**ΠΑΡΑΡΤΗΜΑ \_V\_3\_ΑΓΓTechnical Memorandum Of Understanding**

February [], 2012

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 January 31, 2012. In particular, the exchange rates for the purposes of the program are set €1 = 1.3176 U.S. dollar, €1 = 100.63 Japanese yen, €1.1772= 1 SDR.

**General *Government***

1. **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, HLPAP, 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.

**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.

1. **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)**

1. **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 and payment made from the special budget allocation for clearance of arrears of any general government entity other than line ministries and public hospitals (NHS hospitals), 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, HLPAP, ELECTROMECHANICA KYMI LTD, INFORMATION SOCIETY IN GREECE, Unit for the Organization and Management of Development Projects S.A., and OSE.
	+ 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).
* **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.
1. **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.
	* 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.
	* Cumulative primary balances of general government entities other than line ministries and public hospitals (NHS) will be adjusted by subtracting a difference between cumulative transfers made to these entities from 2012 state budget allocation for clearance of arrears, and change in the stock of arrears from December 2011..
2. **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.
* Data on payments from the 2012 state budget allocation for clearance of arrears will be provided to the IMF, European Commission and ECB by the GAO in cooperation with the Statistics Department of the Bank of Greece on monthly basis within four weeks after the end of each month.

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

1. **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 minus, 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. It also excludes transfers made from the 2012 central budget allocation for clearance of arrears to any general government entities other than line ministries. 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.
2. **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)**

1. **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 plus transfers made out of the 2012 special budget allocation for clearance of past arrears. This does not include the arrears which are being accumulated by the Civil Servants’ Welfare Fund.
2. **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 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)**

1. **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.
2. **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 2011 ESA95 central government debt of 378.2 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.
3. **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)**

1. **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. The ceiling shall also exclude guarantees granted under a risk sharing instrument of the EU structural funds (see COM(2011) 655 final) that do not create contingent liabilities for the Greek State.
2. **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)**

1. **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.
2. **Supporting material**. The stockof 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)**

1. **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.
2. **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.
3. **Other**. For QPC monitoring, receipts from privatization are generally excluded (in line with paragraph 5 of the TMU) from cash revenue receipts. However, for 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 SBA 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.

**I. ESA “Program” Deficit and Overall Monitoring and Reporting Requirements**

1. 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 SBA program (including subsequent reviews).
2. 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.
3. **Monitoring of Structural Benchmarks**
4. **Benchmark on progress in revenue administration, 2012.** Progress in revenue administration in 2012 will be defined as reaching the targets set in table 1.
5. **Definition.** A completed audit is defined as an audit reported as formally finalized in the ELENXIS audit case management system, including signed off by the audit supervisor, and the taxpayer has settled or appealed the assessment, or the audit report states that no underpayment has occurred.
6. **Supporting material.** Monthly information on risk-based 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. Data submission will include data back to 2010. Information will continue to be provided after December 2012.
7. **Benchmark on progress in public financial management, 2012.** Progress in implementing public financial management reforms in 2012 will be defined as reaching the targets set in table 2.
8. **Definition.** The reporting institutional units (State and general government entities) include any unit under the general government as defined by Elstat as of [end-February] 2012, excluding additions of new entities under the control of sub-national governments. Any entity coming into the above definition after December 2011 could run commitment registers on a pilot base. Summary data reported on the e-portal from the commitment registers include all 11 fields now available under the e-portal.From end-June, entries under the e-portal will include an expanded set of fields, including cumulative appropriations released, commitments made, invoices received, and payments made.
9. **Supporting material.** Monthly summary information from the e-portal, surveys, and other sources on performance against the above indicators will be published by the General Accounting Office of the Ministry of Finance on their website no later than [four] weeks after the end of each month. Data submission will include data back to end-2011. Survey information will continue to be provided after December 2012 unless discrepancies between survey and e-portal data are eliminated.

