debt, which underline the urgent need to boost collection and accelerate administrative reforms.

Financial Sector Policies

The banking sector remains under pressure as a consequence of deposit outflows, while profitability is decreasing as a result of its participation to the PSI and the deterioration of the loan quality due to the deeper-than-expected recession. Liquidity and credit conditions are still tight. However, systemic problems have been avoided thanks to the expansion of a government program that guarantees for uncovered bank bonds, the exceptional liquidity support provided by the ECB, and the support from the Emergency Liquidity Financial Assistance from the BoG. In particular, Greek banks’ usage of the ECB liquidity at the end of August declined (by €3.4 billion) for the second month in a row, to €93 billion); banks have resorted to emergency liquidity assistance provided by BoG, with the government approving €60 billion in guarantees to facilitate it.

According to the BoG, in September 2011, total deposits fell by €8.4 billion mainly because of a fall in deposits of general government. At the same time, deposits of domestic households rose by €5.0 billion in September. In the January-September 2011 period, the cumulative fall in total deposits reached €34.0 billion.

The October 26-27 decision of the European Council on a deeper PSI, the requirement of a significantly higher capital ratio of 10 percent, and a further deterioration of the loans quality will likely impose significant recapitalizations to Greek banks. Capital increases could be covered by private sources and/or government support from the additional program financing for banks of up to 30 billion euro.

The recent amendment of the banking law ensures that non-viable banks can be resolved while protecting depositors' interest and preserving the stability of the financial system.

Structural Reforms

On structural reforms, despite certain delays partly due to initial measures' design and weaknesses in some public administration mechanisms, the ambitious agenda is moving ahead. On September 4th, the government announced a more intense reform effort to improve competitiveness. The authorities have already decided to drastically speed up the new structural payroll and grading system of the public sector employees, which will reduce expenditure in the public sector. They also decided to accelerate the creation of the labor reserve for the restructuring of public administration. In addition, they will enhance the liberalization of the labor market in promoting fully the institution of the firm-level contracts. Very significant reforms of national competitiveness have been also adopted: 1) pension reform; 2) labor market reform; 3) local administration reform; 4) health reform; 5) fast track process; 6) simplification of the start-up new business; and 7) restructuring of the railway and urban transport sectors.

To support timely and effective implementation of the program, the authorities are using large technical assistance from the EU and the IMF.

The authorities look forward to the conclusion of a sustainable and credible EU-IMF multi-annual program, and to a mechanism for the monitoring implementation of the reforms.