

INTERNATIONAL MONETARY FUND

GREECE

Request for Extended Arrangement Under the Extended Fund Facility

Prepared by the European Department in Consultation with Other Departments

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March 9, 2012

Extended Arrangement. The Greek authorities have requested a 4 year Extended Arrangement in an amount of SDR 23.7853 billion (2,158.8 percent of quota; €28 billion) with purchases equally phased and have notified the Fund of their cancellation of the existing Stand-By Arrangement. Euro area member states are expected to contribute a further €144.7 billion in 2012–14. The first Fund disbursement would amount to SDR 1.3991 billion (about €1.65 billion).

Background. Greece's efforts to address the combined fiscal and external imbalances built up through 2009 have led to a prolonged and deepening recession (the economy contracted for a fourth year in 2011, by 6.9 percent), and extremely tight financial conditions (some 30 percent of deposits have left the banking system since program inception, due to loss of confidence in the system and dissaving). Notwithstanding this, Greece made progress under the SBA in reducing its competitiveness gap (lowering unit labor costs by 9½ percent) and has made considerable progress with structural fiscal adjustment (reducing the primary deficit by some 6 percent of GDP). However, the competitiveness gap still reaches on average 15-20 percent and closing this will continue to apply downward pressure on economic activity. Another 5½ percent of GDP in primary fiscal improvement and some percent of GDP in privatizations are needed, alongside significant debt relief, to put public debt on a sustainable trajectory. Moreover, performance under the SBA has revealed that more time will be necessary to realize structural reforms to improve the fiscal position (e.g. tax collection) and economy-wide productivity. Deep social and political tensions and mounting popular discontent with economic policies will likely lead the authorities to call elections after the approval of the arrangement.

Main elements of the program:

- *Direct measures to improve Greek competitiveness through internal devaluation.* The program aims to make collective bargaining more effective, reduce the minimum wage, and lower nonwage labor costs. Measures to liberalize services will also help improve competitiveness. Earlier competitiveness gains should bring forward the recovery and help preserve employment.
- *Gradual fiscal adjustment built on structural expenditure reforms and improvements in tax collection.* Fiscal adjustment will be backloaded to 2013–14 to help absorb the short term deflationary impact in 2012 of the internal devaluation strategy. Some 5½ percent of GDP in credible structural expenditure measures to reach the 2014 target (a primary surplus of 4½ percent of GDP) will be defined as a condition for completing the first program review. They will tackle social transfers (among other things), but strengthen the core social safety net to protect the most vulnerable.
- *Measures to restore financial sector stability.* Significant resources—€50 billion—will be set aside in the program to help banks cope with the impact of the recession and of restructuring of government debt. Private ownership will be maintained to the extent possible. The framework for bank resolution and recapitalization and for financial sector oversight will also be strengthened, to ensure effective stewardship of bank recapitalization funds.
- *A combination of private and official sector involvement to deliver enough debt relief to place debt on a trajectory to reach 120 percent of GDP by 2020.* Greece is expected to close a debt exchange with private bond holders prior to the approval of the arrangement, while Euro area member states have committed to provide financing on highly concessional terms. Indeed the Euro area member states have committed to provide long-term support to Greece on adequate terms, in the event this is necessary, provided Greece continues to adhere to program policies.

Risks. The program remains subject to notable implementation risks. In general, Greece has little if any margin to absorb adverse shocks or program slippages. In the event that policy implementation takes longer or falls short, the economy takes longer to respond to labor market and supply-side reforms, or fiscal multipliers are higher (reducing the growth path), a deeper recession and a much higher debt trajectory would be the likely result. Political risks linked to the electoral calendar create additional uncertainty about policy implementation (and staff has sought political assurances to ensure continuity in policy implementation; see paragraph 50). The materialization of these risks would most likely require additional debt relief by the official sector and, short of that, lead to a sovereign default. In the absence of continued official support and access to ECB refinancing operations, a disorderly euro exit would be unavoidable, heightening risks to the Fund (see the Supplement to the Staff Report: “Greece—Assessment of the Risks to the Fund and the Fund’s Liquidity Position”). Program design—in particular the even phasing of support and tight monitoring framework—helps to reduce these risks. The euro area member states’ commitment to provide long-term support to Greece on adequate terms is also a key consideration for staff’s recommendation to approve the proposed arrangement.

Discussions. See the Fund Relations Appendix

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

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I. INTRODUCTION

1. **The Greek authorities have requested a new 4 year Extended Arrangement with evenly phased purchases and notified the Fund of their cancelation of the existing SBA.**

The coalition government that assumed power in November 2011 was mandated to reach understandings with the EC/ECB/IMF on a new successor arrangement and to complete a PSI deal with private creditors. The two processes have moved in parallel since December, given the need to match program policies to program financing. Adaptations have been necessary given the evolving macro outlook for Greece and Europe, and the need to reinvigorate the reform agenda and deliver swifter adjustment. With the completion of the debt exchange, and proposed approval of the program, the Greek authorities are expected to call elections to establish a new government mandate. However, the precise electoral dynamics remain uncertain, with up to five parties garnering double-digit support in recent polls, suggesting a continuing coalition. The leaders of the two main parties in the existing coalition—a third smaller party dropped out during program negotiations—have provided assurances to Fund management that they are committed to the objectives and main policies of the program.

2. **Greece has made some progress towards the ambitious objectives set for the SBA, but remains some distance from achieving them.** The SBA included a set of ambitious policies and reforms aimed at (i) securing fiscal sustainability; (ii) restoring competitiveness and growth; and (iii) preserving financial stability. Performance under the SBA was initially good with a number of accomplishments, but became uneven beginning in late 2010 due to increasing political and social tensions, problems with implementation capacity, and strong recessionary headwinds (Tables 1–2). Overall, while Greece made some progress towards its objectives, it has been unable to realize the necessarily ambitious pace of fiscal adjustment and structural reforms, while macroeconomic outturns have been worse than projected, and market access was not restored as hoped.

II. THE ECONOMIC SETTING FOR THE NEW PROGRAM

3. **The Greek economy fell into deep twin structural deficits after euro adoption.** Easy access to financing at low interest rates fuelled rapid borrowing by the private and public sectors. Between euro accession in 2001 and 2009, private sector credit almost doubled in percent of GDP, financed mainly through the domestic banking system. Massive sovereign borrowing from international bond markets pushed government debt from 100 to about 130 percent of GDP during this timeframe. Rapid government spending growth—the structural primary balance deteriorated from a surplus of 4½ percent of GDP to a deficit of 14¼ percent of GDP—pushed the economy well beyond its potential, leading to wage increases beyond productivity growth, and inflation consistently above the level in Greece’s trading partners. Competitiveness deteriorated—the REER overvaluation reached an estimated 20–30 percent in 2009—while the current account deficit exceeded 14½ percent of GDP in 2007–08.

4. **Since 2009, Greece has been unwinding imbalances, but through deeper recession and slow improvements in competitiveness (Table 3):**

- **Real GDP** has declined by more than 13 percent since 2009 significantly undershooting SBA projections (Figure 1). Private investment led the downturn in 2009, while public retrenchment started only in 2010. With falling incomes and employment, private consumption took over as the main driver of the recession in 2011. Current and leading indicators suggest that domestic demand continues to contract sharply: retail trade volume shrank by around 11 percent year-on-year in the fourth quarter; industrial production declined by 11 percent year-on-year in the fourth quarter; the manufacturing PMI has fallen to close to historical lows; and industrial new orders declined by 8 percent in the fourth quarter of 2011. After robust growth earlier in the year, non-oil exports declined in November and December 2011, tourism turnover declined in the fourth quarter, and so far pre-bookings for 2012 have been below expectations.
- **HICP inflation** only fell below the Euro area average in mid-2011, sticking above SBA program projections. Even accounting for the impact of indirect tax changes, the adjustment is modest in comparison with other crisis countries, and in light of Greece's deep recession (Figure 2). This reflects still pervasive price rigidities in oligopolistic product and highly regulated service markets, coupled with inadequate flexibility in the labor market.
- **Competitiveness** gains are not yet evident on an economy-wide basis (Figure 3). The deflator-based real effective exchange rate has shown no improvement since 2009, owing to still high inflation. However, total economy unit labor costs (ULC) have fallen by about 9½ percent since their peak in early 2010, built on a cumulative 10-12 percent fall in hourly wages and a 7 percent decline in hours worked. Productivity growth has turned positive only at end-2011, as labor market adjustment has gathered speed, but this has come at the cost of rapidly rising unemployment. Overall, the slow adjustment despite deep recession again owes much to wage and price rigidities in labor and product markets.
- **The current account deficit** has remained close to 10 percent of GDP, a level well above SBA program projections, despite the deeper recession (Figure 4). Greece's low share of exports in output (on average 14 percent of GDP from 2007–11, excluding shipping), has stood in the way of a more rapid improvement, even given the small improvements in competitiveness. And the sharp import compression that generally accompanies a crisis has been avoided due to Greece's participation in a currency union (which has allowed fairly elastic external financing through the availability of ECB refinancing of the banking system). This has allowed significant consumption smoothing by the private sector (a sharp decline in savings), offsetting improvements in the public sector savings-investment balance.

Greece: Saving-Investment Balance, 2008-11
(in percent of GDP)

	2008	2009	2010	2011 est.
Private S-I balance	-10.4	2.3	-0.9	-1.9
Investment	20.7	15.4	13.9	12.6
Saving	10.4	17.7	13.0	10.8
Public S-I balance	-4.6	-13.5	-9.2	-7.9
Investment	2.9	2.9	2.3	2.1
Saving	-1.6	-10.5	-6.9	-5.8
Current account balance	-14.9	-11.1	-10.1	-9.8
Gross investment	23.7	18.3	16.2	14.7
Gross domestic saving	8.7	7.2	6.1	4.9

Source: IMF staff calculations.

5. **Market sentiment has collapsed since the onset of the crisis** (Figure 5). Sovereign spreads, which had risen to almost 10 percent before program inception, narrowed markedly in the first few months of the program, helped by ECB bond purchases under the SMP. However, worsening fundamentals, further adverse data revisions and, not least, public calls for a sovereign debt restructuring mechanism for the eurozone, sent bond and sovereign CDS spreads soaring in the last quarter of 2010. The restoration of market access, envisioned for late 2011 and 2012, became a distant prospect. Indeed, uncertainty related to the details of private sector involvement (PSI), first announced in June 2011, resulted in ever higher and more volatile spreads. By mid February 2012, 10-year bond spreads exceeded 3,200 bps and CDS spreads skyrocketed. After many months of discussions between the Greek authorities and an IIF-led creditor group, an agreement on the voluntary PSI was reached. The authorities announced the key terms of the debt exchange on February 21, 2012 and the exchange offer successfully closed on March 8, 2012 (with a short extension given to holders of foreign law bonds)(Box 1). Market reaction was muted, despite the immediate declaration by ISDA of a credit event.

6. **The recession and losses from government debt exposures have taken a deep toll on the banking system, undermining financial stability and necessitating a change in strategy** (Tables 4–5; Figure 6):

- **Bank solvency has become an acute problem.** Banks will no longer be able to delay recognition of losses on their government bond holdings, as the PSI deal will trigger impairments of about €22 billion, compared to system Tier 1 capital of €23.8 billion in September 2011. Regulatory capital will be wiped out for four banks representing 44 percent of system assets, while the remaining banks would end up significantly undercapitalized. The recession is also taking its toll, with nonperforming loans having reached 14.7 percent of total loans at end-September 2011 (the bulk being concentrated in the corporate and SME sectors). To assess loan quality looking forward, an independent international advisory firm (BlackRock) conducted a diagnostic exercise last year. Staff's preliminary estimates for stress scenarios, using

a similar methodology, point to system-wide loan losses over a three-year horizon in the range of €30–35 billion (before provisioning and future profits).

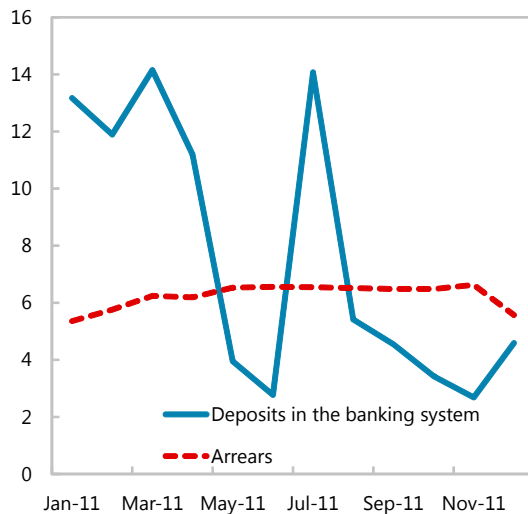
- **System liquidity remains exceptionally tight.** From end-2009 Greek banks have lost close to 30 percent of their deposit base (including 6.4 from end-2011). The steady outflows—a major deposit run has been avoided—appear driven by private sector dissaving as well as by capital flight to safe-havens outside of Greece (the latter representing about a quarter of total withdrawals). The Euro system has stepped into the breach and by end-2011 had provided nearly €130 billion (or 60 percent of GDP) in support. Initial heavy reliance on Eurosystem liquidity support (with Eurosystem exposure peaking at €103 billion in mid-2011) is gradually being replaced by Emergency Liquidity Assistance (ELA) from the Bank of Greece (BoG). The switch to ELA is imposing additional costs on banks, as the interest rate and fees are higher than under the ECB window, but this remains an inexpensive form of financing for banks.
- **Banks have been deleveraging at an increasing pace.** Banks initially focused on asset disposals, selling non-core foreign assets (realizing €950 million in sales of loan portfolios), cutting claims on foreign financial institutions, and reducing security holdings. But they have also reduced credit to the private sector, with new corporate credit lines having largely dried up by late 2008, and total credit being on the decline since mid-2010. Sole proprietors and consumer credit have been affected the most (-6½ percent in 2011), and, as of September 2011, credit to corporations also turned negative. While credit demand has also contracted, industry and banking surveys suggest that tight credit supply and lack of trade credit are the main constraining factors, generating a negative feedback loop through the economy that has put further pressure on the banking system.
- **Banks have also been making efforts to raise capital under difficult market conditions.** A few large banks are taking steps to implement plans mixing liability management exercises (buybacks of hybrids or subordinated debt), issuance of preferred shares to the state (in exchange for PSI-exempt government bonds), and recapitalization by foreign parent banks. In total, these efforts have raised approximately €4.3 billion of Core Tier 1 capital, or percent of the pre-PSI system Core Tier I capital. A merger previously announced between Alpha Bank and EFG Bank, supported by a sovereign wealth fund, has been called off by Alpha Bank.
- **In light of the evolving situation in the banking system, the authorities' efforts have shifted from backstopping private banks to strengthening the framework for recapitalization and resolution.** The HFSF was established at the outset of the SBA in 2010 as a capital backstop for viable banks (in case they could not raise capital through the markets). As the situation has deteriorated, the authorities strengthened the resolution framework, introducing additional tools in Q4 2011 to

allow orderly resolution, including purchase and assumption transactions, and bridge banks, and made plans to set aside markedly more funds for bank recapitalization.

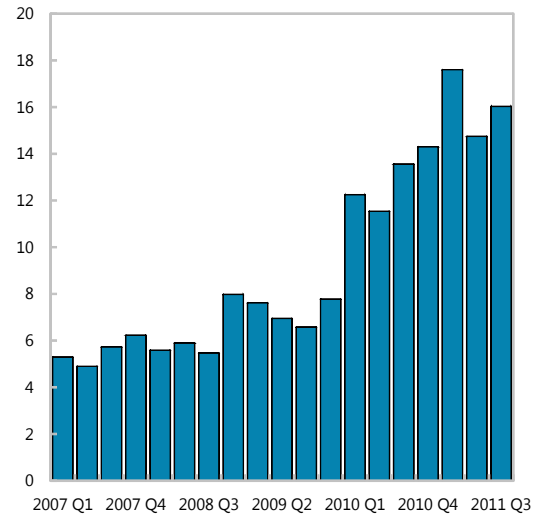
7. **The fiscal deficit has improved considerably, but remains large** (Table 6; Figure 7).

- Greece achieved a cumulative improvement in the primary balance of $8\frac{1}{4}$ percentage points of GDP between 2009 and 2011, on the back of VAT, income and property tax increases, and cuts in wages, pensions, and public employment. Still, the primary deficit achieved in 2011— $2\frac{1}{2}$ percent of GDP—fell short of the initial program target for 2011 by some $1\frac{1}{2}$ percent of GDP. It remains well below the long-run debt stabilizing level of a $1\frac{1}{2}$ percent of GDP primary surplus. The deeper recession, uneven policy implementation, and revisions to 2009 base data have all played a role in this shortfall. The most recent results for 2011 have been a continuation of earlier trends, with a slight shortfall in performance (a $\frac{1}{4}$ percent of GDP overrun versus the revised overall deficit target). The 2011 data point in particular to a continuing arrears problem (in part due to tight government liquidity constraints), and a growing revenue collection problem, centered in weak social contribution compliance. Final 2011 data are due in April, and there is a risk of upward revisions in arrears and the general government deficit.

Public sector: central government deposits in the banking system and arrears (in billion of Euro)



Social Security Contribution Collection Shortfalls (in percent of assessed amount)



- While there has been progress with fiscal consolidation, the imbalance between the size of the state and its capacity to collect revenue remains a key problem. Greece spends about as much as other Euro area countries (relative to GDP), but its revenue ratio, while high in absolute terms, remains well below other European countries. The

problem can be traced to poor direct tax collections, reflecting a narrow base and widespread tax evasion. But this is an enduring problem in Greece. The massive deterioration in the underlying fiscal position over the last decade can be largely attributed to an expansion of social spending (particularly health and pension expenditures), of over 6 percent of GDP. Since 2009, the authorities have managed to both raise total revenues and cut total spending, but there has been no progress in lifting direct tax collections. And while the authorities have undertaken a pension reform with very beneficial long-term impacts, there have been limited reductions in existing social transfers.

Greece: Revenues and expenditures compared to EU average.
(in percent of GDP)

	2001	2008	2009	2010	2011	EU avg. 2008-10 1/
Revenue	40.9	40.7	38.0	39.5	41.0	44.3
Indirect taxes	13.3	12.4	11.3	12.0	12.7	12.8
Direct taxes	8.6	8.0	8.3	7.7	8.3	12.7
Social contributions	12.6	13.2	12.7	13.1	12.4	13.9
Non-tax and other	6.5	7.0	5.7	6.7	7.7	5
Total expenditure	45.3	50.6	53.8	50.2	50.3	49.6
Wages	10.4	12.0	13.4	12.1	12.0	10.9
Social benefits	15.4	19.6	21.1	20.8	21.6	20.7
Other current spending	7.3	8.1	8.9	7.7	6.7	11.1
Interest	6.5	5.1	5.1	5.8	6.9	2.7
Investment	5.8	5.7	5.2	3.9	3.1	4.3

1/ Averages for sub-categories of expenditure refer to the 2008-09 period.

8. Strengthening of fiscal institutions is well underway, but is proving to be a complex and time-consuming task (Table 7).

- Greece entered the crisis with a dysfunctional **revenue administration**. Problems plague all stages of the collection process. The VAT gap and the shadow economy are the highest in the EU, while collection of tax debt and verifications of tax payers are among the lowest in the OECD.

In 2010, the authorities started to implement a medium-term revenue administration reform plan. New central units have been established for audits, debt collection, and large taxpayers. However, the framework is not yet functional. There have been long delays in hiring auditors and establishing basic operational functions such as collection enforcement.

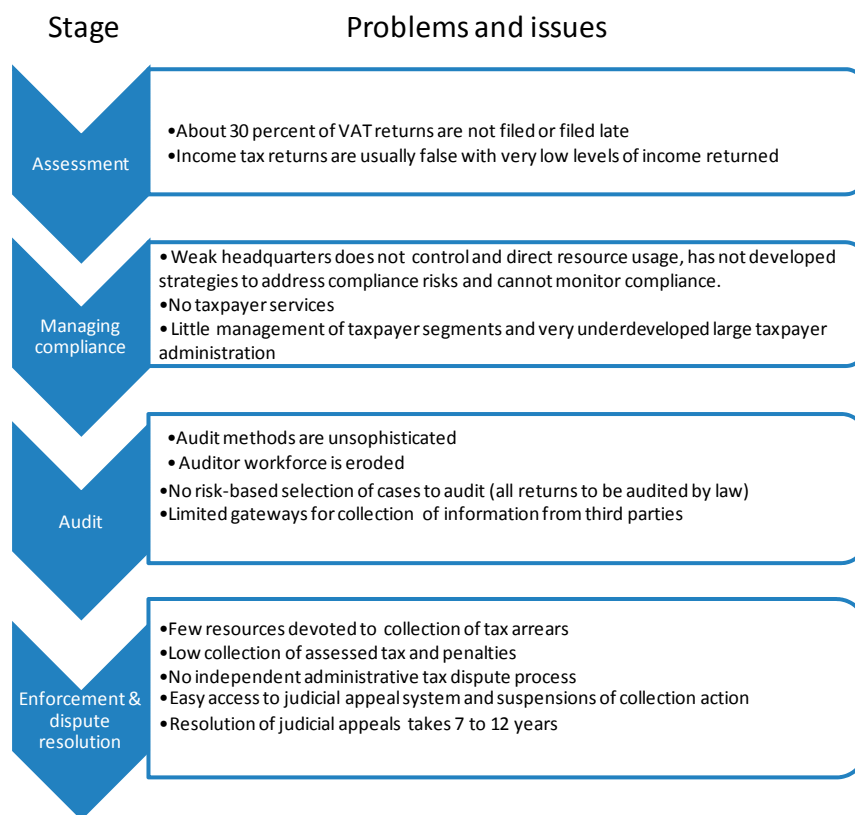
Audits of large taxpayers fell below the 2011 annual targets, and the quality of audits remained low. Limited political support and strong institutional resistance have contributed to delays. Overall, gains from the reforms have been modest to date.

Greece. Tax Evasion and Revenue Administration
Performance
(percentage values)

VAT Gap (2006)	
Greece	30.0
EU-25 average	12.0
Shadow economy (2010)	
Greece	25.2
OECD, 21 average	13.4
Tax debt to annual net revenue (2009)	
Greece (2011 estimate)	72.2
OECD average	12.3
Number of verifications to taxpayers (2007)	
Greece	0.2
OECD average	4.1

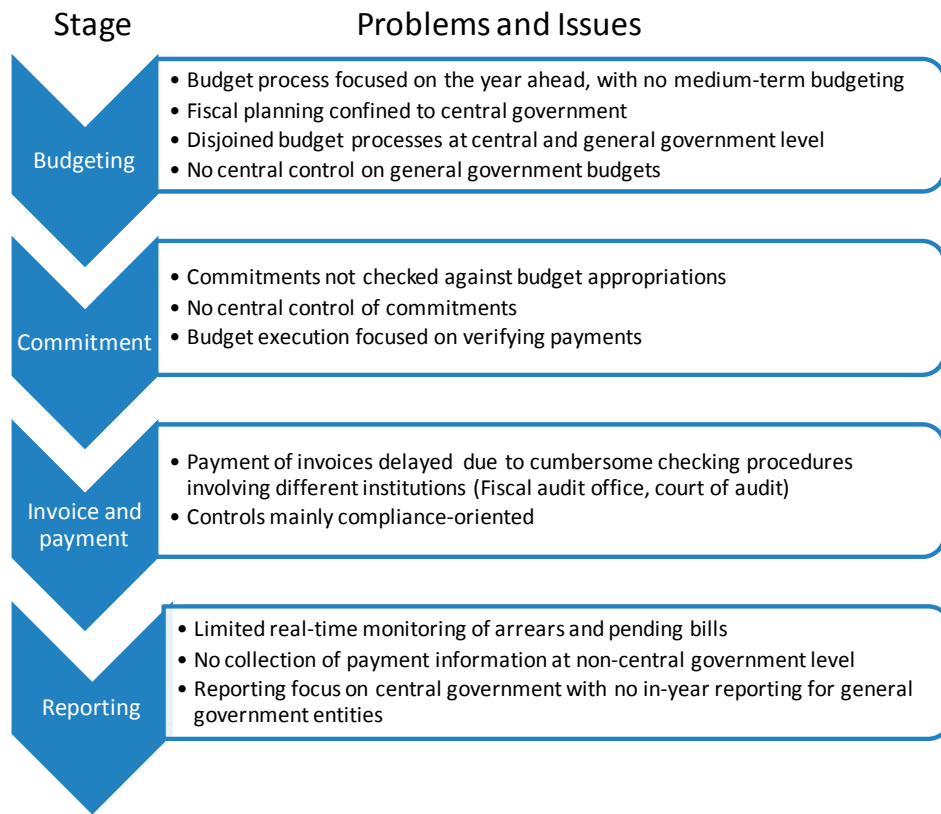
Sources: OECD 2010, EC 2009, Schneider 2010.

Greece: Problems in Revenue Administration



- Greece has also had very weak **public financial management** systems, as reflected in domestic arrears amounting to 2½ percent of GDP at end-2009. Problems have marred all stages of the spending process, including budgeting, spending control, and reporting (text figure). To address these, in 2010 the authorities adopted a new budget framework law and started putting in place spending control and comprehensive fiscal reporting mechanisms. Commitment-based controls are now becoming operational, with the appointments of permanent accounting officers in line ministries and improved reporting from commitment registers (with about 40 percent of line ministries and central services and about 60 percent of other general government entities reporting data in November). However, arrears remained a problem in 2011. Fiscal reporting has also improved, but lack of detailed data for general government entities remains an issue. Overall, the limited progress reflects a combination of implementation problems, inadequate resources (relative to the increasing needs created by the crisis) and the complexity of the reforms.

Greece: Problems in Public Financial Management



9. **Greece has launched a very ambitious privatization program to help support growth and debt reduction, but the work is still in an initial stage.** The preparation of the assets has revealed that they are often encumbered by multiple problems that take time to be resolved, including unclear titles and ownership, debts, complicated contractual obligations, state-aid issues, and resistance by incumbents and/or related parties to bring the assets to market or restructure them. Furthermore, market uncertainty about the outcome of the PSI process has caused a drying-up of interest since late last year. Nevertheless, Greece has made good progress in the preparation of important assets, including the state lottery, the gas corporation, the land of the old Athens airport (Hellenicon), as well as the gaming company OPAP, and these are slated to be brought to the point of sale in 2012. By end-2011, Greece had sold €1.6 billion of public assets (compared to the original privatization target of €5 billion).

10. **The authorities' bold structural reform program, after a good start, fell into uneven implementation** (Table 8). Since euro accession, Greece has failed to integrate its production into the single market, which has resulted in large competitiveness and labor productivity gaps relative to peers. To eliminate these gaps, the authorities developed at the onset of the SBA a comprehensive structural reform agenda aimed at reducing rigidities in the labor market, liberalizing services, and improving the business environment. These reforms were expected to bring Greece more in line with its peers on various competitiveness

indicators (Figure 8). Despite good initial steps—for instance, labor market reforms addressing high entry/exit costs—implementation has weakened due to capacity constraints, lack of a management structure overseeing the reform process, and resistance from vested interests. Delays in secondary legislation (i.e. regulated professions, licensing, strengthening the competition authority) have repeatedly frustrated timelines. This, combined with adverse economic circumstances (business investment remains dependent on financing and macroeconomic stability even with reforms), have left results elusive. Still, in late 2011, the authorities did manage to break from this pattern and pass important legislation to eliminate the automatic extension of sectoral labor agreements to all firms in a sector. Some results from this reform are already evident, with 81 firm-level agreements (covering 28,000 employees) signed between November 2011 and January 2012.

III. STRATEGY

11. **The new Greek program, whose prospects for success are now supported by substantial financial relief from the official and private sectors, must continue to focus on three key objectives** (MEFP ¶1). As first defined in the Stand-By Arrangement, the priorities are to: (i) restore competitiveness and growth; (ii) restore fiscal sustainability; and (iii) secure financial stability. As noted above, there has been progress in each of these areas: some improvement in unit labor costs, a good deal of primary fiscal adjustment, and a strengthening of the framework for bank recapitalization and resolution. Still, Greece remains a significant distance from attaining these objectives, with a competitiveness gap still measured at around 15–20 percent of GDP, a financial system that must be brought back to solvency, and a primary fiscal deficit almost 4 percent of GDP below the debt-stabilizing level of primary surplus (and even further below the level that would need to be achieved to bring Greece’s high debt down). Moreover, as noted at the outset of the SBA, these objectives are difficult to jointly realize. The economy’s tendency to correct the competitiveness gap through wage and price reductions, and thus a deep recession, works directly against efforts to improve the fiscal position and financial stability. And efforts to improve the fiscal position, without a competitiveness boost, generate large negative multiplier effects (with no interest rate and exchange rate channels to offer offsets).

12. **The uneven progress towards restoring competitiveness points to a need to recalibrate the program strategy.** Restoring growth through stronger competitiveness is critical to program success. The SBA recognized that structural reforms could underpin stronger medium-term growth and help to mitigate negative feedback loops between the fiscal position and macroeconomic outcomes, by improving competitiveness through productivity growth and thus by shifting demand onto the tradables sector. However, with the ultimate magnitude and timing of the effects inherently uncertain—global experience

suggests that deep reforms can take up to a decade to mature and produce results¹—the strategy required rapid, full and effective implementation of reforms to have a chance of success. Time has revealed that Greece does not have the capacity for this type of strategy.

13. An alternative approach centered on euro exit would be very costly, especially if attempted unilaterally without external support. In this alternative approach, exchange rate overvaluation could be promptly corrected via devaluation, while inflation/default would quickly address public debt problems (by destroying private sector savings and exporting costs to foreign creditors). However, there would be other complications. Balance sheet analysis suggests a rapid devaluation would severely impair the financial system, potentially triggering deposit outflows that could be contained only with controls. And while the private sector is well hedged in aggregate, the variance across individual exposures is unknown. A steep fall in domestic activity is likely due to financial sector conditions and the impact of uncertainty and disorganization on private spending decisions. And there is a high risk that Greece would not settle into a good steady state (Box 2). At the same time, concerns about international systemic spillovers remain, in particular due to the slow progress in Europe in establishing adequate crisis management mechanisms (the firewall). These domestic costs, uncertainty about the availability of external support to minimize dislocations, and contagion risks argue for another effort to implement an adjustment effort within the euro. This judgment is held strongly by Greece and its European partners.

14. Resolving Greece’s balance of payments problem within the euro will require a shift in the structural reform strategy to directly prioritize internal devaluation (MEFP ¶2). Essentially, with productivity channels having proven too uncertain and sluggish to rely on, unit labor cost improvements must be realized primarily through nominal wage reductions. This in turn requires a thorough removal of labor market rigidities. The switch in strategy has implications for the calibration of the macro framework and other policies: (i) effective execution of the program strategy should help Greece pull forward its recovery, but it will be deflationary; (ii) the impact on the fiscal consolidation effort must be addressed (downwardly rigid expenditures would delay deficit improvements, all else equal); (iii) the added impact on the financial system must also be addressed (as incomes fall, loan quality will suffer); (iv) product market structural reforms need to be accelerated (to convert wage to price competitiveness, and to reduce the impact on real incomes); and (v) the core social safety net must be strengthened to protect the most vulnerable. Global precedents for attempting such a strategy are few, but do offer some lessons (Box 3). In particular, with Greece’s starting situation extremely challenging relative to other cases, political resolve and bold front-loaded reform implementation are absolutely critical for internal devaluation to work.

¹ For several case studies, see Velculescu, 2009 “Structural Reforms in Greece, Lessons from other Countries,” IMF Country Report No. 09/245. For cross-country empirical evidence see “Fostering Structural Reforms in Industrial Countries,” Chapter III of the World Economic Outlook, April 2004.

15. **Given Greece’s high debt levels, resolving its balance of payments problem within the euro will require debt relief and long-term transfers from its European partners.** Scaling the nominal economy back to a level where Greece is competitive—which under the revised program strategy will take several years—also will drive up the already high debt ratio. The program can lay the groundwork to restore debt to a sustainable trajectory and to restore market access. But even with private sector involvement to bring debt down and reduce rollover pressures, financing needs will remain sizable and restoring full market access will take time. As an integral aspect of the proposed program design, long-term European support at low interest rates—or on more concessional terms should conditions turn out worse than projected—would help the authorities succeed in their adjustment program and ensure debt remains sustainable. European leaders are recognizing this and have explicitly committed to provide financial support on adequate terms to backstop Greece’s return to market access, which is also key to ensure timely Fund repurchases.

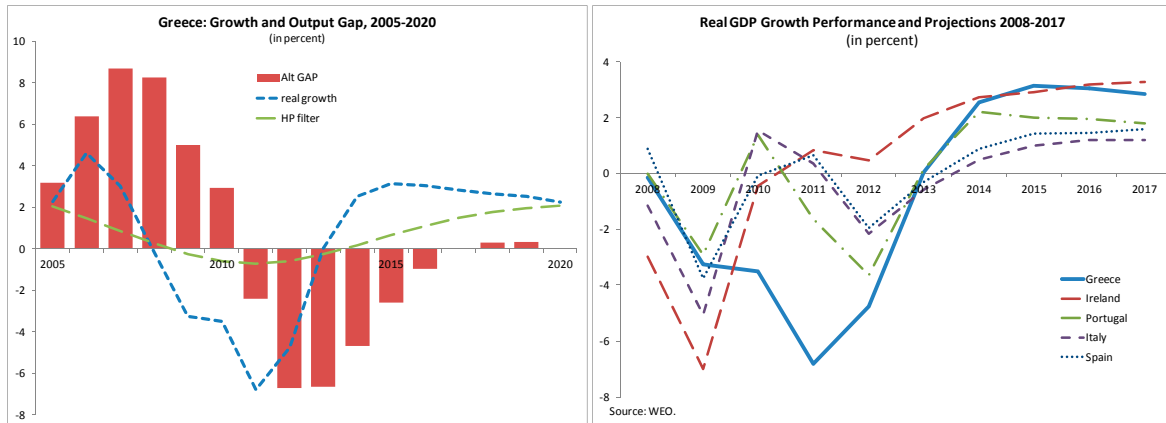
IV. DISCUSSIONS

A. The Macroeconomic Framework

16. **The macro economic framework for the new program reflects a number of factors that bear on how fast Greece will be able to complete its adjustment:**

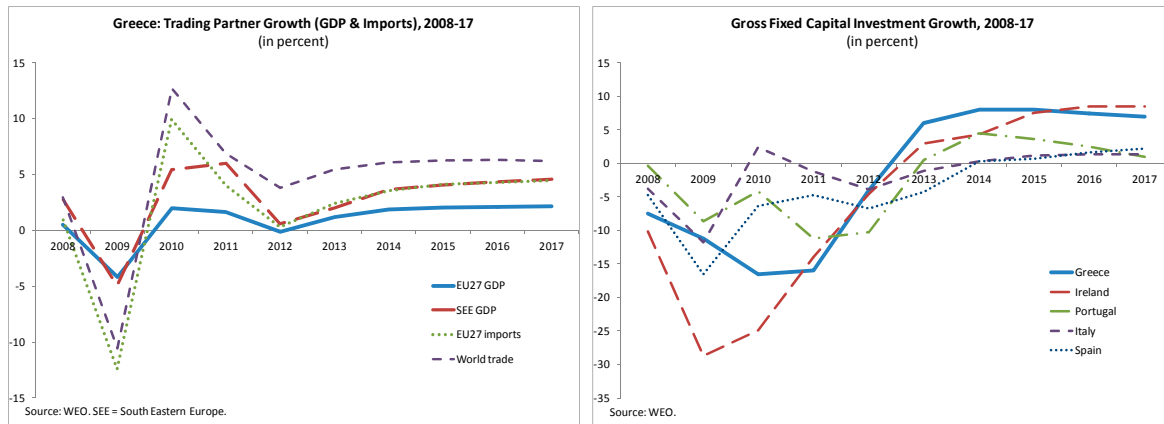
- **Structural versus cyclical factors.** Greece’s recession is modeled as mainly structural: the pattern of production that emerged during Greece’s decade in the euro—built on unsustainably high domestic demand—cannot be maintained. Resource reallocation will make obsolete parts of the physical and human capital stock, and protracted unemployment will likely erode skills. However, there is some potential for a cyclical recovery, in particular in manufacturing, which is currently at an all-time low, with the production of consumer durables and capital goods at only 50 percent of pre-crisis output level, but also in the service sector (tourism, transport, and communication), where output has declined by almost 20 percent from its 2008 peak. Looking into the medium term, potential growth could reach 2 percent per year through 2020, in line with underlying factor accumulation and likely total factor productivity gains from structural reforms.² However, given adverse demographic trends, potential growth is expected to fall to around 1–1½ percent per year in the long run.

² See, Bouis, R. and R. Duval (2011), “Raising Potential Growth After the Crisis: A Quantitative Assessment of the Potential Gains from Various Structural Reforms in the OECD Area and Beyond“, OECD Economics Department Working Paper, No. 835, OECD Publishing. <http://dx.doi.org/10.1787/5kgk9qj18s8n-en>



- Policy settings.** The need for further significant fiscal adjustment represents a drag on short- and medium-term growth. The program assumes an overall fiscal multiplier of 0.5, broadly in line with empirical estimates by the OECD and the Greek authorities (and consistent with Greece's import ratio, high indebtedness level, and the program experience so far). Labor market reforms are also expected to represent a drag in the near term, as incomes fall, bringing spending down with them. But improved competitiveness is expected to promote exports (e.g. in the labor-intensive tourism sector) and investment in tradable-sector capacity. The reforms are expected to affect those already working at the minimum wage in the short term (less than 15 percent of the private sector workforce), with spillovers to other wage earners over time, and with collective bargaining reforms also having a separate gradual impact. Lower wage levels are expected to gradually transmit to lower prices. To give a sense of this transmission mechanism, it is assumed to take about a 25 percent reduction in the minimum wage, to reduce average wages in the total economy by 5 percent. About three years operating under the new collective bargaining framework is assessed to deliver an additional impact of the same magnitude (on top of effects already in the previous program baseline). For each 5 percent reduction in average wages, the result is expected to be a 3 percent cumulative reduction in the deflator over three years, all else equal.
- External conditions and investor sentiment.** Given program policy settings, domestic consumption is expected to be suppressed for some time (this is the main channel through which the Greek economy needs to adjust). External demand and investor sentiment (to enable an expansion of tradables capacity) are thus crucial to a sustainable recovery in Greece. The outlook for demand in Greece's trading partners is taken from the preliminary spring 2012 IMF WEO forecasts, which reflect the most recent developments in Europe. Investment is projected to track increases in external demand (with higher sales providing internal sources of funding) and increases in the profit share in income (consequent on labor market reforms), and follow on successful program implementation (which should encourage repatriation of capital, and FDI). Liquidity conditions in banks are not anticipated to be an independent

source of disturbance to firms' investment plans, as bank funding from the ECB has been programmed in line with expected macro developments.



17. **The interplay of these factors is expected to extend the recession in the near term, but a moderate recovery could emerge during the first half of 2013 (MEFP ¶13)** (Tables 9–10, Figure 9). Growth in 2012 would be in the $-4\frac{1}{2}$ to -5 percent range, given the dominant influence of fiscal adjustment and labor market reforms. The recovery would begin, quarter-over-quarter, in 2013, and benefit from a moderate cyclical component in 2014–16. Concerning price movements, the framework is built on mild deflation in 2012–14 (in the 0 to -1 percent range), followed by slow recovery to average European rates as Greece's output gap is eliminated in the second half of the decade. Competitiveness on a ULC basis should be restored by 2015 (a cumulative improvement in ULC of 15 percent); on a price basis this could take 5–7 years longer (with the resultant real wage reductions underpinning investment, as noted above). The current account is expected to be in balance by late in the decade, reflecting the combined benefit of debt restructuring (on interest payments), competitiveness improvements (on the trade balance), and fiscal adjustment (on domestic absorption).

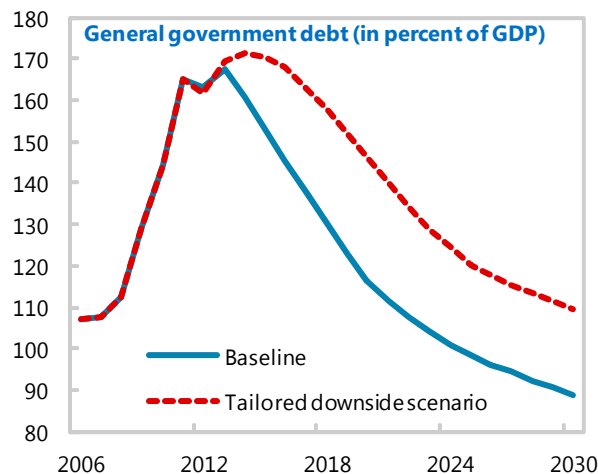
18. **The projected Greek adjustment would profile between the extremes seen in past adjustments conducted under rigid exchange rate regimes** (Figure 10). Comparators include the recent Baltic cases and the earlier German (early 2000s) and Dutch (early 1980s) cases. Despite a sharper initial fiscal adjustment, the economic slump in Greece has not been as deep as in the Baltics, although it is projected to be more prolonged. Likewise, labor market (both with respect to employment and wages) and external account adjustments have proceeded in a more gradual manner so far, although they are expected to eventually catch up with the Baltic comparators, by far exceeding the employment losses suffered by Germany and the Netherlands during their adjustment periods. Finally, as a result of indirect tax hikes and deeply entrenched product and service market rigidities, disinflation has been delayed and is expected to be less pronounced than in the case of Baltic comparators.

19. **Significant downside risks remain to this outlook.** The macro adjustment could be deeper and more prolonged than currently projected. External demand may be muted by

continued problems in the eurozone, investor sentiment could take time to catch up with program implementation, or bank deleveraging could proceed at a more rapid-than-envisioned speed undermining corporate investment. Internally, fiscal multipliers could prove larger given the closed nature of the economy, the absence of an interest rate reaction channel, and the depressed level of output. Moreover, policy implementation could lag or fall short (due to administrative capacity constraints or renewed social and political unrest), subverting improvements in public debt and competitiveness. The hoped-for export-driven recovery would then almost certainly give way to a deeper recession marked by import compression to force Greece within its external financing constraint. On the upside, at least in the medium term, the adjustment of wages and prices and/or productivity could proceed faster than staff is forecasting, with stronger competitiveness bringing forward a stronger recovery.

20. **Under the new financing package involving both deep PSI and official support on highly concessional terms, debt would be sustainable in the medium term, albeit with risks** (MEFP ¶4; Appendix I):

- **Public debt.** Baseline projections indicate that the debt ratio would fall to 116½ percent of GDP in 2020, a still high level. In terms of trajectory, the PSI deal helps to initially reduce debt, but debt then spikes up again to 167 percent of GDP in 2013 due to the shrinking economy and incomplete fiscal adjustment. Once the fiscal adjustment is complete, growth has been restored, and privatization receipts are accruing, steady reductions in the debt ratio commence. Stress tests show that full and timely program implementation is critical to this outcome: incomplete fiscal adjustment, large privatization shortfalls, or delays in structural reform implementation (producing a slower economic recovery and fiscal adjustment) would see debt remain at very high and likely unsustainable levels.



- **External debt.** Baseline projections suggest that external debt could drop markedly by 2020. The net external debt-to-GDP ratio would peak at 113 percent of GDP in 2013 to rapidly decline to 72 percent of GDP by end-2020. External debt is set on a sustainable medium-term trajectory due first and foremost to improvements in the current account, which reaches a sustainable deficit by 2015 and switches indeed to a positive balance by 2019 (with the trade balance already in surplus after 2015). The deep PSI haircut and the additional OSI support from Euro area member states also have an important impact (indeed enough alone to offset the expected deterioration in the external environment). Still, as in the case of public debt, the trajectory is sensitive to shocks, summarized in the impact of the combined structural reform implementation shock, which would leave debt unsustainably high.

B. Economic Policies

Fiscal Policy

21. **Understandings were reached on a fiscal consolidation path** (MEFP ¶5) (Table 11). Discussions focused on striking the right balance between the speed of consolidation and the impact this would have on the real economy. The fiscal path accommodates the impact of deflationary labor market policies in 2012 by allowing a primary deficit of 1 percent of GDP (1¼ percent of GDP below the target established under the 5th Review under the SBA). Adjustments of 2¾ percentage points of GDP per year in 2013–14 are then projected to bring the primary balance to the new target of 4½ percent of GDP in 2014 (½ percent of GDP lower than at the time of the 5th SBA review, but still well above the debt-stabilizing level). Staff argued that demand effects from the implementation of structural reforms, as well as weaker economic prospects in Europe, called for a longer adjustment period (thus also allowing a more accommodative fiscal policy in the near term). The authorities argued that prolonging the adjustment path beyond 2014 would pose risks to credibility, and given resistance from their European partners, worried that this would be seen as a lack of commitment to Stability and Growth Pact targets. While the envisaged adjustment path is within the range experienced in other countries, and Greece achieved a primary balance of this size during 1999–2000, the pace remains very ambitious (Appendix 1).

22. **The authorities have identified new spending measures of about 1½ percent of GDP to secure the 2012 fiscal target** (MEFP ¶6-7) (Table 12). The 2012 fiscal position will already benefit from a number of measures set to take effect, including a broadening of the PIT base by almost 2 percent of GDP. The key new measures include: (i) a reduction in pharmaceutical spending by 27 percent (½ percent of GDP) to bring it closer to the average European spending level (through a variety of measures to lower average drug prices); (ii) a cut in pension spending of about 2½ percent, with the focus on higher main and supplementary pensions (net savings 0.2 percent of GDP); (iii) the extension of wage grid reforms to special wage regimes (covering judges, diplomats, political appointees, doctors

professors, police, and armed forces) to save about 0.1 percent of GDP (net of revenue losses); and (iv) a variety of cuts to operations, subsidies, and investment spending (generating savings of 0.7 percent of GDP). Overall, the new measures attack recent areas of high spending growth (drugs, wages), are generally progressive (e.g. the focus on high pensions), and reflect prioritization by the government (category (iv)). Legislative changes to support these measures will be implemented as **prior actions** for the program, together with a supplementary budget (see MEFP, Annexes I and II).

23. **Some 7 percent of GDP in additional measures will be needed to attain the 2014 fiscal target, and it was agreed these should focus primarily on the spending side** (MEFP ¶6). Baseline forecasts—with no new measures—show a 2014 primary deficit of about 1 percent of GDP, well short of the 4½ percent of GDP target. The projected evolution of the deficit reflects the expected cyclical evolution of the economy, various structural pressures in the budget (e.g. from social security funds), and already approved fiscal measures yet to have their full impact (e.g. planned reductions in public sector staffing). The needed amount of measures also accounts for fiscal multipliers. Box 4 discusses the baseline in more detail. The authorities and staff agreed that, beyond the crucial fight against tax evasion, new measures should be largely targeted on the expenditure side. Greece already has tax rates that are comparable to other European countries, and new burdens on the formal sector would pose an additional hurdle to the recovery. Given the capacity constraints in the Greek government bureaucracy, the understanding reached is that the adjustment should be focused on large expenditure measures that are both easy to implement and monitor.

24. **The authorities recognized that a deeper review of selected spending programs is required to identify 5½ percent of GDP toward the total adjustment through 2014** (MEFP ¶7). This review is expected to be completed by June 2012, with preliminary results in time for the 2013 budget cycle and preparation of the 2013–16 medium-term budget. Identification and, where possible, enactment of these measures will be a requirement to complete the first review and continued Fund support. With the deep cuts already planned to the public wage bill and operational spending, and given the need to preserve public investment, cuts will need to be generated by a reduction in the size of government, and, more importantly, by a reduction in overall social transfers (balanced by a strengthening of the core safety net). As noted earlier, social transfers are the area where spending has increased most explosively in the post euro accession period. Thus the focus will be on:

- **Review of social benefit programs** (proposed as a **structural benchmark** for end-June). Non-pension social benefits are complex, unequally distributed (e.g., depending on the fund), and poorly targeted (e.g., 60 percent of family benefits go to the top 40 percent of the income distribution). Moreover, internal devaluation will put pressure on the sustainability of fixed social benefits (which would rise in real terms). Left unreformed, social benefit settings could also contribute to high reservation wages, frustrating efforts to move workers out of unemployment spells. In this context, the authorities are to identify 1–2 percent of GDP in additional savings, with

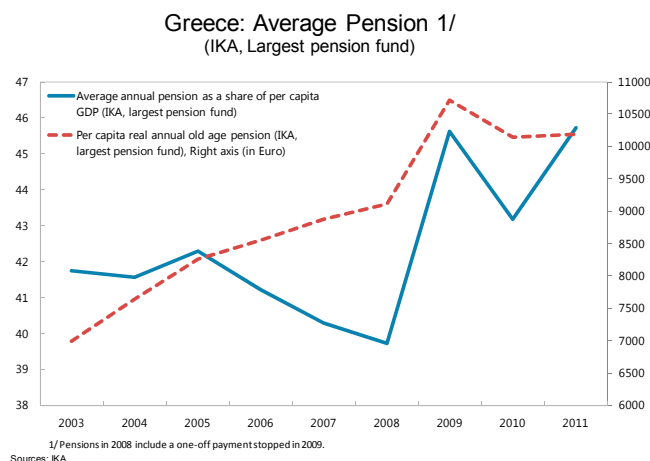
the focus on discontinuing non-essential programs and improving the targeting of core programs. The largest potential savings would be possible through replacing most existing programs with a single, income-tested minimum income scheme targeted at the bottom 20 percent of the income distribution (with presumptive income also used to control for evasion). Some savings from the reforms—targeted at ½-1 percent of GDP—would be reinvested in strengthening core programs (for instance unemployment benefits) to protect the most vulnerable.

- Review of government operations** (proposed as a **structural benchmark** for end-June). The Greek public administration is highly fragmented, has overlapping structures, and lacks coordination and adequate IT systems. By end-June 2012, the authorities intend to complete the review of government operations, expected to identify savings of at least 1 of GDP. Experience in other advanced economies (e.g. UK, Canada, Sweden, France) shows that efficiency dividends from restructuring government operations can range between 1–3 percent of GDP. The focus will be on restructuring the central and local public administration, closing and downsizing general government units, outsourcing functions, and identifying redundant staff (to help realize savings, the authorities committed to 15,000 mandatory separations for redundant staff by end-2012). The review will encompass defense spending (without compromising defense capabilities), the level of which is among the highest in Europe (in percent of GDP).
- Pension spending will also need to be reviewed.** The remaining 1–2 percent of GDP in savings would need to come via cuts in pensions. Earlier reforms bent down the cost curve in the long term, but did less for the near term. Indeed, pensions are projected to rise 0.6 percent of GDP above the European average by 2015 as the economy returns to potential at a more competitive price level. The government plans to introduce reforms to eliminate arrears and deficits in lump pension funds. And as the economy deflates to restore competitiveness, some of these cuts could be achieved without reducing pensions in real terms (and this is imperative to at least keep pensions in line with the evolution of wages). Still, some further real cuts will be necessary, targeted at higher income pensioners, and reflect a need to equitably distribute the real burden of adjustment in Greece (pensions, which have faced fewer cuts to date, have been rising as a share of per capita GDP).

Greece: Distributing the Burden of Adjustment
(change in incomes in percent)

	Reduction 2010-11	New measures 2012-15
Economic sectors		
Central administration	30	...
Special wage regimes	15	✓
State enterprises	35	...
Private sector	6.6	✓
Pensioners	15.7	✓

Source: Greek authorities and Fund estimates.



25. **Reforms of the tax system and revenue administration are expected to contribute 1½ percent of GDP to the adjustment (MEFP ¶8).** The focus will be on establishing a fairer tax system characterized by a more progressive tax burden. The bulk of the gains will need to come through better tax collection, particularly from the relatively affluent self-employed (the locus of much tax evasion in Greece). However, given the experience so far, and accounting for complexities of tax administration reforms (see below), potential gains have been back-loaded and aligned with the recovery of the economy (as firm liquidity constraints ease). They are programmed to be 1½ percent of GDP over 2013–14, an ambitious target. These reforms will be supported by a budget-neutral tax reform aimed at simplifying the tax system, broadening the tax base, and rebalancing the tax burden across tax categories to better support fairness and economic growth. The authorities have identified the main elements of a possible reform package, including: elimination of several tax exemptions and preferential tax regimes, simplification of the VAT and the property tax rates, a more uniform treatment of individual capital income, and the replacement of the Code of Books and Records with simpler legislation. The authorities plan to initiate soon a public consultation process and present a reform proposal for parliament approval by June 2012 (proposed as a **structural benchmark**).

26. **Understandings were reached on contingency plans in the event the fiscal program deviates from the expected path (MEFP ¶9).** If revenue collection efforts do not deliver expected gains, or if fiscal multipliers prove to be larger, the understanding is that deeper spending cuts would be needed to align the government's total spending with Greek citizen's willingness to pay and the level of income. The focus would be on adjustments in the public sector wage bill, social transfers (while protecting core social programs), and rationalization of other spending (including in the area of national defense). On the upside, better-than-expected yields from existing measures could create scope for a mix of additional deficit and debt reduction and pro-growth tax cuts. However, it was agreed that the structure of any tax cuts would need to be carefully calibrated to support the macroeconomic adjustment (indirect tax cuts could represent a fiscal "revaluation," working against internal

devaluation and worsening the external position, while social contribution rate cuts would support both internal devaluation and growth).

Fiscal Institutional Reforms

27. **Fiscal institutions need to be strengthened to achieve lasting improvements in revenue collection and expenditure control** (MEFP ¶11). Widespread tax evasion has eroded the fairness of the tax system and forced an increase in the tax burden on the formal economy (some 4¼ percent of GDP in additional revenue measures over 2011–15). At the same time, poor budgeting and spending controls have led to the accumulation of arrears and inflated procurement costs. Addressing these issues requires deep restructuring of the revenue administration and the public financial management system. Gains from these reforms can be significant: bringing VAT collection efficiency up to the EU average could increase revenue by 1½–3 percent of GDP, and recently introduced e-procurement systems in the health sector have produced large reductions in current expenses in spending units (up to 40 percent). However, international experience shows that these are complex reforms that take time to deliver results, suggesting that reform implementation should be of the highest priority.

Greece. Cross Country Experience with Deep Institutional Reform Programs

	Type of reform	Starting date	Final date/current status
Revenue Administration Reforms			
Bulgaria	Comprehensive reform: New unified revenue administration; consolidating 340 offices into 29 offices; upgrading headquarters functions; merging social contributions collection into tax administration; provision revenue management systems on an integrated computing platform.	Jan-00	2009, revenue management system only fully implemented in 2011
FYROM	Comprehensive reform: New tax procedures law; restructuring of headquarters and field offices; creation of a large taxpayer office; new HR policies for greater flexibility in hiring, firing, rewarding staff; new taxpayer services and enforcement programs; transferring responsibility for collecting social insurance contributions to tax agency.	Feb-05	January 2009, selected reforms have continued through 2012
Indonesia	Targeted reforms: Creation of a large taxpayer office; introduction of function-based organizational structure; a code of conduct for tax officers; acquisition of computer systems; improvements in taxpayer services.	Oct-01	2005, subsequently small and medium taxpayer offices were also created
Public Financial Management Reforms			
France	Targeted reform: Implementation of new organic budget law (August 2001), introducing program and performance budgeting for central government	Aug-01	Full implementation of all provisions of the new law took place in January 2006
United Kingdom	Targeted reform: Move from cash to accrual accounting and budgeting across the public sector (1995 White paper committed the government to such a reform)	1995	The July 2004 spending review was the first to be based on full accrual accounting for all government departments and agencies
Austria	Targeted reform: Implement a new budget law (2007), including a medium-term budget framework and accrual accounting	2007	Expected to be completed by 2013, when the new budget and IT systems will become operational

28. **Revenue administration reforms will be organized along three tracks** (MEFP ¶12) (Table 13). To reinvigorate the reform agenda, the authorities will take several upfront **prior actions** from the following areas of work (see MEFP, Annex III):

- **Strengthening enforcement:** The authorities have first and foremost committed to arrest the long tradition of amnesties and incentive schemes for the collection of taxes and social security contributions. They began by reversing an amnesty introduced in early January. They have also: (i) taken action to better deploy existing anti-money laundering tools in the fight against tax evasion (these criminal law measures should help improve detection of tax evasion and effectively impose deterrent sanctions); (ii) strengthened the tax-dispute resolution system (to speed up case processing); and (iii) amended legislation to discourage unsubstantiated judicial appeals (taxpayers must now demonstrate inability to pay in order to be able to access appeals without paying). To enhance institutional commitment to enforcement, the authorities agreed to establish a formal performance review system to assess managers and remove underperforming staff.
- **Strengthening the efficiency of tax administration operations.** To bring the organization in line with good international practice, the authorities will (i) strengthen headquarters functions and independence (delegation of administrative powers from the political level will be increased, matched with stronger headquarters control over local tax office operations); (ii) overhaul internal controls and the anti-corruption framework (which up to now have been lacking); (iii) consolidate far-flung operations (as a first step, by closing 200 small local offices by end-December 2012, as new central IT systems are gradually deployed); and (iv) raise capacity to perform key functions (e.g., by doubling the audit capacity of the large taxpayer unit, hiring a large number of additional auditors, and devoting more staff to collection enforcement and streamlining dispute resolution). The need for deeper institutional reforms will be assessed in the coming months.
- **Extending the reform program to social security collection.** To address growing problems with compliance, the authorities will take several upfront measures (including expanding the use of monthly declarations, pilot unified collection of large tax and social contribution debts, and enacting common tax and social contributions audits of large taxpayers). However, more work is needed to fully define the reform agenda in this area. Thus, the authorities will articulate a fully-fledged reform plan drawing on external assistance by end-September 2012 (**structural benchmark**).

29. **Public financial management reforms will also be built around three pillars** (MEFP ¶13) (Table 14). International experience has shown that durably correcting an arrears problem requires reinforcement of each of the three key stages of the spending process:

- **Improvements in budgeting and budget monitoring.** The authorities will focus on: (i) more rigorous procedures for preparing their medium-term budget; (ii) streamlining processes for within-year supplementary budgets (to allow them to

better respond within year to any problems that may arise); and (iii) better monitoring and control of the implementation of the social budget.

- **Spending controls.** The authorities will implement three steps to improve controls: (i) finalizing the roll-out of commitment registers to all units and to the investment budget; (ii) enacting sanctions for non-reporting; and (iii) gradually devolving financial responsibility to accounting officers to control commitments and oversee financial operations and fiscal reporting. As controls are improved and arrears stemmed, the government has indicated that it will release a special central budget allocation to public entities, provided for in the program, to gradually clear past (verified) arrears claims.
- **Fiscal reporting.** The authorities plan to collect more detailed revenue and spending data from all general government entities (the new system is expected to cover more than 90 percent of spending by end-June 2012).

30. **To sustain continuous progress and track achievements in reforming fiscal institutions, a number of performance indicators are included in the program** (MEFP ¶15). Semi-annual performance indicators (**structural benchmarks** under the program for end-June and end-December 2012) will cover revenue administration and public financial management reforms. Targets include both intermediate outputs (e.g., number of audits of large taxpayers and high-wealth and self-employed individuals, and number of units reporting data from commitment registers) and final outcomes (e.g., collection of new and old tax debt and assessed taxes, and spending coverage of commitment registers). It was agreed to set ambitious targets, to double achievements in targeted revenue administration areas compared to 2011, and to fully roll out the planned spending control mechanisms to all public entities and gradually extend fiscal reporting to cover more of the general government in greater detail (see the Technical Memorandum of Understanding to the MEFP).

Indicator	Performance to end-December 2011 1/	Targets to end-December 2011	Targets to end-December 2012	Past Practice
Revenue administration				
A. Audits				
Full audits of large taxpayers 2/	44	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 2/	57	225	325	
Audit of high wealth individuals	404	400	1,300	
B. Collection				
Collection of past tax debt	€946 million	€300 million	€2000 million	Historically weak debt collection rates (e.g. less than 1 percent for fines and penalties).
Collection of new tax debt accumulated in 2012 (New)	...	...	20 percent	
Collection of assessed taxes and penalties from new audits:				
• Large taxpayers	66 percent	20/30 percent	50 percent	
• High wealth individuals	47.5 percent	20/30 percent	50 percent	
• VAT non-filers	12.8 percent	20/30 percent	20 percent	
Public Financial Management				
A. Percent of spending units reporting data from commitment registers			90 percent	In December 2011, 31 percent of units reported data from commitment registers
B. Discrepancy in fiscal arrears reported by commitment registers and monthly surveys			1 percent	In October 2011, the discrepancy was about 37 percent

1/ Authorities' preliminary data.

2/ Reaching the End-December target is a prior action

Financial Sector Policies

31. **In the financial sector, the objective has shifted to restoring banking system stability** (MEFP ¶16). The PSI operation and recession have essentially wiped out bank capital, with recession and deflation set to have further impacts on loan quality. The discussions focused on: (i) refining the timeline for bank resolution and recapitalization; (ii) introducing the necessary support elements of the resolution and recapitalization strategy into the legal framework; (iii) ensuring adequate resources are available to support banks' recapitalization and liquidity needs; and (iv) strengthening the governance of the financial oversight framework to ensure appropriate stewardship of program funds.

32. **The authorities and staff refined the timeline for financial sector recapitalization and resolution** (MEFP ¶17). The financial sector strategy consists of five milestones:

- First, the authorities are currently undertaking a thorough assessment of total capital needs—capturing PSI losses, expected private loan losses identified by BlackRock, and other Pillar II risks (**prior action**).
- Second, by end-March, they will perform an in-depth assessment of the viability of banks' business plans, and also evaluate eligibility for recapitalization against a set of other viability criteria (e.g., track record, supervisory ratings, shareholder strength) (proposed as a **structural benchmark**). This is expected to identify, where necessary, possible resolution actions for specific banks. A detailed plan for how to address one state-owned bank (ATE) will be finalized (**prior action**).

- Third, banks will submit capital plans and by end-April 2012 viable banks will be given time to raise fresh capital in the market.
- Fourth, by end-September 2012, viable banks are expected to be recapitalized through a combination of private and, where necessary, public funds.
- Lastly, to address any lingering problems, by end-June 2013, a follow-up stress-testing exercise will be performed with a Pillar II stress test based on market values (proposed as a **structural benchmark**).

Specific safeguards have been designed to control risks as the recapitalization and resolution process plays out. The Bank of Greece will further intensify the monitoring of banks (including by placing a supervisor in undercapitalized banks); more actively assess bank restructuring plans required by European Commission as a result of state-aid; and introduce requirements for recovery and resolution plans (RRPs) for all banks.

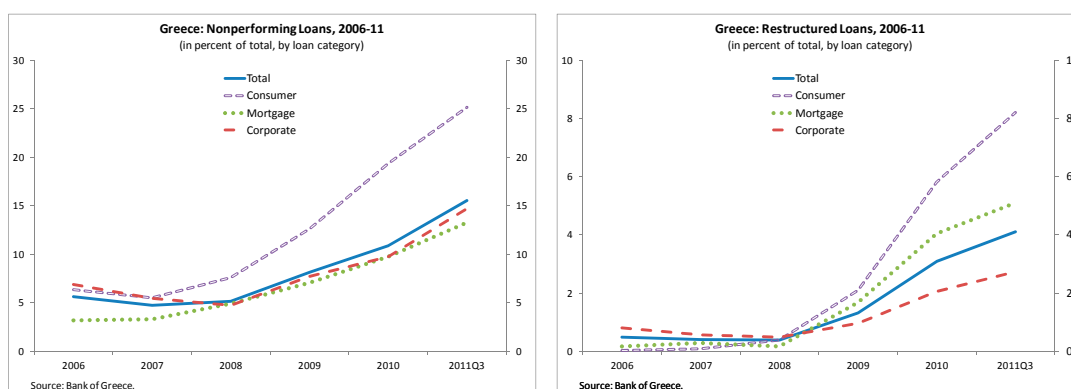


33. **To support the strategy for recap and resolution, a number of changes to the legal and supervisory framework will be implemented (prior action) (MEFP ¶):**

- **Capital requirements.** Higher Core Tier I requirements will be phased in. Banks will be required to reach a CT1 capital ratio of 9 percent by end-September 2012, and 10 percent by end-June 2013. Banks will also have to hold Pillar II capital buffers to meet a CT1 ratio of 7 percent under an adverse scenario for loan losses over the next three years. This assessment will be based on the results of the BlackRock exercise, but also take into account mitigating factors (such as existing provisions and future profitability), and provide for capital add-ons to capture additional risks (e.g., a weaker-than-expected macroeconomic outlook, state-related exposures, forward-looking provisioning in foreign subsidiaries, unhedged foreign-exchange household lending, impediments to creditor rights). While the assessment process in place is designed to be rigorous, the combined capital requirements provide a further buffer (they exceed regional and international standards). Through this approach, the authorities aim to reassure investors that banks are and will remain adequately capitalized, which will facilitate the resale of banks to the private sector, and banks' return to capital markets.
- **Recapitalization instruments.** To incentivize private sector participation in recapitalization, the public component will be done via common shares, with the voting rights of the state (via the HFSF) temporarily restricted in cases where the private sector materially contributes (this is essentially equivalent to the approach

used in Portugal). For example, a threshold for private contributions set at 10 percent of capital needs across banks would require about €3 billion to keep the viable portion of the banking sector in private hands. Private shareholders will also be given an option to purchase the government's stake. While the bulk of the recapitalization will be made of CT1 capital in line with Basel III requirements, contingent convertible bonds will be also be allowed, up to an amount scaled to the Pillar II requirements stemming from the BlackRock diagnostic. To contain the risk of asset stripping, the HFSF will continue to have voting rights when it comes to strategic decisions (e.g., asset sales, mergers).

- **Resolution framework.** To better address the systemic crisis in the financial sector, which could see a number of banks resolved simultaneously (with some delay until all assets migrate to fully capitalized banks), the functions for resolution and systemic restructuring have been separated. Resolution will remain with the BoG, while a new department will be established in the HFSF to handle interim credit institutions (bridge banks) established following resolution. (The authorities chose this model over a model of a separate department in the BoG since funds will be available through the HFSF). The HFSF must sell its stake in an interim credit institution within two years, although this deadline may be extended for an additional two years for the sake of financial stability. Given the outlook for 2014, an extension will almost certainly be required for holdings in many banks.
- **Managing resolution costs.** The authorities have committed to least-cost resolution of banks, with two qualifications: (i) all deposits would be protected (for financial stability reasons) and (ii) the Eurosystem's refinancing exposure would be protected (best international practice would see a central bank claim its collateral with any residual claim remaining in a "bad bank," and the fiscal authority recapitalizing the central bank as necessary). To minimize other costs, the authorities adjusted procedures to ensure conservative valuation of assets to be transferred to new banks, and provided more flexibility in the handling of labor contracts during resolution. Both of these issues proved problematic during the 2011 resolution of Proton Bank.
- **Framework for managing non-performing loans.** Separate from the prior action, the authorities committed to prepare, during Q2 2012, possible changes to the legal framework to facilitate restructuring of non-performing loans, with input from international experts and in line with EC/ECB/IMF advice. Banks have been restructuring loans, but deflation in the economy will pose a challenge, calling for a review of available mechanisms. Any changes will be guided by several principles, including the need to target interventions (in line with fiscal and financial sector capacity); preserve the payment culture and avoid strategic loan defaults; maximize asset recovery; and facilitate market distinctions between rehabilitation of viable borrowers and the efficient exit from the economy of non-viable borrowers.



34. Resources will be available for recapitalization/resolution and liquidity support.

- Recapitalization and resolution needs (MEFP ¶19):** Total bank recapitalization needs and resolution costs to be financed under the program are estimated to amount to €50 billion. About €1½ billion is already available through the HFSF; €25 billion will be made available upfront to deal with recapitalization needs arising from the PSI and the estimated funding gap due to resolutions; while €23½ billion will be made available in June to cover projected ongoing recap and resolution needs, and to backstop Pillar II needs (identified by the BlackRock exercise and reflecting other risks). The funding will most likely be in the form of short-term EFSF bonds, and will be in an escrow account until it is utilized. The availability of funding is expected to allow continued access to central bank credit and help convince host regulators in countries with Greek subsidiaries not to intervene in these subsidiaries (which would be detrimental to financial stability by imposing additional losses on Greek banks and rendering their income sources less diversified).
- Liquidity support (MEFP ¶20).** In the short term, banks' undercapitalization would create a significant complication for continued liquidity support, but availability of funds in an escrow account and rapid decisions on recap/resolution should allow continued assistance from the BoG in the form of ELA (this requires a government guarantee, but given the framework for recap and resolution such a guarantee is in any event redundant). Over time, Greek banks will need to gradually extricate themselves from dependence on the Eurosystem in an orderly fashion. To this end, their medium-term funding plans will be updated after completion of the PSI and recapitalization and restructuring exercise to ensure that the gradual unwinding of exceptional liquidity support proceeds at a pace consistent with the program's macroeconomic, fiscal, and financial framework. Preliminary staff projections suggest that it could take several years until Eurosystem exposures will be reduced to the Eurosystem average, even accounting for the significant reduction likely to take place once banks are recapitalized and become more liquid. This reduction in exposure is built on a recovery of private sector deposits starting in 2014 (Table 15),

and gradual restoration of market access over the next two to three years (banks are expected to be able to re-access markets before the sovereign, mainly due to their high capitalization and low sovereign exposures post-recapitalization).

35. **The overall strategy to support the system does depart from usual international practices due to Greece-specific circumstances** (Table 16). A typical recapitalization program would see viable banks recapitalized using government bonds (with perhaps some regulatory forbearance on capital ratios while problems are worked out) and the unwinding of unviable banks (with losses, including those arising from central bank liquidity support, fiscalized over time). In the Greek case, this approach has not proven possible owing to the need to secure liquidity support from the Eurosystem, and to reassure regulators of Greek bank subsidiaries in neighboring jurisdictions about the soundness of these subsidiaries' parents. One implication of this approach is that overall program financing rises significantly in the near term, and will essentially facilitate a large and rapid reduction in Eurosystem exposure to Greece, perhaps in the order of €50–60 billion (including the repayment of Euro system holdings of government bonds). Still temporary recapitalization of viable banks using new government bonds (in exchange for common shares) could prove a useful approach in the event of earlier-than-expected recapitalization needs.

36. **Governance arrangements in financial oversight agencies will be strengthened** (MEFP ¶21–22). The scale of the public resources committed to reconstituting and recapitalizing the banking system suggest that decisive actions to improve governance are a matter of priority. Understandings on the following actions were reached (the first two constituting **prior actions** for the program):

- For the **HFSF**, changes include: (i) measures to strengthen the independence and the professional capacity of its Board; (ii) accountability through the introduction of more efficient and transparent operating guidelines; and (iii) safeguards against political influence. Given the large amount of funds entrusted to the HFSF by Euro area member states, internationally reputable independent experts will be appointed, and all members will have to be approved by the Euro Working Group (EWG).
- For the **Deposit Insurance Fund** (the HDIGF), changes include: (i) revisions to investment guidelines to gradually eliminate re-deposits in covered banks; (ii) clarification of the status of the HDIGF as privileged creditor to ensure it does not impinge on claims secured with financial collateral; and (iii) strict limitations on individuals actively involved in credit institutions on becoming HDIGF Board members (to limit any conflicts of interest).
- Regarding the **Bank of Greece**, measures will be taken to address potential conflicts of interest in the execution of its public policy functions. Voting powers of private shareholders will be restricted and collegial decision making at the level of executives as well as internal oversight by non-executives in the General Council will be

introduced. The authorities aim to implement the actions as early as possible during 2012—the BoG may convene a shareholder meeting as early as April—but the actions are proposed as a **structural benchmark** for end-December 2012 (to ensure that organizational reform will not get in the way of managing the bank resolution).

Privatization

37. **The authorities reconfirmed their commitment to transfer a significant share of state assets to the private sector** (MEFP ¶23). The authorities noted that successful privatization would bring considerable benefits to Greece. First, the asset transfer would create a basis for new investment and productivity enhancements, growth, and employment, including through real estate development and improvements in existing enterprises. Second, privatization would help reduce public debt by an estimated ½ percent of GDP through 2020, saving Greece about 1 percent of GDP per year in interest. Lastly, as enterprise performance is improved with modern management, new technologies, and additional investment, it will create a stronger tax revenue and employment base which should help to reduce the fiscal adjustment burden.

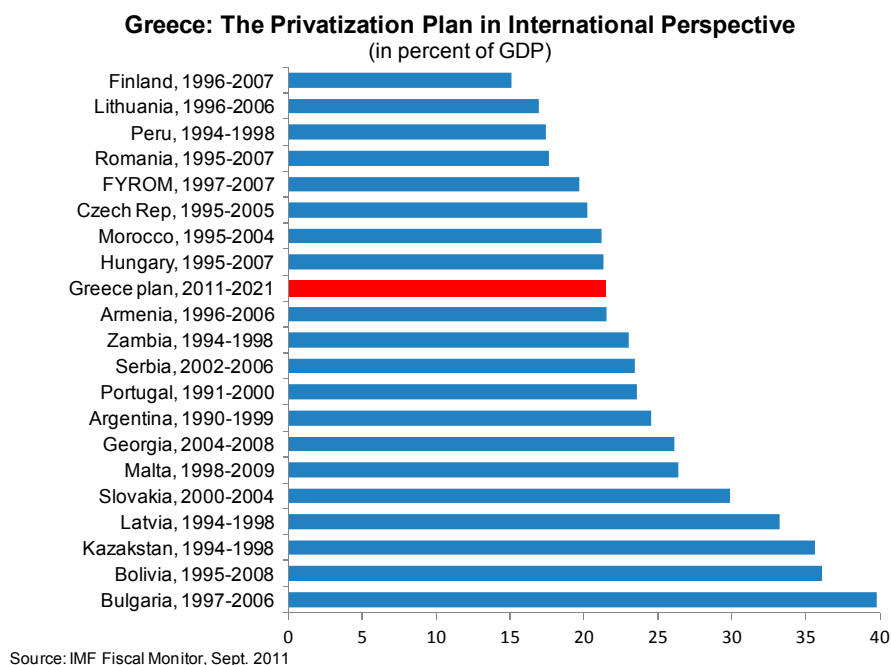
38. **The authorities and staff have reached understandings on a revised target path for privatization proceeds** (MEFP ¶24 and Annex IV). The government remains committed to selling €50 billion in assets (comprised of various state enterprises, infrastructure, concessions, and real estate). However, given currently weak market conditions, uncertainties about Greece’s near-term prospects, and the time needed to prepare the assets (see below), the authorities note that meeting the target will take considerably more time, indeed well beyond the program period. As a more realistic but still-ambitious target, the authorities expressed their commitment to achieve €19 billion in sales by 2015. The full €50 billion in assets would be sold by 2022. This scale and pace, reflected in the 5th SBA Review DSA, is broadly in line with a number of previous privatization programs (e.g. Portugal in the 1990s), assuming that the cost of selling assets is kept low. The authorities are preparing all assets to the point of sale as rapidly as possible, to be ready once market sentiment improves. They plan to prepare quarterly updates of the expected value of proceeds over a rolling two-year-ahead timeframe and stand ready to identify and prepare further assets (including sale of

Greece: Privatization Program

	No. of objects	Estimated value (in billions)	Timeframe during which sold
Total		50.0	
Listed public companies	11	3.4	2012-2015
Gaming/digital rights	7	2.1	2012-2015
Unlisted public companies	13	2.9	2012-2015
Infrastructure	12	6.4	2012-2015
Financial sector assets	...	16.0	2012-2016
Real estate	49	1.0	2012-2020
Real estate land	70,000	18.2	2012-2022

Note: values as estimated at the beginning of the privatization program.

stakes in public corporations not now included) to close any asset gap that could emerge or any net proceeds gap created due to higher-than-expected costs of selling assets.



39. **The focus of the discussions was on steps needed to prepare assets for sale** (MEFP ¶25–26, Annex IV). These relate to removing legal uncertainties and/or restructuring the assets, filling in public policy and regulatory policy gaps, obtaining EC clearances (for procurement, competition, and state aid), preparing and running tenders, and obtaining all of the necessary by-law approvals. For real estate, permits need to be defined and acquired for zoning and land-planning. Given long lead times of up to two years for completing a privatization project, it was agreed that all advisors for the 2012–13 projects would need to be in place by March 2012, and that clearance processes for administrative bodies in Greece and in the EU would need to be set in motion as soon as possible. The new EU Taskforce has been requested to assist with setting up several regulatory frameworks and bodies, as necessary.

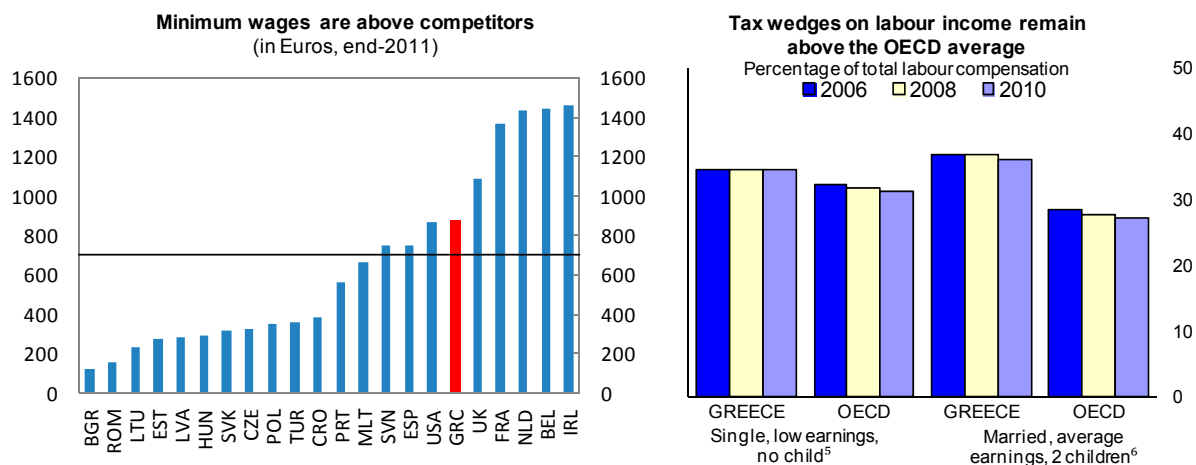
40. **The authorities reiterated their commitment to keep the privatization process insulated from political pressures** (MEFP ¶27). The independent privatization fund (HRADF) set up in July 2011 has a mandate to privatize assets at prevailing market conditions as soon as technically feasible, and in an open and transparent manner. The HRADF should return all proceeds received to the government without delay. To fulfill its mandate, it must remain insulated from political interference, and the government must provide it with unencumbered assets with all the attached voting rights. While a strong institutional framework has been put in place, political sensitivities are still a concern, and could enter through several channels, including through difficulties in obtaining swift cooperation from ministries and localities for the restructuring and preparation of assets and

resistance or interference in assigning new Boards in firms to be privatized. The program is geared to handle these by the enhanced focus on preparing assets for sale.

Structural Reforms

41. **The authorities are committed to restore competitiveness and economic growth by stepping up the pace and depth of structural reforms** (MEFP ¶28). The authorities recognized the need to reorient and reinvigorate their structural reform strategy. They are now aiming for a stronger upfront internal devaluation through a package of labor market measures that would allow wages to adjust, while limiting the rise in unemployment. To convert wage to price competitiveness, they are pushing ahead with product and service market reforms, especially by further liberalizing restricted professions and transportation. Finally, reforms to facilitate investment are being accelerated to allow firms to take advantage of cheaper labor once financing conditions stabilize. Table 17 summarizes the agenda. This approach is expected to accelerate competitiveness adjustment and facilitate an early supply response while supporting employment, allowing time for the other productivity-enhancing reforms to mature and produce results.

42. **Reforms have been identified to improve the functioning of the labor market** (MEFP ¶29)(Figure 11). The authorities aim to eliminate the gap in unit labor costs relative to trading partners, estimated at about 15 percent, over the next three years. Reforms already taken will help (the elimination of automatic extension of sectoral agreements) as will informal labor market channels. But delivering the target will require further actions, and to this end the authorities agreed to address several key problems afflicting Greece's labor market: a still ineffective system of collective bargaining; a high minimum wage relative to competitors; and high non-wage labor costs relative to competitors. With more effective bargaining and a less binding floor, wages should be able to more rapidly find their equilibrium level, supporting employment. The package of reforms (Box 5) was legislated as a **prior action** (with a second stage of non-wage labor cost reductions proposed as a **structural benchmark** for end-September 2012). The authorities will monitor the effect of these measures and, with the participation of social partners and the support of the ILO, continue to work to facilitate collective bargaining in line with ratified international labor standards and conventions so as to ensure increased competitiveness and higher employment. If competitiveness improvements remain elusive by end-year, it was agreed to consider more direct interventions (in this context, staff viewed a suspension of the 13th/14th monthly salaries as one way to deliver an upfront reduction in all relative wages).



43. **To more rapidly and fully achieve price-based competitiveness gains, labor market reforms will need to be matched by reforms to render prices more flexible** (MEFP ¶30). The authorities were committed to push ahead with their ambitious service sector liberalization focused on professional services, transportation, and electricity. These reforms, which touch important intermediate inputs, are expected to lower costs and improve total factor productivity (the literature suggests significant potential TFP gains over time of 1–1½ percentage points per year, for successful wide-ranging reforms).³ In February, the authorities ended the transition period for the liberalization of road haulage. Subsequent efforts will proceed in phases. The authorities will screen and amend existing legislation for 20 economically important professions (e.g., medical professions, accountants, actuaries, temporary employment agencies, among others) as a **prior action**, and complete the screening and cleaning of legislation for all 500 professions by end-December 2012 (**structural benchmark**). Looking forward, the authorities recognized the need to further identify remaining rigidities in product markets (utilizing the OECD’s competition toolkit) and define an action plan to tackle them.

44. **To facilitate investment and exports, business environment reforms will be accelerated** (MEFP ¶31-32). Greece’s FDI rates and trade share have been low by international standards. This is in part due to lengthy and costly procedures related to permits, licenses, export-import requirements, etc. While recent reforms have helped to reduce the number of procedures and time to set up a business, Greece continues to lag peers on a number of Doing Business Indicators (Figure 12). Even beyond explicit requirements, outsiders are discouraged from entry into new markets by implicit barriers, including excessive bureaucracy, corruption, and opaque tax and labor regulations.⁴ Finally, lengthy judicial procedures raise costs for businesses and the government and discourage investment,

³ See Buis and Duval (2011) on product and service market reforms, Burles et al. (2010) on reforms in upstream sectors, and Badinger et al. (2008) on the implementation of the EU services directive.

⁴ See The Global Competitiveness Report 2011–12, 2001 World Economic Forum.

exports, and fiscal performance. To address these issues and facilitate investment, particularly in light of the assets to be made available to the private sector via the privatization program, the authorities will press ahead with existing reforms to bring them to full fruition:

- ***Fast-track investment framework:*** Despite nine projects having qualified, no project has completed this procedure. Strict qualification criteria and difficulties in pre-arranging financing for large projects have held up qualification procedures. To address this issue, a new law (expected by end-March) will generalize the framework to more investments and lower fees and financing requirements.
- ***Exports and customs procedures:*** Greece lags behind peers on international trade indicators, especially on the time to prepare documents for export/import (which is double that of the average OECD country) and clearance and handling procedures.⁵ To rectify this, a new law will simplify export legislation and set the stage for the implementation of an electronic export window and e-customs by end-December 2012.
- ***Licensing:*** Two new laws were passed in 2011, reducing the time and requirements for obtaining licenses for technical professions, manufacturing activities, and business parks, as well as for environmental licenses. However, given the complex technical aspects involved, a number of secondary legislative acts are yet to be finalized. The authorities will speed up this process by prioritizing remaining decisions and decrees with a view to complete them by end-December 2012.
- ***Judicial reforms:*** Greece's judicial system is highly inefficient by international standards, and is characterized by complex procedures resulting in excessive delays in the resolution of cases (much above the OECD average) with a significant case backlog despite a relatively high number of courts and judges relative to population. In the context of an independent judiciary, the authorities are undertaking a reform aimed at addressing the case backlog in courts, speeding up court proceedings (a new law was passed in early-March 2012), publishing court data with a view to set up a performance framework for courts, and reforming the Code of Civil Procedure over the medium term.

45. **The authorities agreed to accelerate efforts to improve structural reform management and monitoring** (MEFP ¶33). The implementation problems evident so far have been partly due to the lack of a framework overseeing the reform process. This has led to fragmented efforts in different ministries (a number of business environment reforms),

⁵ See the World Banks' 2012 Doing Business Indicators:
<http://www.doingbusiness.org/data/exploreeconomies/greece/#trading-across-borders>

difficulties in coordinating and concluding joint decisions (liberalizing restricted professions), and delays in identifying additional problems and means to resolve them (i.e., in the labor market area). The authorities recognized the need to urgently implement the already legislated directorate of planning, management and monitoring of reforms and to start to publish key performance indicators on a quarterly basis (starting with end-March). The implementation of reforms will also be supported by extensive technical assistance from the EC's Task Force (including for judicial reform, liberalizing closed professions, and identifying rigidities in product markets).

V. FINANCING

46. **The program financing strategy provides Greece with breathing room to address its deep structural problems.** The program assumes that Greece will only be able to gradually re-access international capital markets at long maturities and sustainable rates, given the long adjustment and reform efforts ahead, Greece's projected debt trajectory, and the large prospective overhang of senior debt. In this context, continued official financing by Euro area member states and deep PSI will play a crucial role in supporting Greece's adjustment efforts. Consistent with its mandate, the IMF is primarily intended to play a catalytic role for both the official and private sector contributions and thus provide a temporary bridge to market access while Greece implements the reforms necessary to eventually correct its imbalances.

47. **The program is being supported by significant debt relief, but balance of payments financing needs will remain high** (MEFP ¶35)(Tables -19). Greece is facing a balance of payments need comprising exceptional pressures on both the capital and current account. The respective contributions by the private and official sectors, as agreed at the February 21st Eurogroup meeting (Box 1 and Appendix I), are expected to bring Greece's public debt ratio down slightly below the targeted level of 120 percent of GDP by 2020 (due to better-than-projected PSI results). They will also reduce Greece's sovereign financing needs. Nevertheless, Greece will continue to face a sizable financing need. And in large measure this is due to a deliberate strategy by Greece's European partners to contain eurozone contagion risks and costs by placing limitations on the PSI deal, and through the treatment of the ECB in the Greek bank restructuring. Overall, the financing need is estimated at €164.5 billion during 2012-14, and an additional €8–21 billion during 2015-2016:Q1 (depending on progress in restoring market access). This includes PSI and bank recapitalization costs, as well as additional fiscal needs arising from called government guarantees, arrears clearance, deposit build-up, and any residual debt service.

48. **To fill this need, Greece has requested joint support from Euro area member states and from the Fund** (MEFP ¶36). Euro area member states have committed to contribute €144.7 billion to the overall financing package through end-2014. The Greek authorities have also requested a 4-year Extended Arrangement under the Extended Fund Facility. This would succeed the existing three-year Stand-By Arrangement approved on

May 9, 2010. The EFF is the appropriate instrument through which to address Greece's deep structural challenges, which point to a period of slow growth and a weak balance of payment position for a period of time that extends beyond the repurchase period under SBA credit tranches. Staff proposes access to Fund resources in an amount equivalent to SDR 23.7853 billion, or 2,158.8 percent of quota (€28 billion), with an initial disbursement of about €1.65 billion. Subsequent phasing of amounts committed would be quarterly with an even profile to match the actions being undertaken by Greece throughout the program period (Table 20).

49. **Financing assurances are in place for the new program** (MEFP ¶36). The successful conclusion of the PSI operation, launched by the Greek authorities on February 24 (a **prior action** for approval of the arrangement), is expected to deliver a substantial reduction in gross financing needs under the program. Euro area member states have committed to provide adequate financing to cover residual needs during the program period beyond proposed Fund commitments. Greece's gross financing needs are expected to remain sizable after the program, and market access, on sustainable terms and in sufficient volume, is expected to be restored only gradually during the post-program period. Accordingly, at the February 21st Eurogroup meeting, European partners confirmed their commitment to provide adequate support to Greece during the period of the Greek policy program and beyond for as long as it takes for Greece to regain market access, provided that Greece fully complies with the requirements and objectives of the program.

VI. PROGRAM MODALITIES

50. **The authorities have taken upfront actions to reassure about their ability to implement the program:**

- **Prior actions.** The authorities will undertake a number of prior actions for approval of the new arrangement in three macro-critical areas (MEFP Table 2):
 - To support restoration of **fiscal sustainability**, prior actions cover the (i) implementation of all overdue measures from 2011; (ii) legislation of additional measures to reach the 2012 deficit target (including a supplementary budget); and (iii) measures to secure revenue administration improvements. These will help achieve the 2012 consolidation target, and underpin a crucial element of the medium-term consolidation strategy (better tax collection).
 - To support recovery of **competitiveness**, prior actions cover: (i) improvements in the functioning of the labor market (through reforms to collective bargaining, adjustments to wage floors, and a reduction in non-wage labor costs) and (ii) advancements in the liberalization of restricted professional services. These cover instruments to realize the internal devaluation needed to close Greece's competitiveness gap.

- Towards **financial stability** prior actions cover: (i) completion of the first step in the resolution/recapitalization process (as assessments of banks' capital needs and completion of the study addressing ATE); (ii) strengthening of the legal and regulatory framework to support resolution and recapitalization; and (iii) strengthening of the governance of financial sector oversight agencies.
- **Political assurances.** The understandings reached with the authorities' have received broad political support through a large majority vote by Parliament for a framework law capturing the detail of the ad referendum MEFP. Moreover, the current leaders of PASOK and New Democracy have made public commitments to the program objectives and key policy measures on behalf of their parties, now and throughout and beyond any election period. These two members of the present coalition, sitting respectively on the left and right of the political spectrum, are also historically the two most prominent Greek political parties. New Democracy presently leads in the Greek opinion polls. In any event, given the present political fragmentation, one or both of these parties is likely to be involved in a post-election coalition.

51. **Program monitoring will be guided by quarterly reviews, quarterly and continuous performance criteria, and structural benchmarks** (MEFP ¶37).

- **Quarterly reviews.** Program reviews are being proposed on a quarterly basis. The first and second reviews under the new program are proposed to take place on or after May 31 and August 31, 2012.
- **Quantitative performance criteria (QPCs) and phasing** (MEFP Table 1). The new program incorporates, as QPCs: (i) a floor on the cash primary balance of the general government with an adjustor to account for any special budget allocation for clearance of arrears (this will help keep track of the critical cash position of the government); (ii) a ceiling on state budget primary spending (given the critical role of spending reductions in the planned fiscal adjustment); (iii) a ceiling on the accumulation of new domestic arrears by the general government (for those entities where monitoring is feasible); (iv) ceilings on the stock of central government debt, and on new guarantees granted by the central government; and (v) a continuous ceiling on the accumulation of new external payment arrears by the general government. The program incorporates, as indicative targets: (i) a floor on privatization proceeds (to capture critical actions towards reducing both debt and financing needs); and (ii) a ceiling on the accumulation of new domestic arrears by the general government (covering all entities not covered in the QPC).
- **Structural benchmarks** (MEFP Table 3).
 - To secure **fiscal sustainability**, proposed benchmarks in the fiscal area for end-June 2012 include: (i) the adoption of a budget-neutral tax reform to broaden the

tax base and achieve a fairer distribution of the tax burden and (ii) the completion of reviews of social spending programs and government functions to help to identify further adjustment measures. Meeting these benchmarks, and enacting wherever possible the tax and spending policies necessary to complete the medium-term fiscal adjustment, will be an overarching condition for completing the first program review.

- To secure **fiscal sustainability**, proposed end-June and end-December 2012 benchmarks in the fiscal-institutional reform area cover quantified indicators of revenue administration and public financial management reforms.
- To support the work towards restoring **competitiveness**, the structural-reform benchmarks target: (i) a further reduction in unit labor costs through adjustments to social security contribution rates by end-September 2012 and (ii) the full liberalization of services by completing the screening and cleaning of existing legislation by end-December 2012.
- Finally, benchmarks have been specified to support restoring **financial sector stability**: (i) by end-March 2012, a strategic assessment of the banking sector by the BoG and issuance of a ministerial decree with the technical details of the banks' recapitalisation framework; (ii) by end-December 2012, a reform of the governance arrangements in the BoG; and (iii) by end-June 2013, a new stress test exercise by the BoG to ensure that the system remains well capitalized.

52. **The new program satisfies the substantive criteria for exceptional access, but with little to no margin.** This assessment is premised on the expectation that the authorities' policy undertakings to launch the new program are implemented in full, the upcoming debt exchange is completed successfully, and the OSI commitments are secured in a credible manner. It should nonetheless be stressed that this assessment leaves little to no margin in case policy implementation and economic and financial variables do not evolve in line with program assumptions and projections, in which case continuing to meet the substantive exceptional access criteria in future reviews may require additional efforts by the authorities and/or their European partners. From this perspective, the commitment of Euro area member states to provide adequate support to Greece is an important aspect of program design and gives added assurances about the observance of criteria 2-4:

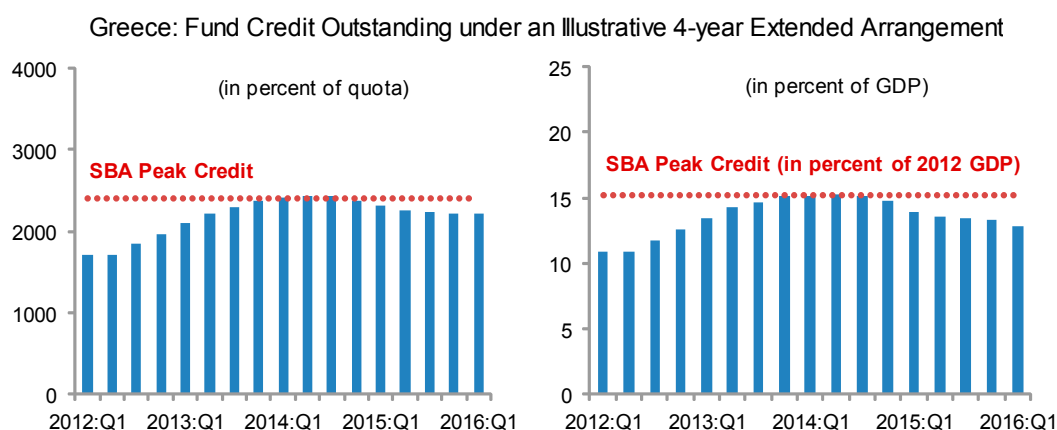
- **Criterion 1.** *The member is experiencing or has the potential to experience exceptional balance of payments pressures on the current or capital account, resulting in a need for Fund financing that cannot be met within the normal limits.* Current and capital account pressures in Greece are projected to remain severe, reflected in only gradual improvements in competitiveness; sovereign spreads that are expected to remain high post-debt restructuring, and likely protracted deleveraging of the Greek banking system. In this environment, exceptional balance of payments

support in the form of Fund access beyond normal limits alongside European financing continues to be required to meet the country's sizeable external financing needs.

- **Criterion 2.** *A rigorous and systematic analysis indicates that there is a high probability that the member's public debt is sustainable in the medium term. However, in instances where there are significant uncertainties that make it difficult to state categorically that there is a high probability that the debt is sustainable over this period, exceptional access would be justified if there is a high risk of international systemic spillover.* The program targets a debt trajectory that staff assesses to be sustainable in the medium term, although significant downside risks that could result in a higher debt trajectory remain present. The reduction in debt is expected to be delivered through private and official sector debt relief, fiscal adjustment, and privatization. Still, given the time needed for the program to work and for the trajectory to become self-sustaining, and given significant uncertainties including risks to the evolution of growth and economy-wide prices, it is difficult to categorically affirm that debt is sustainable with a high probability. Notwithstanding such difficulty, exceptional access is justified for Greece, given the continued high risk of international systemic spillover effects.
- **Criterion 3.** *The member has prospects for gaining or regaining access to private capital markets within the timeframe when Fund resources are outstanding.* Greece does not now have market access, but the prospect of such access (and of a successful return to external viability) exists once Greece has had time to implement reforms, restore growth, and reduce its debt ratio—a record that would be set in train by full implementation of the program. The scale of Greece's challenges, including its emergence from the largest debt restructuring ever done and the perceived senior status of all debt relative to any new issuance, make it inherently difficult to project the volume and timing of Greece's return to the markets in the immediate post-program years. Potential market borrowings in the post-program period are therefore initially assumed to be restored only gradually, at short maturity, and with interest rates at levels which could destabilize debt dynamics if borrowing took place in large volume. Under these circumstances, staff would therefore expect the authorities to avoid large issuances, and to continue to avail themselves of official financing, which Euro area member states have committed to provide (so long as Greece adheres to program policies), on terms that would enable this financing to play an important catalytic role in securing market re-access. This gradual return to market access back stopped by official financing by Euro area member states will ensure Greece has financing in a scale and timing adequate to secure repayment of Fund resources.
- **Criterion 4.** *The policy program of the member provides reasonably strong prospect of success, including not only the member's adjustment plans but also its institutional and political capacity to deliver that adjustment.* Political instability, social pressures,

and administrative capacity constraints have hampered implementation under the SBA. Nevertheless, through the completion of the prior actions for the new program, the authorities have demonstrated ownership and policy resolve. In view of the forthcoming elections, the assurance letters provided by the two main political parties in the coalition government and the broad parliamentary endorsement of the policies contained in the MEFP give further confidence in policy continuity during the program period (see also paragraph 50). Moreover, the authorities remain committed to strengthen program monitoring and internal management mechanisms through significant technical assistance support from the EC and the Fund. Even with these assurances and undertakings of the authorities, it should be stressed that program implementation risks are likely to remain very high. The necessary level of ambition embedded in the program will continue to test political and social resolve, and even with political resolve, the breadth of the reform agenda may test the authorities' administrative capacity.

53. Under the baseline, the authorities have the capacity to repay the Fund (Table 19). Peak Fund access during the program period is projected to reach SDR 28.3 billion or 2,570 percent of quota. This level is consistent with the total access level approved under the SBA. Standard indicators of Fund exposure will remain elevated, at the very upper end for exceptional access cases. Risks to the Fund have been reduced by the agreed OSI/PSI debt relief, which will place debt on a sustained downward path upon completion of the program strategy, thus supporting a gradual improvement in market confidence. Still, capacity to repay the Fund will depend critically on the authorities' ability to deliver the reforms; the responsiveness of the economy to the reform package; and the willingness of Euro area member states to provide financing after the program on terms and in amounts adequate to backstop timely repayments to the Fund and catalyze market access (they have committed to do so, although conditional on Greece's adherence to and implementation of program policies). Additional safeguards to Fund resources will continue to be provided by the Fund's long-standing de facto preferred creditor status.



Source: IMF staff projections.

54. **In accordance with Fund policy, staff has initiated an update of the safeguards assessment of the Bank of Greece (MEFP ¶38).** The assessment is expected to be completed by the time of the first review. IMF funds will be deposited in the government's account at the Bank of Greece.

55. **Substantial macro and policy risks remain under the program.** As highlighted by the DSA, in the event that policy implementation takes longer or falls short, the economy takes longer to respond to labor market and supply-side reforms, or fiscal multipliers are higher (reducing the growth path), a deeper recession and a much higher debt trajectory would be the likely result. Continued political and social instability (e.g. in the coming election period) could also put into question Greece's commitments. This could either require additional debt relief by the public sector, and/or lead to a default on bonded debt. And while Greece is committed to the euro, this could change in the event of a lengthening recession, which would have a material impact on economic policies, and on all of Greece's creditors.

56. **There are factors that help to mitigate these risks.** First, contingency plans have been defined to cover responses in the event of shortfall in program implementation (covering both fiscal measures and labor market measures), and Greece's European partners have committed to support Greece on adequate terms and for as long as it takes to restore market access provided it adheres to program policies. This can help Greece manage a longer adjustment period if policies remain oriented in the right direction. Second, even if these cannot be implemented in a timely manner, the financing package has still greatly reduced debt service and thus the risk of a default. Third, even in the event of a default after the PSI operation, the risk of system insolvency and loss of access to Eurosystem refinancing support has been reduced by the deep reduction in banks' exposure to government bonds realized by the program's financial sector strategy. Lastly, the program has sought to contain political risks through upfront assurances and endorsements by parliament. Still, as noted a high level of risk will remain because the ambition embedded in the program will continue to test political and social resolve.

VII. STAFF APPRAISAL

57. **Greece has made important progress over the last two years in addressing its challenges.** Despite major headwinds in the form of a deep and prolonged recession, the primary fiscal position has been improved by some 6½ percent of GDP. Structural fiscal reforms have begun to tackle Greece's high level of public wages and employment, unsustainable pension system, and narrow tax bases. Growth-enhancing structural reforms have started to make inroads into Greece's notorious bureaucratic impediments to investment, and inflexible labor markets.

58. **However, reform implementation slowed in 2011 and the country continues to face serious challenges.** A current account deficit of nearly 10 percent of GDP after four years of recession speaks to a continued lack of competitiveness; and a large primary fiscal

deficit signals continued fiscal sustainability problems. Structural reforms, which are critical to addressing both of these problems, lost considerable momentum during 2011, and largely stalled during the second half of the year. Retaining broad political support for reforms will be crucial to future success.

59. **Restoring competitiveness remains the main challenge.** Doing this while remaining in the eurozone will require deep structural change, especially taking into account that Greece's competitors inside and outside the eurozone are also expected to improve their productivity. Staff agrees that the domestic and external costs of euro exit would be formidable and supports the authorities' determination to avoid such an exit. Still, the effort will only succeed if the authorities are able to engineer a large internal devaluation through the tools at their disposal. This will require that they stand up to deeply rooted vested interests standing in the way of wage and price adjustments.

60. **Labor market liberalization will be crucial to success.** Unit labor costs have been falling too slowly in Greece, leading to unacceptably high unemployment and a deepening recession. The decision in late 2011 to suspend extension of sector-level collective agreements is promising, but a much more ambitious realignment of wages and productivity is needed to allow an earlier supply response. The measures the government has taken to restore balance to collective bargaining, adjust the level of the minimum wage closer to that prevailing in Greece's competitors, and to begin reducing payroll taxes into line with Greece's competitors, are bold and show the government's resolve.

61. **Labor market reforms must be complemented by other structural reforms to have the intended effect.** Product and service market liberalization is an area where the previous program failed to make sufficient headway. Progress is now imperative to help convert wage to price competitiveness and to protect real wages as the labor market is liberalized. The authorities must also continue to focus on facilitating investment, both through removal of red tape and by privatizing assets. Indeed, higher investment in the tradables sector, to expand capacity, is vital to reap the gains from stronger competitiveness.

62. **Significant fiscal adjustment still lies ahead.** After two years of deep adjustment, there is no more low-hanging fruit, and further progress requires structural fiscal reforms. The key areas for focus touch on deep taboos in Greece. Significant and politically difficult cuts in social transfers and public employment will be needed (although in a manner that strengthens the core elements of the social safety net to protect the most vulnerable). End-June 2012 will be the critical point at which these reforms are more fully mapped out and enacted where feasible, and doing so will be a condition for the first review going forward. Even with these adjustments, Greece's ability to maintain public services commensurate with European norms and preserve the fairness of the adjustment will ultimately depend on the ability of the government to improve tax collection. Greece has benefitted from much technical assistance in this area, and further progress is reliant on political commitment to do what is necessary to enforce tax payments.

63. **The financial sector will require unprecedented public support to cope with the impact of losses on government exposures and recession.** In light of the government's track record in managing banks, the support needs to strike a balance between protecting taxpayer's money and avoiding government interference in the day-to-day management of banks. The recapitalization strategy is designed to achieve this, but the government's continued respect for this division is imperative. Recapitalization will also help restore banking system liquidity. In the interim, it will be important for the Bank of Greece to extend support to banks that have a credible recap plan and that have been given time to raise capital from markets. Looking forward, gradual withdrawal of exceptional support remains critical.

64. **The framework for bank resolution and recapitalization must be strengthened.** Timely and least cost resolution of troubled banks is essential to preserve depositor confidence and contain fiscal impacts. Existing stakeholders, including employees, must not be afforded privileges that raise costs. The process of dealing with troubled banks must also be strengthened to ensure appropriate stewardship of the vast public funds being committed to the effort. Staff welcomes steps taken to separate supervision, resolution, and systemic restructuring responsibilities; eliminate potential conflicts of interest in the deposit insurance fund; and assure the full independence of the HFSF, and professional expertise of its staff.

65. **While the authorities' program is far-reaching, even if fully implemented it will take a decade or longer to fully address Greece's competitiveness problem.** High debt levels, deep structural problems, and an uneven track record mean that full restoration of market access at sustainable interest rates will likely go well beyond the horizon of the program. Although as noted above, gradual access is expected on terms and in a scale and timing adequate to enable Greece to repay the Fund. In part, the long recovery period and delayed market re-access reflect outside constraints on program design, which increase the adjustment burden on Greece (namely the limitations placed on the PSI exercise and the protections afforded to the ECB in bank restructuring). In this context, the commitment by Greece's European partners to continue to provide support until such access is restored, provided that Greece continues to implement and adhere to program policies, is crucial for program prospects, and for limiting the risk to the Fund under the baseline scenario.

66. **With debt to remain very high for some time, Greece will remain accident prone.** The PSI agreed at the outset of the program—representing the largest pre-default sovereign haircut on record—does help reduce default risks. But given its coverage of only about 57 percent of the total debt stock, and due to additional bank recapitalization costs, debt will remain high. And the DSA is based on ambitious fiscal and privatization targets and above all on a reinvigoration of structural reforms. These will stretch the social fabric and the political determination to confront vested interests, but there is no room for slippage. In the event of slower progress in policy implementation, or failure of the economy to respond rapidly enough to reforms, completion of reviews may require additional support from Greece's European partners on yet more concessional terms than currently envisaged, and/or another restructuring of bonded debt. In that case, and especially in light of the extra

adjustment burden Greece is bearing, Euro area member states and the ECB should stand ready to put in place the guarantees and assurances needed for Greece to maintain access to liquidity support from the Eurosystem.

67. **Overall, the new program is a bold step in the right direction, but given the challenges and the track record, is subject to exceptional risks.** Debt is projected to remain at extreme levels throughout the program period and beyond, with a range of upward risk factors, and a return to external viability will be very protracted. And considerable risks remain about the Greek political system's ability to reinvigorate reforms and deliver the structural changes needed for Greece to become competitive inside the eurozone. But the program offers a framework to both organize and explain the necessary changes across the multiple policy dimensions that are necessary to realize these aims. In this context, staff welcomes the commitments from the political parties supporting the present coalition to continue with the objectives and policies of the new program. On the basis of the government's policy commitments, the significant contributions anticipated from the private sector via the PSI operation, the strengthened and long-term commitments of Greece's European partners to provide adequate support to Greece beyond commitments under the proposed arrangement, and a full appreciation by all stakeholders of the risks represented by the program, the staff can support the authorities' request for an extended arrangement.

Box 1. Greece: Details of the Debt Exchange

The Greek authorities have completed a debt exchange operation consistent with the PSI strategy agreed at the Eurogroup level. The key economic terms of the bond offer can be summarized as follows:

- The offer covered €177 billion of Greek law bonds (GGBs), €8 billion of foreign law bonds, and €9.5 billion of performing state enterprise debt guaranteed by the Greek government. Bonds held by the eurosystem (under the ECB's SMP and national central banks' investment portfolios) were excluded from the offer as these were viewed by European policymakers as arising from public policy actions.
- Bondholders were invited to exchange their bonds for (i) new bonds with a face value equal to 31½ percent of the face amount of the debt exchanged and (ii) cash-equivalent EFSF notes maturing within 24 months for 15 percent of the face value of the debt exchanged.
- The new bonds will be issued in 20 separate tranches with staggered bullet maturities (equivalent to a synthetic bond with a 30 year maturity and 10-year grace period).
- The bonds will pay a fixed-rate annual coupon of 2 percent up to 2015, 3 percent up to 2020, 3.65 percent in 2021, and 4.3 percent thereafter.
- Participating bondholders will receive GDP-linked securities with a notional amount equal to the face value of the new bonds. The securities will be detachable and, beginning in 2015, will deliver up to 1 percent of their notional amount in case real GDP growth and nominal GDP exceed specified targets (consistent with the program).
- The proposed legal terms would link repayments of the new bonds to EFSF repayments. (i.e., on the €30 billion loan provided by the EFSF for the financing of the cash incentives). This would entail, among other features, a common paying agent and debt service payments on the same dates and on a *pro rata* basis.
- The new bonds will include a negative pledge covenant, an aggregated collective action clause (CAC) in line with the new EU standards, and will be subject to English law and jurisdiction.
- On the debt exchange settlement date, participating bondholders will receive short term EFSF notes in discharge of all unpaid interest accrued up to February 24, 2012 on exchanged bonds.

The debt exchange entails deep write downs for bondholders. In nominal terms the haircut amounts to 53½ percent; in NPV terms the losses range from 70 to 75 percent (relative to par, and given exit yields in the 9–12 percent range). This would be the largest write down recorded for a pre-default sovereign debt restructuring (most cases generate NPV reductions of at most 10 percent at a 9 percent discount rate; e.g. Uruguay, Ukraine, Pakistan, and the Dominican Republic). The NPV write-down is comparable in size to the post-default write down in the Argentina global debt exchange (2005).

The debt exchange attracted near-universal participation, surpassing the targeted improvement in debt dynamics under the program. To enhance participation, Parliament approved aggregate collective action procedures applicable to the GGBs, with a lower and single voting threshold compared to aggregate CACs under the new EU standards. For domestic law bonds, 85.8 percent participated and voted in favor of the exchange, and the authorities have decided to activate collective action procedures, pulling in remaining hold outs. With this action, €197 billion in debt will be subject to the exchange. Additional participation could be secured in the coming weeks as the authorities have extended the exchange offer period for foreign law bonds to March 24.

Box 2. Greece: Potential Economic Impact of Euro Exit

An exit from the Euro area would involve economic impacts via several channels:

- Private sector balance sheet effects. While the private sector is well-hedged in aggregate, the variance across individual exposures is unknown. In any event, inflation consequent on devaluation would reduce the real value of private sector savings (although pass through could be contained by the deep recession).

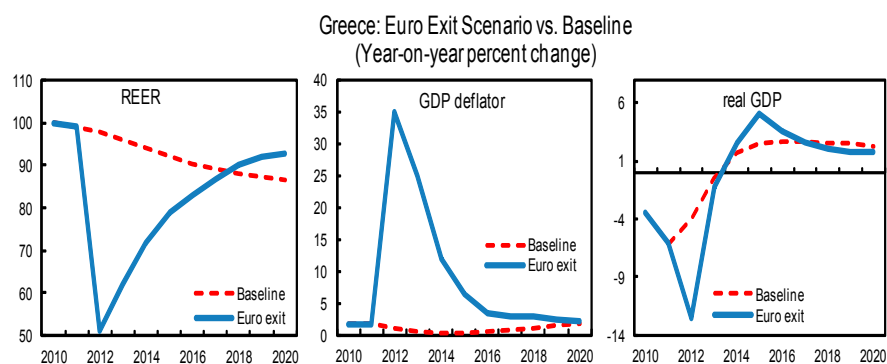
Greece: Net International Investment Position, 2011
(in billions of Euro)

	Total	Government	Banking system	of which: Monetary authorities	of which: MFIs	Other sectors
1. Direct investment	5.7	0.0	0.0	0.0	0.0	5.7
2. Portfolio investment	-63.2	-120.8	52.5	14.8	37.7	5.1
3. Financial derivatives	1.4	0.0	1.4	0.0	1.4	0.0
4. Other investment	-177.5	-82.0	-120.9	-103.5	-17.3	25.4
5. Reserve assets	4.8	0.0	4.8	4.8	0.0	0.0
Total net I.I.P.	-228.8	-202.8	-62.2	-83.9	21.8	36.1

Source: Bank of Greece and IMF staff projections.

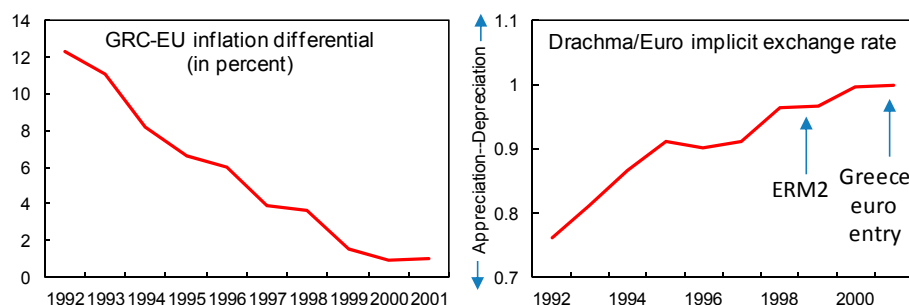
- Disorganization effects. The functioning of the payment system would be disrupted, and uncertainty would reign about contracts (with widespread litigation likely, aimed at testing any currency redenomination law). This could bring economic activity to a halt for some time.
- Financing constraints. The financial system, with its huge ECB exposure, would be badly damaged. Liquidity and credit would dry up, reflected in high default, exchange rate, and liquidity risk premia, leaving companies to rely on internally generated funds.

Short run macroeconomic dynamics would be adverse. Under such a scenario GDP could contract by more than 10 percent in the first year, with a significantly larger decline in domestic demand. Greece's large current account deficit would be swiftly unwound via import compression. Over time, provided exchange rate pass-through would be contained and civil order restored, depreciation would encourage a recovery in the tradable sector including manufacturing and tourism.



However, Greece would face many challenges to achieving a desirable steady state. Competitiveness gains from nominal exchange rate depreciation would prove temporary as long as fiscal imbalances and structural shortcomings of the Greek economy remain unsolved. Currency depreciation and monetary financing of deficit spending could lead to a surge in inflation, followed by strong upward pressure on wages and other input costs, quickly reducing any competitive advantage. Greece's potential starting position of a primary fiscal deficit and past experience outside the euro are not comforting in these respects, but much would depend on how well Greece conducted its policies post-exit.

Box 2. Greece: Potential Economic Impact of Euro Exit (concluded)



Post-exit, Greece's external debt burden would soar, making a default inevitable. While sovereign debt under domestic law would likely be converted at a one-to-one exchange rate, all sovereign debt issued under foreign law would surge in terms of the new national currency. Moreover, the debt service burden would increase after devaluation. Default would be inevitable and with subsequent deep restructuring of private and bilaterally-held government debt would be needed to restore sustainability (thus exporting significant costs).

A Greek exit from the Euro area would be very likely to have negative spillover effects:

- **Direct impacts** would be modest given Greece's relative size. Default by Greek counterparts would affect foreign creditors to the financial and corporate sectors. Less immediately, Greece's main competitors (e.g. in tourism) could lose business due to the rapid shifts in competitiveness brought about by a Greek devaluation.
- **Indirect spillovers** would be more important. Market perceptions of the Euro area's stability would suffer, and investors would attach increased probability to the possibility of additional Euro exits (which an effective firewall could mitigate, but could not eliminate). In addition, the use of blunt instruments to manage Euro exit, such as deposit freezes and capital controls, could spook depositors, and investors in other weak Euro area countries, triggering preemptive deposit runs and capital flight. Moreover, bank deleveraging, to reduce risks, could lead to self-fulfilling crises in vulnerable countries, with domino effects to others.

Box 3. International Experience with Internal Devaluation

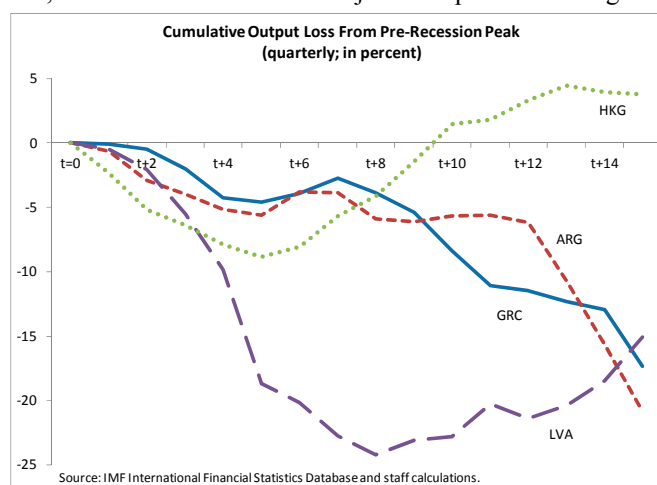
Several countries have faced the need for internal devaluation in recent years because their currencies had become overvalued within the constraints of rigid exchange rate regimes. The roots of overvaluation have been diverse: external shocks such as financial contagion, anchor currency appreciation, and depreciation in main trade partners (Argentina 1998, Hong Kong 1997); large exogenous shocks amid structural rigidities (Netherlands 1980s, Germany 1990s, 2000s), or credit booms and asset price bubbles (Baltic countries 2008, Ireland 2009).

Internal devaluations are almost inevitably associated with deep and drawn-out recessions, because fixed exchange rate regimes put the brunt of the adjustment burden on growth, income, and employment. Depending on the size of the imbalances, the strength of adjustment measures, and the responsiveness of key macroeconomic variables, the duration of the initial adjustment period has ranged from 5 quarters (Hong Kong) to 15 quarters or more (Argentina before abandoning convertibility), while the depth of the downturn has varied from shallow growth recessions (Germany, Netherlands) to deep economic collapse accompanied by devastatingly high unemployment and emigration (Latvia). Often, income inequality also increases in the course of the adjustment process, aggravated by cuts in social transfers, education, and health spending.

Restoring competitiveness by way of internal devaluation has proved to be a

difficult undertaking with very few successes. Countries with outright exchange rate devaluations usually recover faster. Often, dealing with competitiveness gaps is complicated by the prior build-up of large fiscal imbalances and foreign debt, since the internal deflation to restore competitiveness works directly against efforts to improve the fiscal situation. At the same time, pro-cyclical fiscal policies to correct fiscal imbalances and contractionary monetary policies to defend the exchange rate aggravate recessionary pressures.

Country experience suggests several factors are needed for internal devaluation to work. The most important preconditions are an open economy with high factor mobility and a high degree of wage and price flexibility. Close economic integration within the currency area, and either a well-developed central transfer system (Germany) or a limited welfare state (Hong Kong), are also conducive. Successful internal devaluations are further characterized by bold upfront public spending measures, backed by strong popular and political support for maintaining the exchange rate regime (Baltic states). A low initial public debt ratio and strong resolve to rein in fiscal gaps increase the credibility of fiscal adjustment programs. Risk-mitigating policies that limit private sector leverage and promote well-capitalized financial sectors are important supporting conditions. Finally, beneficial external circumstances also have an impact on countries' chances of succeeding.



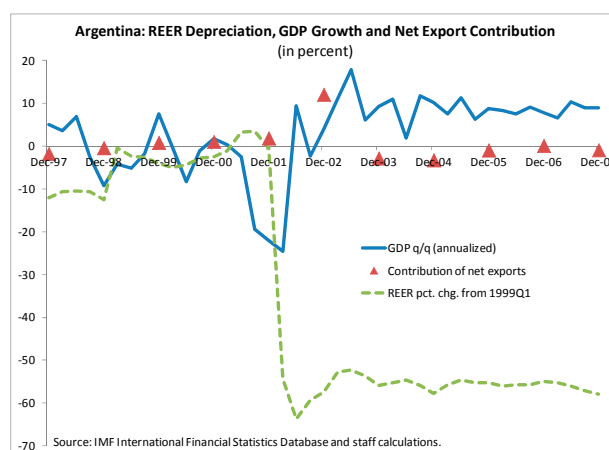
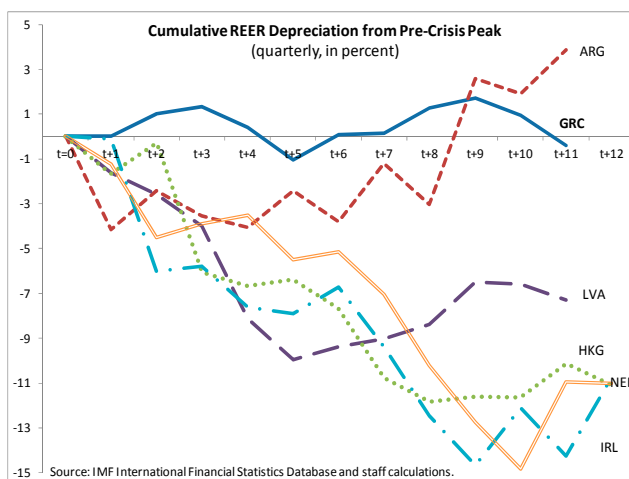
Box 3. International Experience with Internal Devaluation (concluded)

Even if many of these conditions are in place, **internal devaluation is bound to be a painful process**. Despite deep nominal declines in wages and pensions, real effective exchange rate depreciations have been regularly only modest due to only limited pass-through to prices (Baltic states, Argentina, Greece). Furthermore, private sector corporations are more likely to cut employment than to fully adjust wages, even in fairly flexible labor markets (Latvia). It also takes a long time for resources to shift from the non-tradable to the tradable sector, and both persistent skill mismatches and lack of increased investments in the tradable sector preclude full factor reallocation (former East Germany, Latvia).

External adjustment therefore works predominantly through import compression rather than an expansion of exports—and oftentimes imports contract long before any real depreciation of the exchange rate. Finally, the often observed deterioration in asset quality and large increases in non-performing loans suggest that balance sheet effects are not limited to outright exchange rate devaluation—they only materialize more slowly in the process of internal devaluation as incomes fall but debt service does not.

The experience of Argentina in 1998–2002 shows that an economy can get trapped in a downward spiral in which adjustment through internal devaluation eventually proves impossible, and the only way to an eventual recovery remains default and the abandoning of the exchange rate peg. Argentina ended convertibility in January 2002, almost four years into a deep recession that saw a 20 percent cumulative loss in output, culminating in sharp increases in interest rates, bankruptcies, unemployment, and poverty; deep cuts in wages and pensions; deteriorating asset quality, and deposit runs. The banking system collapsed and economic activity came to a virtual standstill in the first quarter of 2002. Nevertheless, only one quarter later the economy embarked on a rapid and sustained recovery, achieving 8.5 percent average real GDP growth over the following six years. The pre-recession output peak was exceeded after three years. Interestingly, despite a large and permanent real depreciation of more than 50 percent and a significant price boom in Argentina's agricultural export products during this period, net exports contributed positively to GDP growth only in 2002, before turning negative again in the following years.

The country cases offer a useful perspective on potential macroeconomic dynamics in Greece, although the country's initial conditions look unfavorable in comparison with prior international experience. Most of the conditions for success are missing in Greece. At the onset of the crisis, Greece combined double-digit fiscal and current account deficits; a high level of public debt; a highly negative international investment position; a small export base; deeply ingrained structural rigidities in labor, product, and service markets; and a tense and unstable political and social setting. This suggests that political resolve and bold front-loaded reform implementation are absolutely critical for internal devaluation to work in Greece, and that continued large-scale official support will be needed to alleviate the painful adjustment process.



Box 4. The 2012–14 Fiscal Baseline

Under baseline forecasts, the primary deficit would stabilize at around 1 percent of GDP, well short of the 4½ percent of GDP primary surplus target. Projected baseline developments reflect a complex of factors including the cyclical evolution of the economy, structural pressures in the budget, and already-legislated measures.

Cyclical and structural pressures arise through several channels, most prominently:

- **Shift in the composition of GDP** (½ percent of GDP). Excess absorption is projected to fall as the current account adjusts, and consumption (taxed on average at 10 percent) is projected to decline from 75 percent of GDP in 2011 to 63½ percent in 2020. At the same time, internal devaluation will lead to an increase in operating profits (taxed at 10 percent on average).
- **Social security** (½ percent of GDP). Internal devaluation will lead to a decline in wages feeding through to social security contributions. At the same time, pension benefits are frozen in nominal terms, creating a gap in the social security system. Other wage-related taxes are affected as well (wages are taxed at 52 percent on average).

Already approved measures in the baseline include:

- **Tax base broadening** (1¾ percent of GDP). Revenue yields in 2012–13 are expected to benefit from: (i) the elimination of personal income tax exemptions and reduction of the tax free threshold, both legislated in 2011 and (ii) the elimination of specific preferential VAT regimes (e.g. for restaurants) and excise treatments (e.g. on heating oil).
- **Reductions in the public wage bill** (½ percent of GDP). Employment attrition rules (1:5 for hiring) and mandatory separations are expected to lead to the departure of 150,000 employees over 2012–15 (22 percent of the public labor force). The recently approved reform of the public sector wage grid will reduce wage cost between 2012 and 2015 by about 0.3 percent.
- **Pension reforms** (1 percent of GDP) Reductions in main and supplementary pensions approved end-2011 will fully roll out their impact in 2012 and the application of new review criteria for disability pensions are expected to have an impact over the next few years.
- **Other spending reductions** (1½ percent of GDP). Gains are to be realized through a variety of small measures rationalizing social programs, central government operations (including entities closure), defense operational spending, and SOEs restructuring.

Box 5. Labor Market Reform

The reforms aim to close the relative ULC gap over the next three years, while protecting employment:

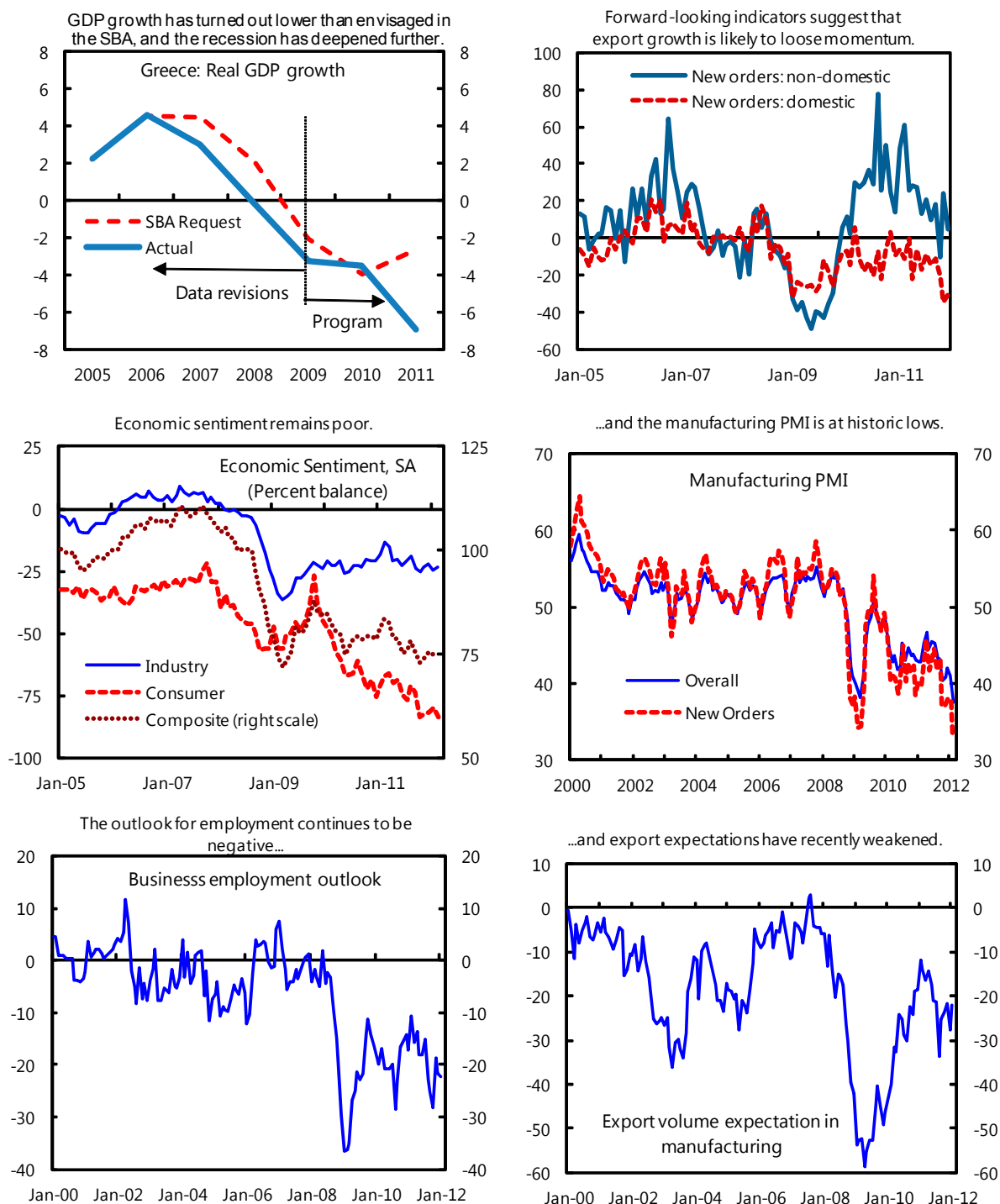
1. Structural measures to make the system of collective bargaining function more effectively:

- **Limiting the length and “after effects” of collective contracts:** In Greece, some contracts are of indefinite duration, which discourages re-bargaining. Moreover, even when contracts are of a fixed duration, all terms automatically enter into private contracts six months after contract expiration if no new agreement is concluded (“after effect”), providing no incentives to negotiate during difficult times. Finally, contracts provide for a multitude of allowances on top of the basic wage. To address these issues, the new changes will specify: (i) a maximum duration of three years for all collective contracts; (ii) expiry within one year of contracts in place for 24 months or more after the law is adopted; (iii) a grace period after a contract expires of three months; and (iv) once the grace period expires, cessation of all allowances except for seniority, child, education, and unhealthy conditions.
- **Removing ‘tenure’ in all existing contracts:** Legacy regimes exist in some current and ex-state-owned firms (mainly in network industries), whereby contracts continue to carry tenure (permanent employment status) for certain groups of employees. This puts such companies at a competitive disadvantage compared other firms, and through network effects undermines Greek competitiveness. The new legal provision will automatically transform contracts with definite duration (defined as those expiring upon age limit or retirement) into indefinite-duration contracts for which standard layoff procedures apply.
- **Freezing ‘maturity’ coefficients:** Currently, maturity coefficients existing in contracts provide for automatic salary increases irrespective of productivity and cyclical conditions. The freeze will help to limit wage growth given the economic conditions, until unemployment falls below 10 percent.
- **Eliminating unilateral recourse to arbitration.** Currently, the initiation of a labor arbitration procedure is compulsory if any one party requests it, with the arbitration decision then binding on both parties. This provision, combined with the perception of a somewhat biased arbitration institution, discourages collective bargaining. Moreover, it is not in line with best practices in the EU, which allow for voluntary recourse to arbitration. The changes will allow requests for arbitration only if both parties consent, while clarifying that arbitrators may only rule on the basic wage after considering economic and financial circumstances.

2. Adjustment of wage floors. Collective bargaining in Greece occurs at multiple levels (national sectoral/occupational and firm level), with the minimum wage agreed by the national general collective agreement constituting a binding floor for all other agreements (given the October 2011 law, individual firms can now negotiate wages down to the minimum wage). But Greece’ entry-level minimum wage is higher than in Portugal (by 50 percent), Spain (by 17 percent), and 5–7 times higher than in Romania and Bulgaria. It also varies with marital status and seniority. To bring it more in line with competitors and encourage formal employment, the authorities agreed to legislate a realignment of the minimum wage level by 22 percent at all levels, its freeze until the end of the program period, and a further 10 percent decline for youth (under the age of 25). They will also prepare a plan to overhaul the minimum wage framework to allow it to fulfill its basic function of ensuring a uniform safety net.

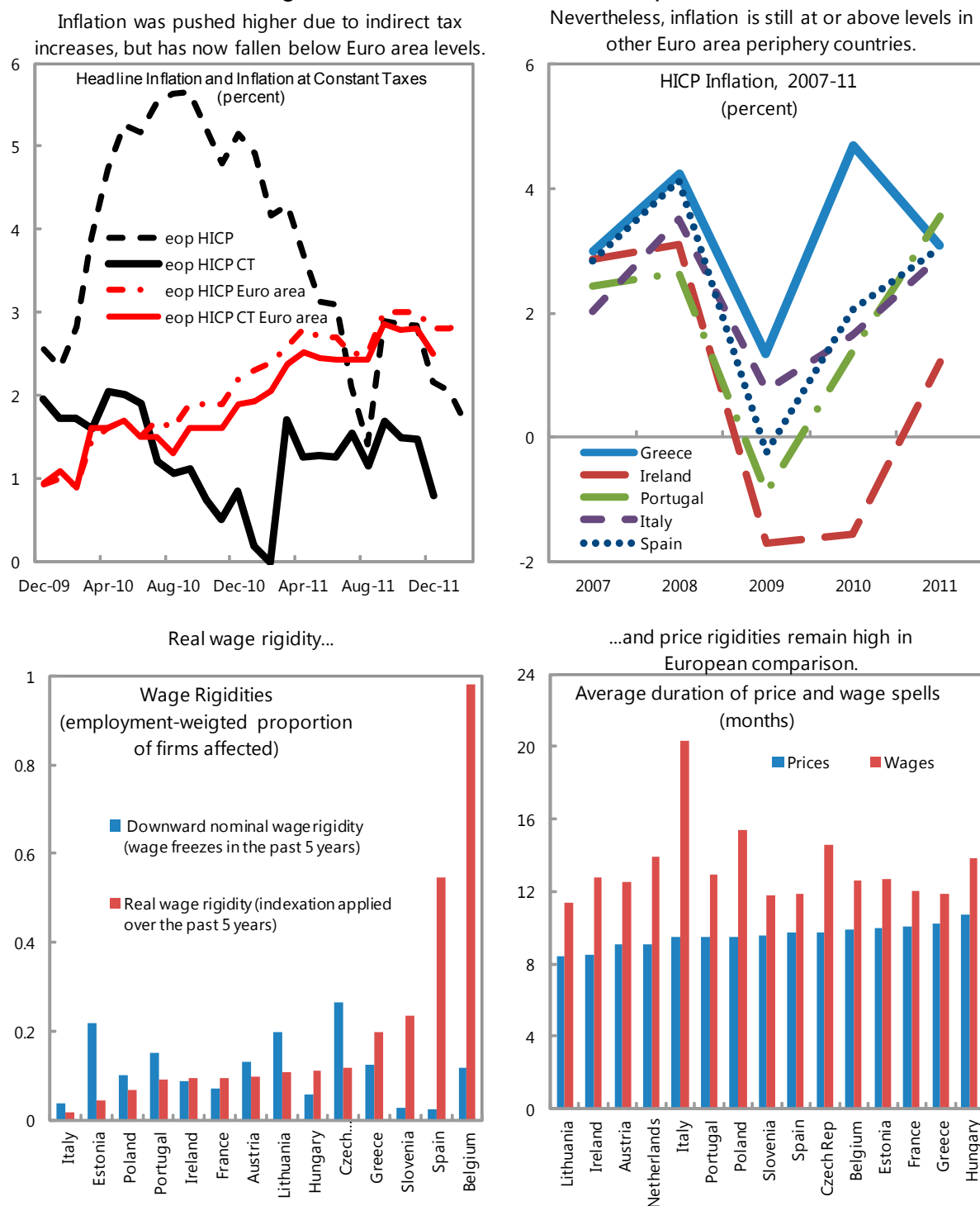
3. Reduction of non-wage labor costs. Greece’s labor tax wedge is higher than in peers (total social contributions stand at 44 percent of wages, compared to the EU average of 30–35 percent), discouraging employment in the formal economy, and restricting resources available to firms for investment. The authorities agreed to enact legislation to reduce social security contribution rates for employers by 5 percentage points and implement measures to ensure that this is budget neutral, including closing small earmarked funds engaged in non-priority social expenditures, adjusting pensions, and broadening the base.

Figure 1. Greece: Selected Economic Indicators
(Year-on-year percent change, unless otherwise indicated)



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

Figure 2. Greece: Inflation Developments



Sources: ElStat; Eurostat; WEO; Babecky et al, 2010, Bank of Greece WP No 11; Druant et al, 2009, ECB WP No. 1084.

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

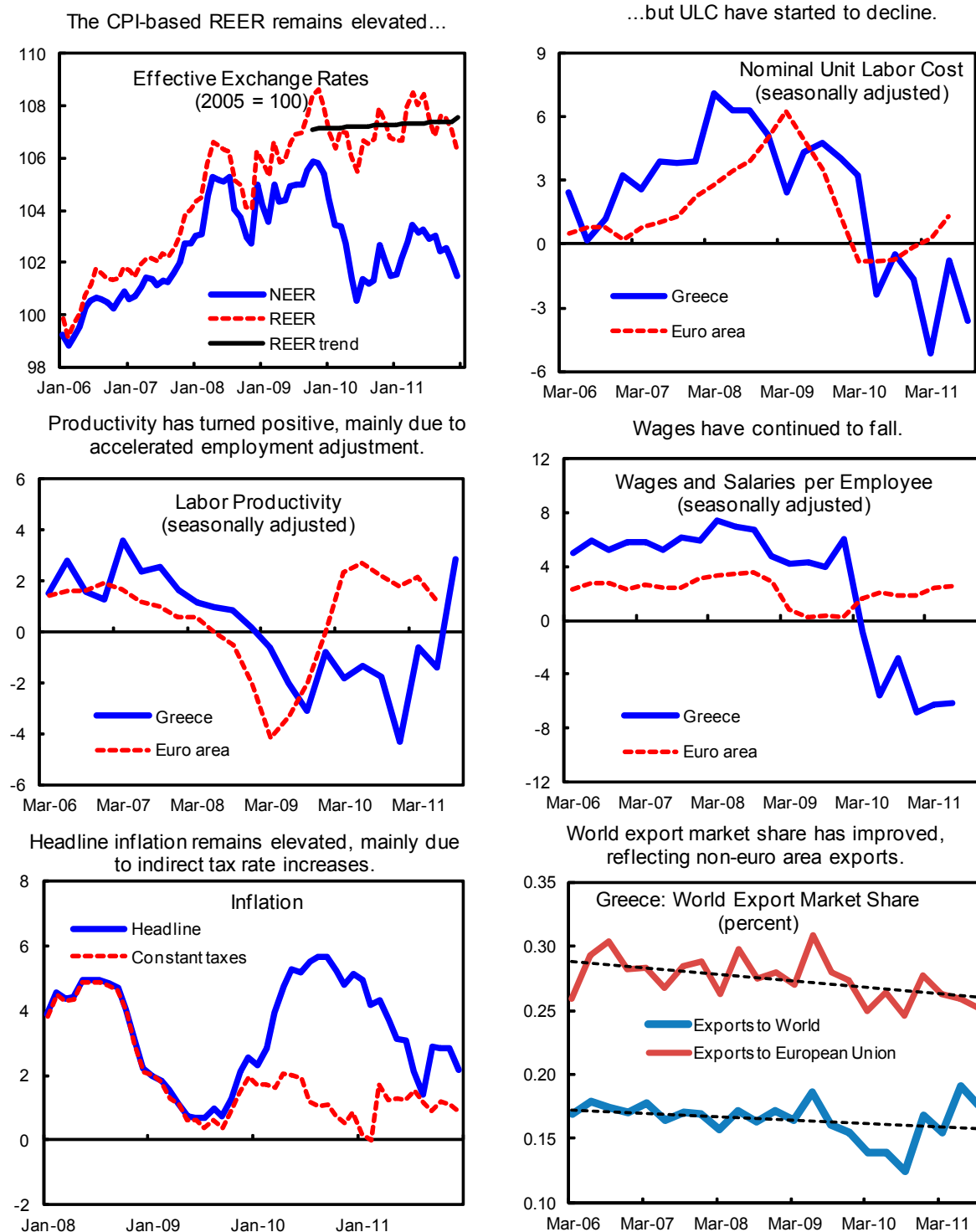
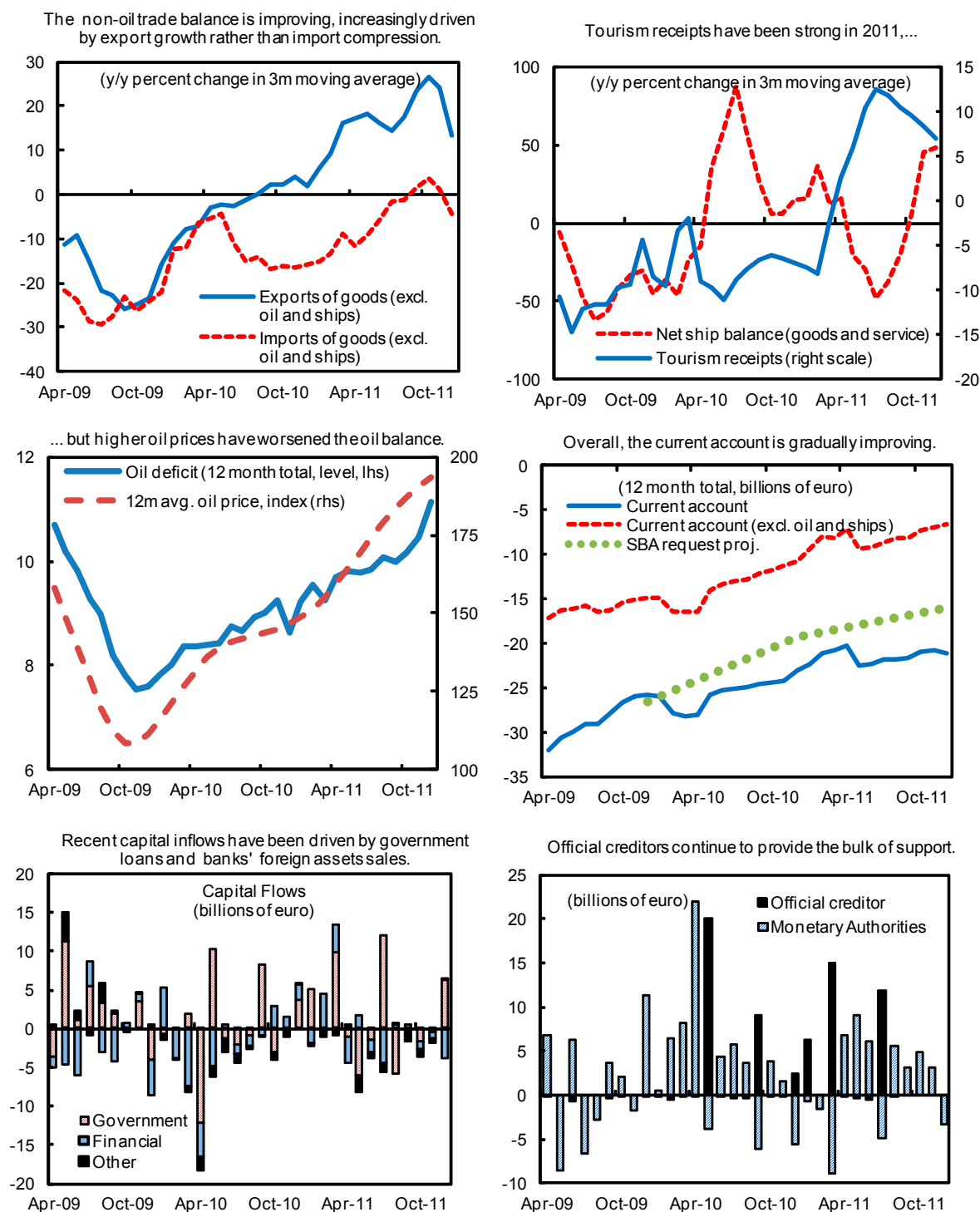
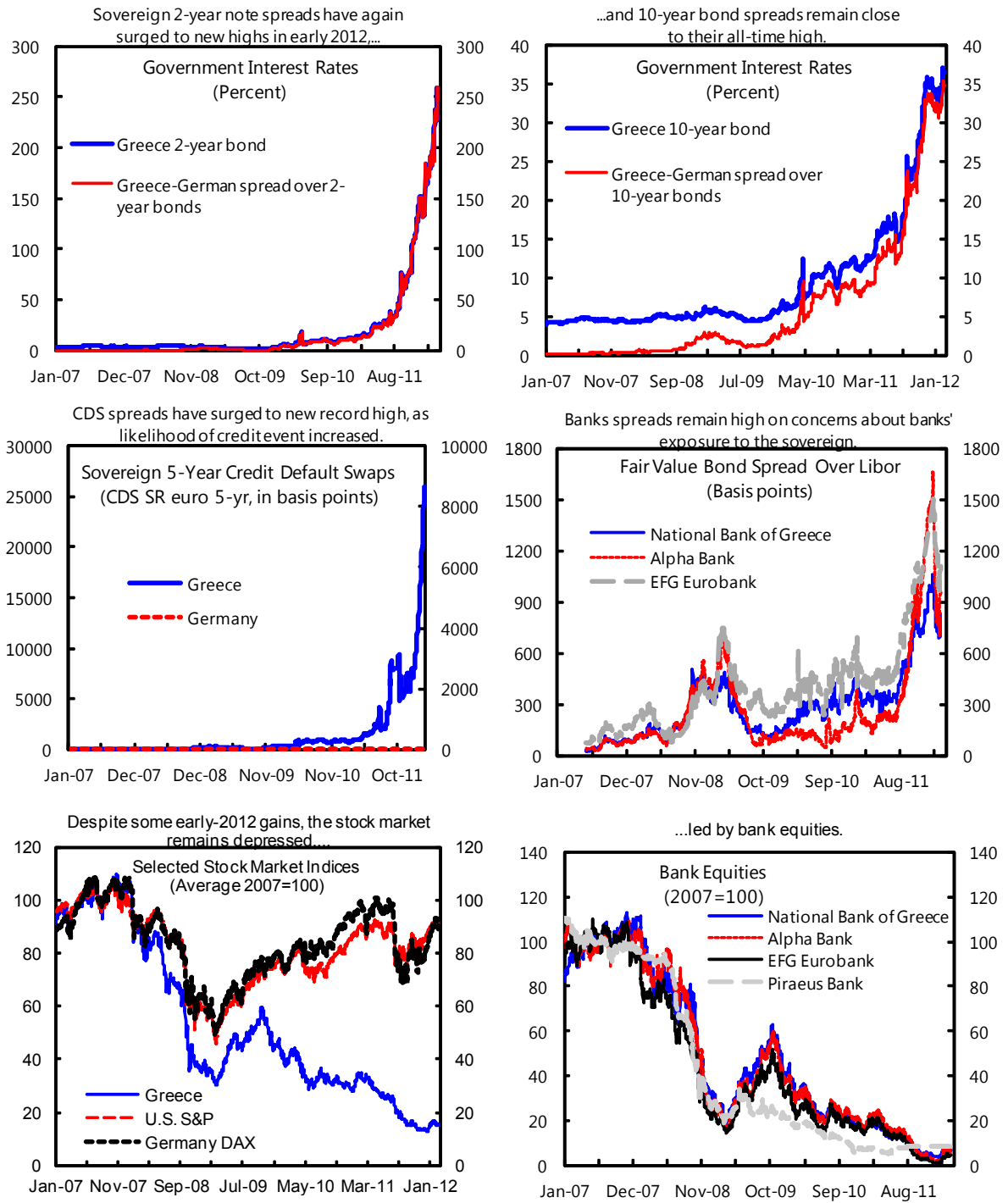


Figure 4. Greece: Balance of Payments Developments



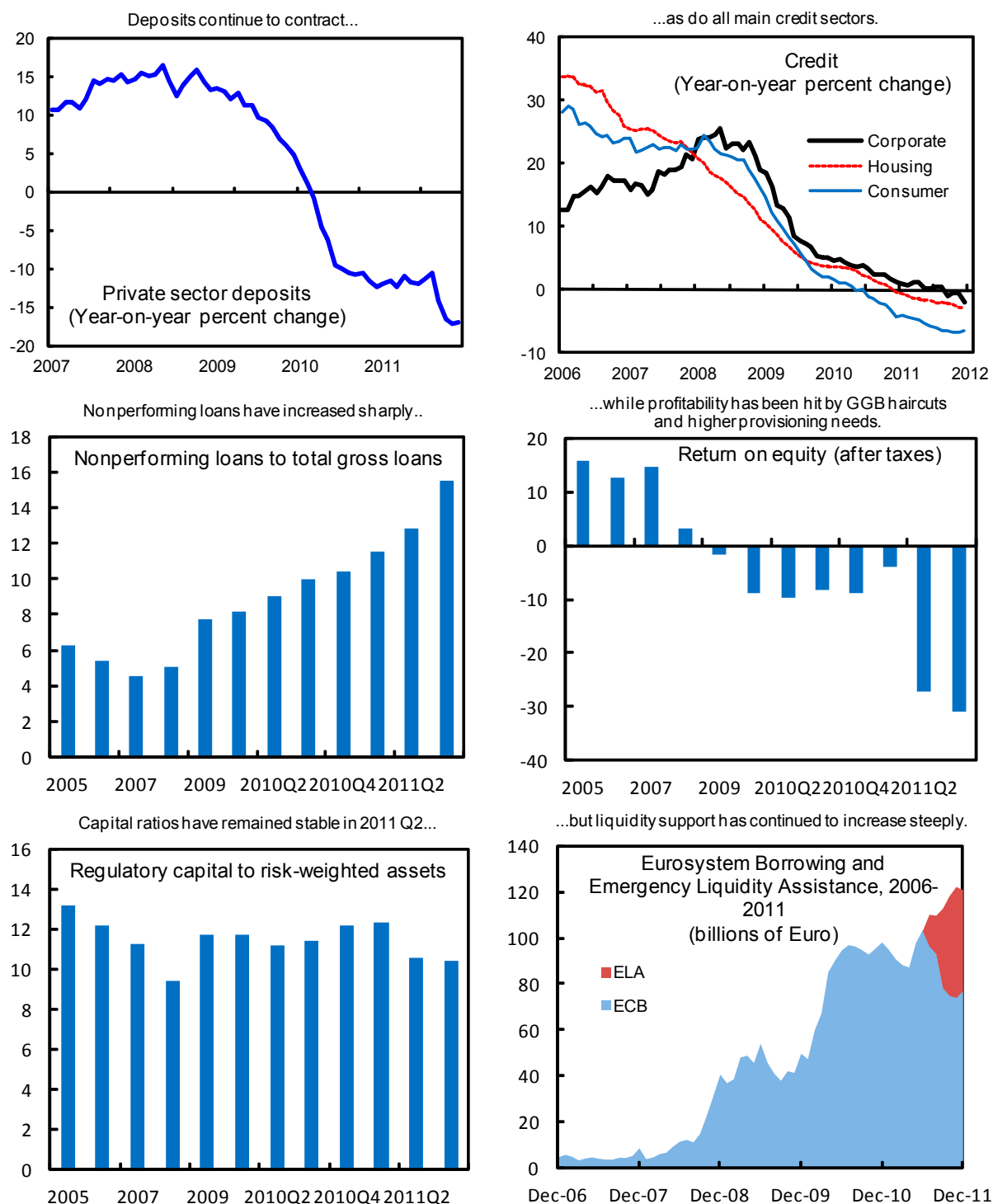
Sources: Bank of Greece; and IMF staff calculations.

Figure 5. Greece: Financial Indicators



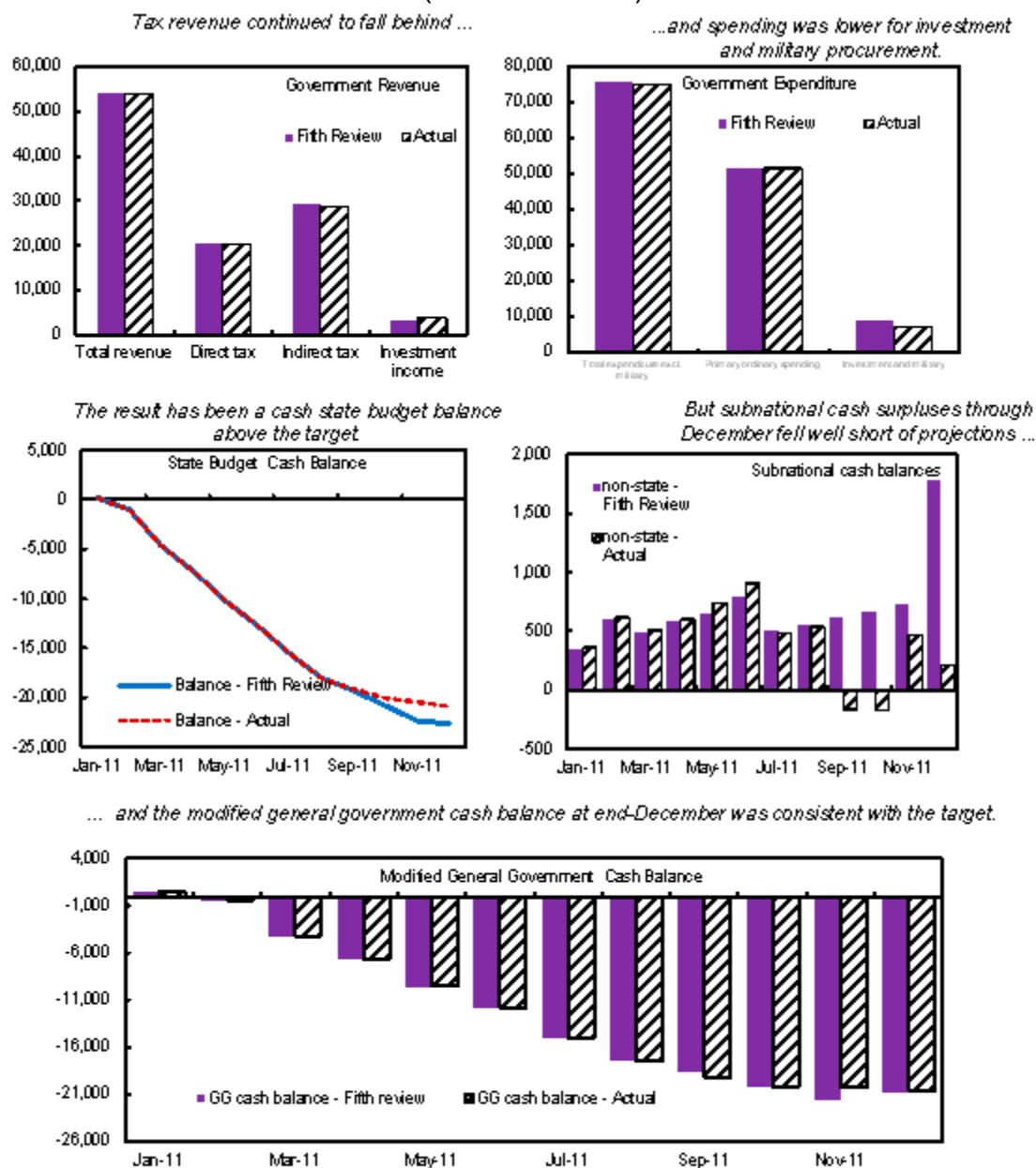
Sources: Bloomberg; and Moody's Creditedge.

Figure 6. Greece: Money and Banking Indicators



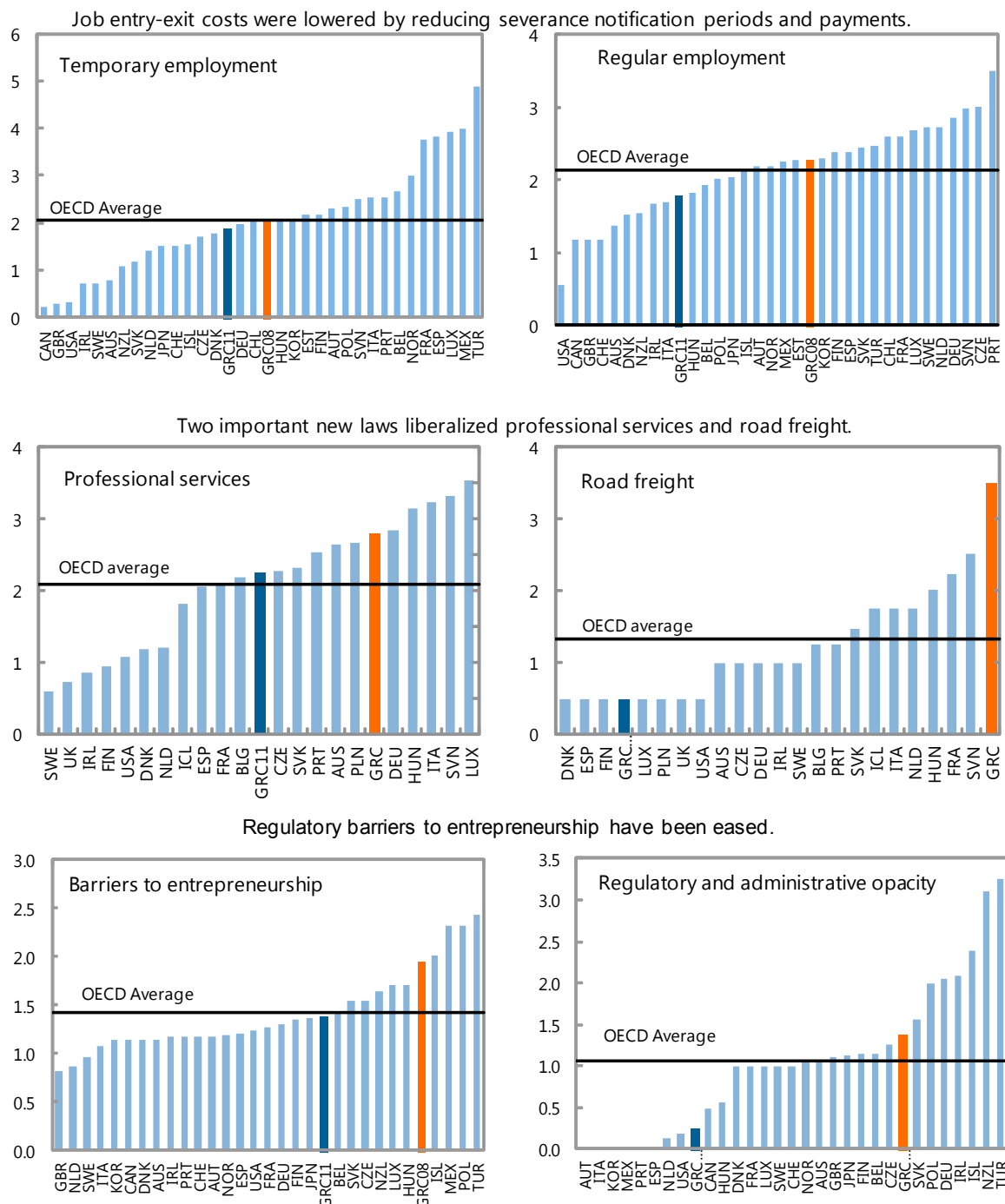
Sources: National Statistical Service; Bank of Greece; Bloomberg; ECB; and IMF staff calculations.

Figure 7. Greece: Budget Execution up to end-2011
(Millions of euro)



Sources: National authorities; and IMF staff calculations.

Figure 8. Greece: Structural Indicators
(Index scale 0-6 from least to most restrictive)



Source: OECD.

Note: Data is for 2008, and includes estimates for Greece for 2011 based on newly passed legislation.

Figure 9. Greece: Revised Macro Projections
(Year-on-year percent change)

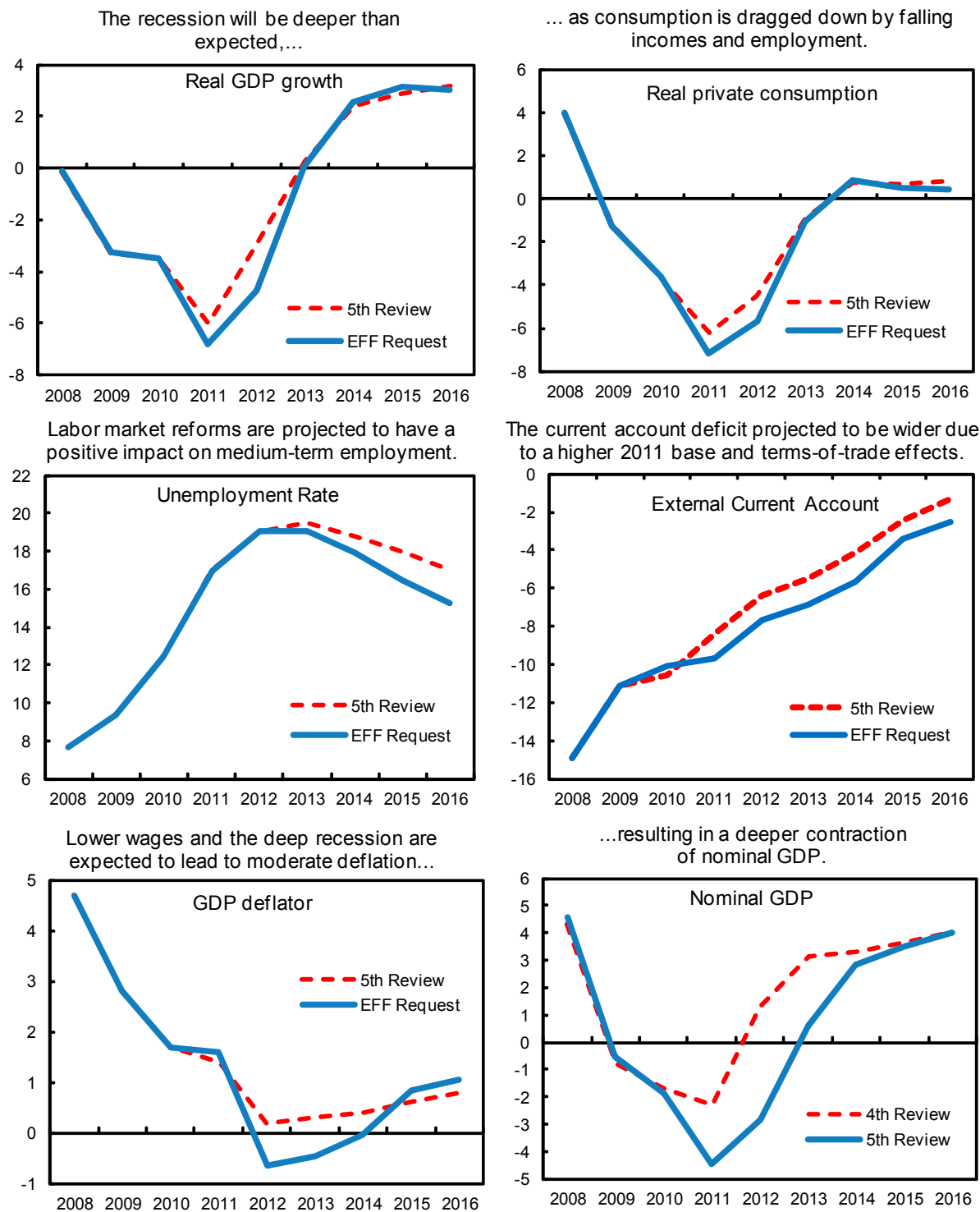
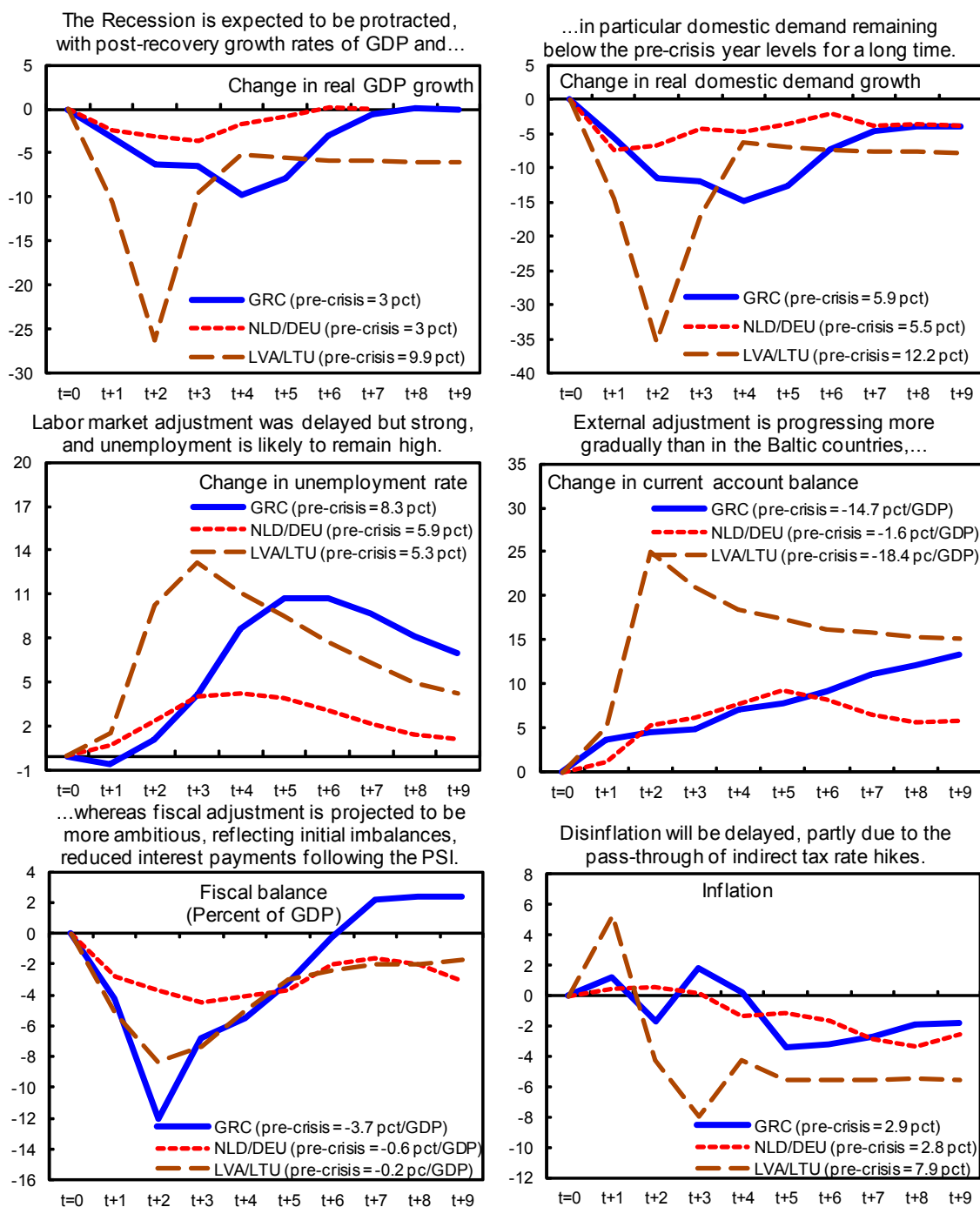


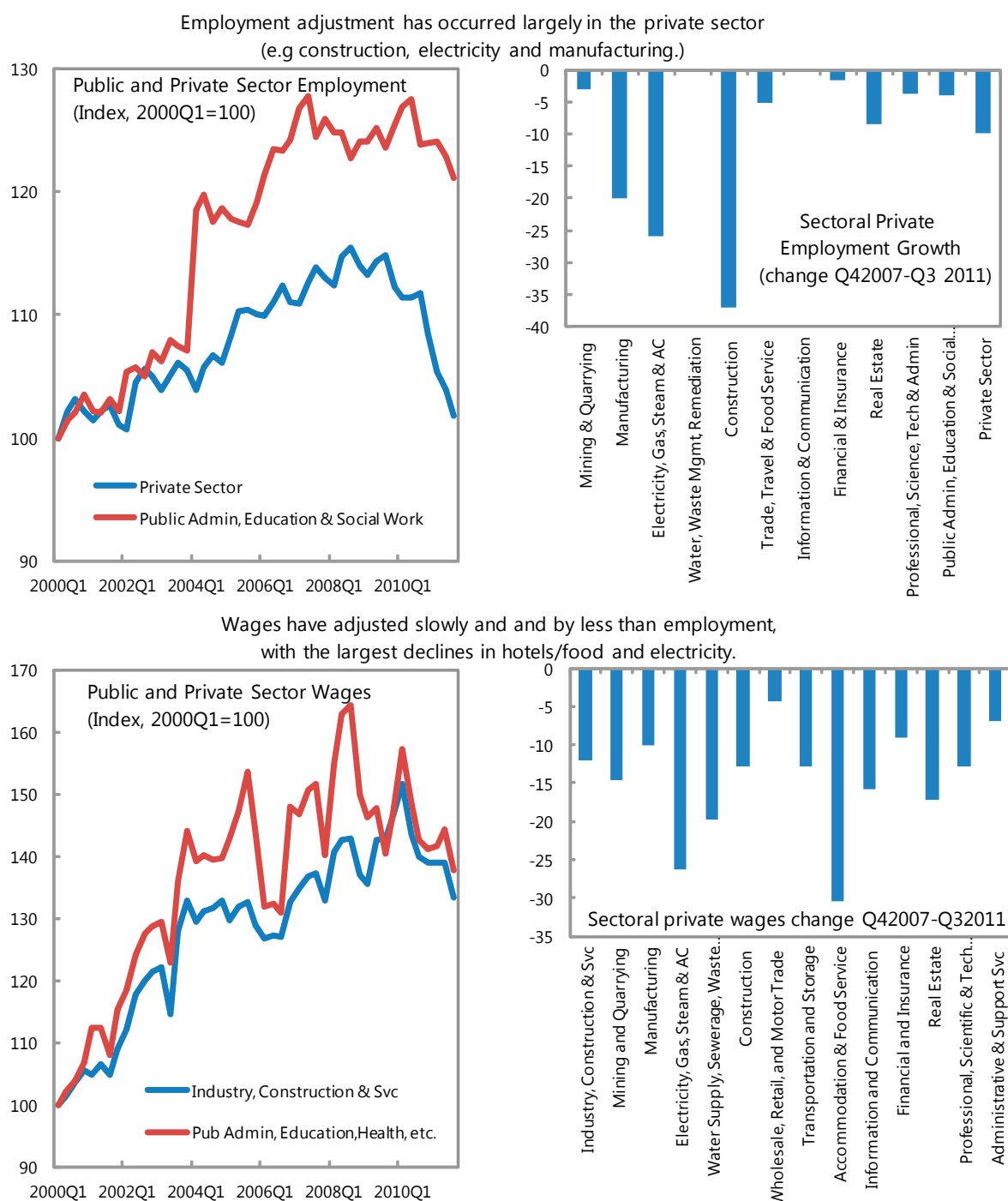
Figure 10. Greece: Macro Projections—International Comparison 1/
(Difference to pre-recession period in percentage points)



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.

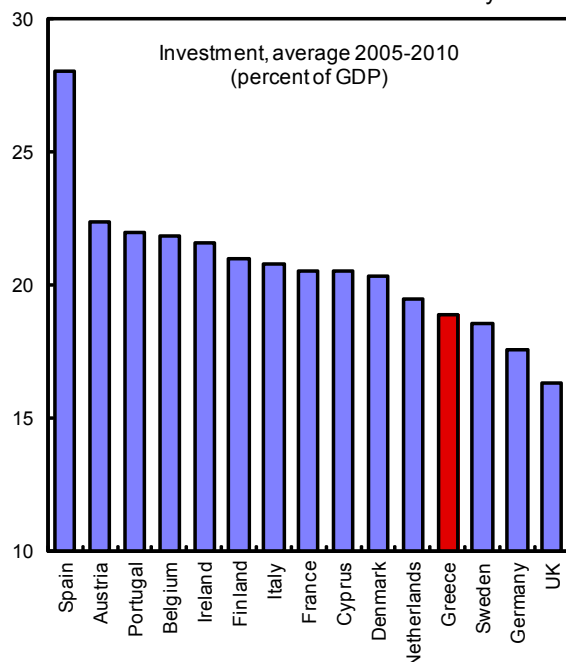
Figure 11. Greece: Labor Market Developments



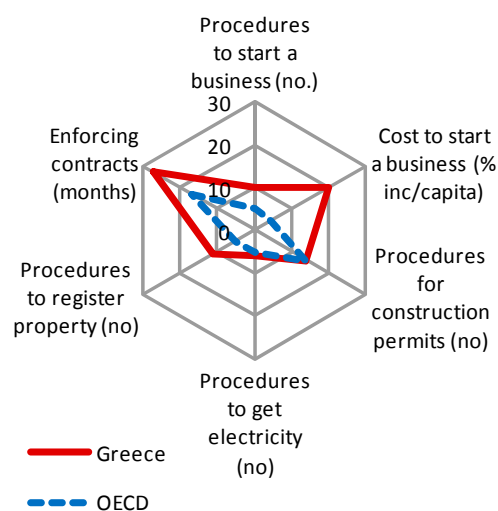
Source: Eurostat.

Figure 12. Greece: Barriers to Investment and Exports

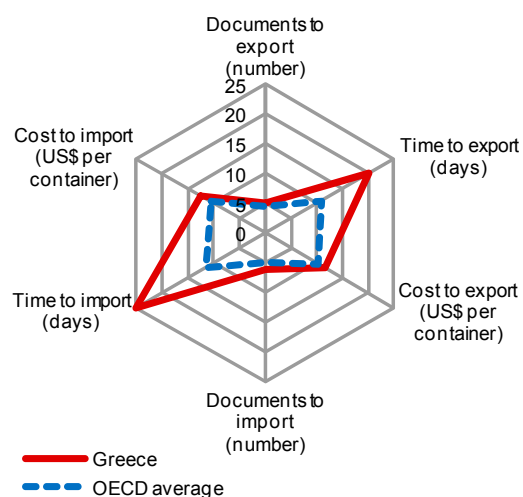
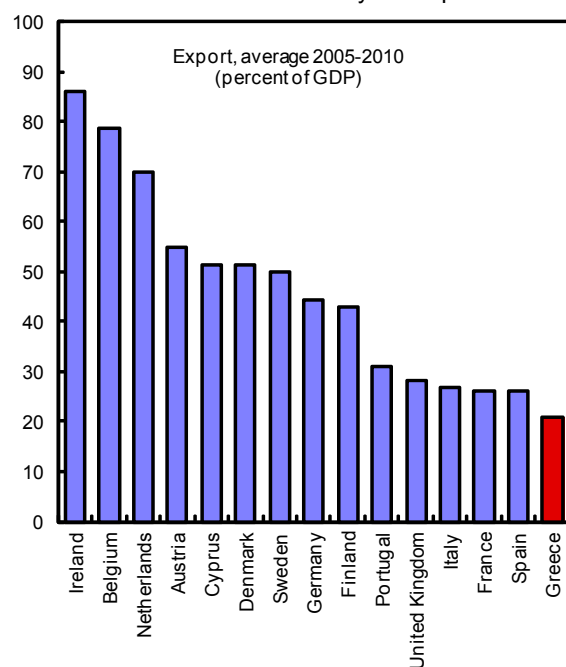
Greece's investment rate has been relatively low...



...hindered by time-consuming procedures



Greece has also been relatively less open to trade....in part due to administrative barriers to exports.



Sources: IMF, WEO database; and WB, Doing Business database.

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

	2011							
	Jun-11		Jul-11		Sep-11		Dec-11	
	Progr. 1/	Actual	Progr. 1/	Actual	Progr. 1/	Actual	Progr. 1/	Preliminary
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	-4.8
2. Ceiling on State Budget primary spending	30	28.4	34.7	33.5	44.5	42.0	60.8	59.1
3. Ceiling on the overall stock of central government debt	394	365	394	377	394	371	394	371
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	0.6
5. Ceiling on the accumulation of new external payments arrears on external debt contracted or guaranteed by general government 2/	0.0	0.005	0.0	0.001	0.0	0.0	0.0	0.0
6. Floor on privatization receipts 3/	..	..	0.39	0.39	1.70	0.39	1.70	1.6
Indicative Targets								
7. Ceiling on the accumulation of new domestic arrears by the general government 4/	0.0	4.0	0.0	3.9	0.0	3.8	0.0	3.0

1/ Cumulatively from January 1, 2011 (unless otherwise indicated).

2/ Applies on a continuous basis from program approval (May 9, 2010).

3/ Cumulatively from January 1, 2011.

4/ Calculated on a cumulative basis from January 1, 2010 and applied on a continuous basis from program approval (May 9, 2010).

Table 2. Greece: Structural Benchmarks Under the SBA, 2010–11 (1 of 2)

Measures	Macro-critical relevance	Status
Fiscal measures		
1. Appoint staff team and leader in GAO responsible for general government in-year cash reporting.	Improves fiscal transparency.	Completed as prior action for program approval.
2. Reduce public wage bill by cutting bonuses/allowances and pension bonuses (except minimum pensions).	Improves fiscal sustainability.	Completed as prior action for program approval.
3. Increase standard VAT rate from 21 to 23 percent and reduced rate from 10 to 11 percent and excise tax rates on alcohol, tobacco, and fuel with a yield of at least €1.25 billion in the remainder of 2010.	Improves fiscal sustainability.	Completed as prior action for program approval.
4. Adopt and start to implement a reorganization of sub-central government with the aim to reduce the number of local administrations and elected/appointed officials (Kalikrates).	Improves fiscal sustainability.	Completed as end-Jun. 2010 structural benchmark.
5. Submit to parliament amendments to Law 2362/1995 to (i) require the MoF to present a 3-year fiscal and budget strategy, (ii) introduce top-down budgeting with expenditure ceilings for the State budget and multi-year expenditure estimates by line ministry, (iii) introduce standard contingency margins, (iv) require a supplementary budget for any overspending above the contingency, (v) and introduce commitment controls. The amended law should be immediately effective, including in the context of the 2011 budget.	Improves credibility of the budget and fiscal consolidation program.	Completed as end-Jun. 2010 structural benchmark.
6. Adopt a comprehensive pension reform that reduces the projected increase in public spending on pensions over the period 2010-60 to 2½ percent of GDP.	Improves fiscal sustainability.	Legislation passed as end-Sept.2010 structural benchmark.
7. The National Actuarial Authority to produce a report to assess whether the parameters of the new pension system significantly strengthen long-term actuarial balance.	Improves long-term fiscal sustainability and increases labor force participation.	The end-Jun. 2010 structural benchmark was rescheduled and completed at end-Dec. 2010 for the main social security funds and at end-Mar. 2011 (with delay) for remaining supplementary funds.
8. Publish 2009 audited financial statements of the ten largest loss-making public enterprises on the MoF's website.	Increases fiscal transparency.	Completed with delay as end-Sept. 2010 structural benchmark.
9. Publish a detailed report by the MoF in cooperation with the single payment authority on the structure and levels of compensation and the volume and dynamics of employment in the general government.	Improves transparency of public sector employment.	Partially completed (with delay) as end-Dec. 2010 structural benchmark.
10. Adopt new Regulation of Statistical Obligations for the agencies participating in the Greek Statistical System.	Improve fiscal reporting.	Partially completed (with delay) as end-Dec. 2010 structural benchmark.
11. Publish the medium-term budget strategy paper, laying out time-bound plans to address: (i) restructuring plans for large and/or loss making state enterprises; (ii) the closure of unnecessary public entities; (iii) tax reform; (iv) reforms to public administration; (v) the public wage bill; and (vi) military spending.	Supports fiscal consolidation.	Completed as end-Apr. 2011 structural benchmark.
12. Parliament to approve the medium-term budget strategy (MTFS).	To reduce the overall deficit to below 3 percent of GDP by 2014.	Completed as prior action for the 4th review.
13. 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, including 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.	The Aug.15 structural benchmark (including the reform of the personnel system, which had been a rescheduled end-Jun. 2011 structural benchmark) was delayed and completed as prior action for the 5th review.
14. 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).	To help reach the 2012 fiscal target.	Completed as prior action for the 5th review.
Fiscal structural measures		
1. Establish a commitment register in all line ministries and public law entities. Begin publishing monthly data on general government in-year fiscal developments (including arrears).	Reduces budget overruns.	Partially completed (and with delay) as end-Sept. 2010 structural benchmark.
2. Put in place an effective project management arrangement (including tight MOF oversight and five specialist taskforces) to implement the anti-evasion plan to restore tax discipline through: strengthened collection enforcement and recovery of tax arrears—coordinated with the social security funds—of the largest debtors; a reorganized large taxpayer unit focused on the compliance of the largest revenue contributors; a strong audit program to defeat pervasive evasion by high-wealth individuals and high income self-employed, including prosecution of the worst offenders; and a strengthened filing and payment control program.	Achieves revenue targets and enhances fiscal sustainability.	Completed as end-Sept. 2010 structural benchmark.
3. Table legislation to: (i) streamline the administrative tax dispute and judicial appeal processes; (ii) remove impediments to the exercise of core tax administration functions (e.g. centralized filing enforcement and debt collection, indirect audit methods, and tax returns processing); and (iii) introduce a more flexible human resource management system (including the acceleration of procedures for dismissals and of prosecution of cases of breach of duty).	Removes legal and administrative impediments to tax collection.	The end-Feb. 2011 structural benchmark was delayed and completed as prior action for the 3rd review.

(continued...)

Table 2. Greece: Structural Benchmarks Under the SBA, 2010–11 (continued, 2 of 2)

Measures	Macro-critical relevance	Status
Fiscal structural measures		
(...continued)		
4. Appointment of financial accounting officers in all line ministries and major general government entities (with the responsibility to ensure sound financial controls).	Improves control and transparency of budget expenditures.	The end-Mar. 2011 structural benchmark was met with a delay.
5. Government to legislate key fiscal-structural reforms in an MTFS Implementation Bill.	To improve the efficiency of public spending, reduce waste, broaden the tax base and reduce tax evasion. Improves revenue administration.	Completed as prior action for the 4th review.
6. Articulate a strategic plan of medium-term revenue administration reforms to fight tax evasion.	Improves fiscal transparency.	The end-Jun. 2011 structural benchmark was delayed.
7. Publish 3 consecutive months of consistent arrears and consolidated general government fiscal reports.	Combats tax evasion and improves collection.	The end-Jun. 2011 structural benchmark was delayed.
8. Government to achieve quantitative targets set under its anti-tax evasion plan.		The end-Dec. 2011 structural benchmark was delayed and converted into prior action for the new EFF program.
Financial sector		
1. Establish the independent Financial Stability Fund (FSF) to preserve the financial sector's soundness.	Enhances financial stability.	Completed as end-Jun. 2010 structural benchmark.
2. Enactment of €25 billion bond guarantee tranche.	Supports bank liquidity.	Completed as prior action for the first review.
3. Pass legislation to separate the core consignment activity from the commercial activities of the HCLF.	Fosters banking sector stability.	The end-Mar. 2011 structural benchmark was met with a delay.
4. Government to put forward for legislative adoption a new tranche of government guarantees for uncovered bank bonds.	Assures sufficient banking system liquidity.	Completed as end-Mar. 2011 structural benchmark.
5. Commercial banks to submit medium-term funding plans to the ECB and the Bank of Greece.	Reduces banks' reliance on exceptional support.	Completed as end-May 2011 structural benchmark.
6. Parliament to pass legislation revising the FSF operating framework (to address conditions for recapitalization) and revising the bank resolution framework (the deposit guarantee scheme and early intervention and bank liquidation frameworks).	Strengthens the resolution framework.	Met (with delay) as Sept. 15 2011 structural benchmark.
7. Bank of Greece and FSF to complete a memorandum of understanding to further strengthen their cooperation (sharing of appropriate supervisory information).	Strengthens institutions for public support for the banking system.	Completed as prior action for the 5th review.
8. 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.	Strengthens governance for financial oversight agencies.	The end-Dec. 2011 structural benchmark was delayed and converted into prior action for the new EFF program.
Privatization		
1. Prepare a privatization plan for the divestment of state assets and enterprises with the aim to raise at least €1 billion a year during the period 2011-2013.	Reduces state intervention in the real economy; improves market efficiency; and cuts fiscal contingencies.	Completed as end-Dec. 2010 structural benchmark.
2. Parliament to approve the privatization and real estate development strategy through 2015.	To transfer public assets to more productive uses, and to use proceeds to reduce Greece's debt.	The end-Jul. 2011 structural benchmark was delayed and completed as prior action for the 4th review.
3. Government to legislatively establish a Privatization Agency.	To facilitate privatization.	Completed as prior action for the 4th review.
4. Government to (i) shift a second group of assets into the privatization fund covering transactions to be completed through end-2012; 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 as prior action for the 5th review.
Structural reforms		
1. Table legislation to reform the system of collective bargaining, including to eliminate the automatic extension of sectoral agreements to those not represented in negotiations and guarantee that firm level agreements take precedence over sectoral agreements without undue restrictions.	Increases the flexibility of the labor market.	Completed as structural benchmark for end-Dec. 2010.
2. Pass a framework law removing restrictions to competition in regulated professions (as defined in the EU Services Directive), addressing specific closed professions (lawyers, notaries, engineers, architects, and auditors).	Liberalizes services sector with the aim to strengthen competition and improve efficiency.	Completed as prior action for the third review.
3. 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 as prior action for the 5th review.

Source: IMF staff.

Table 3. Greece: Selected Economic Indicators, 2007–12

	2007	2008	2009	2010	2011		2012
					Prog.	Act.	Proj.
(Percentage change, unless otherwise indicated)							
Domestic economy							
Real GDP	3.0	-0.1	-3.3	-3.5	-6.0	-6.9	-4.8
Output gap (percent of pot. output)	8.7	8.3	5.0	2.9	-2.7	-2.4	-6.7
Total domestic demand	5.9	0.4	-5.7	-6.0	-8.4	-8.9	-6.7
Private consumption	3.8	4.0	-1.3	-3.6	-7.0	-7.2	-5.7
Public consumption	7.6	-2.1	4.8	-7.1	-8.5	-9.5	-11.0
Gross fixed capital formation	5.0	-7.9	-18.4	-14.5	-16.0	-17.0	-6.6
Change in stocks (contribution)	0.8	1.1	-2.2	0.1	0.3	0.3	0.0
Foreign balance (contribution)	-1.2	0.9	3.4	3.3	3.2	3.0	2.5
Exports of goods and services	6.9	3.0	-19.5	4.2	5.0	3.0	3.2
Imports of goods and services	14.6	3.3	-20.2	-7.2	-6.5	-7.0	-5.1
Unemployment rate (percent) 1/	8.3	7.7	9.4	12.5	17.0	17.0	19.1
Employment 1/	1.2	1.1	-1.0	-2.7	-6.0	-6.4	-4.8
Unit labor costs	1.3	0.4	4.2	-0.4	-2.5	-2.8	-8.6
Consumer prices (HICP), end of period	4.0	2.0	2.6	5.1	2.1	2.2	0.8
Consumer prices (HICP), period average	2.9	4.1	1.2	4.7	3.1	3.1	-0.5
Core prices, period average 2/	3.1	3.1	2.3	2.6	...	1.1	...
GDP deflator	3.5	4.7	2.8	1.7	1.6	1.6	-0.7
(Percent of GDP)							
Balance of payments							
Current account	-14.6	-14.9	-11.1	-10.1	-8.4	-9.8	-7.5
Trade balance	-11.2	-11.6	-7.8	-6.6	-4.8	-5.8	-4.2
Export of goods and services	21.9	23.1	18.3	20.0	22.6	22.7	24.8
Imports of goods and services	33.1	34.7	26.1	26.7	27.4	28.5	29.1
Total transfers	0.7	1.2	0.6	0.1	0.4	0.3	0.3
Net income receipts	-4.2	-4.6	-3.9	-3.6	-4.0	-4.2	-3.6
Net international investment position	-96	-77	-88	-99	-112	-113	-125
Public finances (general government)							
Total revenues	40.7	40.5	37.9	39.5	40.5	41.0	42.2
Total expenditures	47.5	50.5	53.6	50.1	49.5	50.3	49.5
Primary expenditures	42.8	45.5	48.3	44.6	42.7	43.4	43.2
Overall balance	-6.8	-10.0	-15.7	-10.6	-9.0	-9.3	-7.3
Primary balance	-2.0	-4.9	-10.4	-5.0	-2.3	-2.4	-1.0
Gross debt	107	113	129	145	162	165	163
Interest rates and credit							
Long-term lending interest rate	7.0	7.4	5.7	6.3	...	7.6	...
Private credit growth	21.5	15.9	4.2	0.0	...	-3.2	-4.0
Exchange rates							
Nominal effective exchange rate	1.9	2.1	0.4	-3.7	...	0.0	...
Real effective exchange rate (CPI-based)	2.1	2.2	1.7	-1.2	...	-0.6	...
Real effective exchange rate (man. ULC-based)	-0.7	-1.7	4.2	-1.1	...	...	...
Memorandum item:							
Nominal GDP (billions of euros)	223	233	232	227	222	215	204
Nominal GDP (percentage change)	6.6	4.6	-0.5	-1.9	-3.5	-5.3	-5.4

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

1/ Based on Labor Force Survey.

2/ Core prices exclude energy, food, alcohol, and tobacco.

Table 4. 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
(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	649.6	646.0
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	2.4
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	5.1
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	146.8
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	275.9
Domestic	177.4	205.6	222.0	209.7	210.5	282.4	280.1	282.5	274.9	273.2	272.8	269.5
General government	20.5	21.8	21.6	20.3	21.5	24.0	23.6	26.3	21.1	21.2	21.2	22.3
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	247.2
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	92.9
Other assets	36.7	45.3	59.5	61.2	64.0	60.8	60.9	60.7	62.0	63.2	105.6	118.0
Fixed assets	5.6	5.2	5.2	5.4	4.6	4.9	4.9	5.0	5.0	4.9	4.9	5.0
Total Liabilities	356.5	434.6	536.1	579.2	603.9	677.8	662.0	654.6	629.0	660.0	649.6	646.0
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	76.9
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	155.3
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	237.4
Domestic	181.8	206.1	237.4	246.7	240.4	230.9	230.8	225.1	221.9	199.7	195.6	187.7
Other countries	31.0	43.6	44.3	33.4	33.2	64.6	60.1	57.4	57.6	52.2	55.8	49.7
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	54.8
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	23.7
Other liabilities	38.7	40.5	42.8	36.7	39.9	52.8	39.0	40.3	43.0	60.2	84.7	97.9
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	199.2
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	248.1
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	59.2
(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	-14.6
Domestic private sector deposits 4/	10.9	14.3	13.3	4.9	-0.8	-9.6	-10.8	-12.4	-12.3	-12.0	-14.1	-17.0
Credit to the private sector 4/	21.1	21.5	15.9	4.2	3.5	2.7	1.4	0.0	-0.4	-1.2	-2.2	-3.2
Credit to government 4/	-2.7	-8.8	1.3	19.4	9.7	12.1	30.8	28.3	8.7	9.3	3.7	2.5
(in percent of GDP)												
Broad money	92.8	98.8	108.0	112.8	106.4	102.9	102.6	100.3	98.6	97.1	96.2	95.7
Domestic deposits	87.1	92.6	102.0	106.6	102.7	98.9	99.2	99.0	99.3	90.7	89.7	86.5
Credit to the private sector	85.8	96.6	107.1	107.8	107.2	111.4	110.9	113.2	114.1	114.9	115.8	114.3
Credit to government	19.5	16.4	15.9	22.0	24.6	24.6	26.1	27.7	26.3	28.4	26.6	27.3
Memorandum items:												
(in percent)												
Capital to assets	6.1	5.8	4.7	6.4	6.0	5.0	5.3	5.8	5.7	5.9	5.9	6.9
Loans to customer deposits	83.6	84.8	83.2	79.2	81.1	98.5	98.8	103.5	102.1	112.8	111.8	117.0
Velocity	2.2	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.

Table 5. Greece: Financial Soundness Indicators, 2005–11
(percent)

	2005	2006	2007	2008	2009	2010Q1	2010Q2	2010Q3	2010Q4	2011Q1	2011Q2	2011Q3
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	10.1
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	9.2
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	78.6
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	14.7
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	13.3
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	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	45.8
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	0.3
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	2.4
Other	1.2	1.4	1.5	1.5	1.6	1.5	6.4	6.8	7.4	7.4	7.4	6.9
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	-2.1
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	-34.2
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	91.7
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	58.6
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	33.18
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	50.2
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	14.5

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 6. Greece: Modified General Government Cash Balance, 2012–15
(in billions of Euro)

	2012 (cumulative)				2013	2014	2015	2016
	Mar-12 Prog.	Jun-12 Prog.	Sep-12 Prog.	Dec-12 Prog.	Prog.	Prog.	Prog.	Proj.
I. State budget	11.9	24.2	39.6	55.3	54.2	55.1	54.0	56.2
Revenue								
Ordinary Budget (A + B + C - D)	11.6	22.4	36.5	50.6	48.9	50.2	51.6	52.1
A. Recurrent revenue	11.7	23.3	37.7	52.2	50.7	51.8	53.6	54.6
1. Direct taxes	4.3	9.0	16.0	22.9	21.5	22.0	22.9	23.4
Income taxes	2.0	5.4	10.4	14.7	14.2	14.9	16.1	16.4
PIT	1.6	3.8	7.5	10.9	10.1	10.5	11.1	11.4
CIT	0.0	0.9	1.6	2.3	2.5	2.8	3.3	3.4
Other	0.3	0.7	1.2	1.5	1.5	1.6	1.6	1.6
Property taxes	1.0	1.1	1.6	2.8	2.5	2.8	2.8	2.9
Tax arrears collection	0.7	1.4	1.8	2.2	2.2	1.6	1.7	1.7
Other direct taxes	0.6	1.1	2.2	3.2	2.7	2.7	2.3	2.4
2. Indirect taxes	6.8	13.0	19.7	26.9	26.8	27.3	28.0	28.4
Transaction taxes	4.2	8.2	12.5	16.5	16.2	16.6	17.0	17.3
VAT	4.0	7.8	11.9	15.7	15.4	15.7	16.1	16.4
Other	0.2	0.4	0.6	0.9	0.8	0.9	0.9	0.9
Consumption taxes	2.4	4.4	6.6	9.6	9.9	10.0	10.2	10.3
Tax arrears collections	0.1	0.2	0.3	0.4	0.4	0.4	0.4	0.4
Other indirect taxes	0.1	0.2	0.3	0.3	0.3	0.3	0.3	0.4
3. Transfers EU	0.0	0.1	0.1	0.2	0.2	0.2	0.2	0.0
4. Nontax revenue	0.6	1.2	1.8	2.2	2.2	2.4	2.6	2.7
B. One-off revenue	0.3	0.6	1.4	2.1	2.2	2.4	1.9	2.0
C. Revenue from concession and rights	0.0	0.0	0.3	0.3	0.1	0.0	0.0	0.0
D. Tax Refunds	0.5	1.5	2.8	3.9	4.0	4.0	4.0	4.4
Investment budget	0.3	1.8	3.0	4.7	5.3	4.9	2.4	4.1
A. EU flows	0.3	1.7	2.9	4.6	5.0	4.7	2.2	3.9
B. Own revenues	0.0	0.1	0.2	0.2	0.3	0.2	0.2	0.2
Expenditure	20.1	37.0	52.5	67.4	68.0	67.0	66.4	68.8
Ordinary spending	19.0	33.0	46.4	59.0	59.2	58.4	57.9	60.7
Ordinary primary spending	12.6	24.9	36.7	47.7	48.0	46.4	45.6	47.5
A. Remuneration and pensions	4.9	10.2	15.4	20.5	19.9	19.9	20.0	20.8
B. Insurance and Healthcare	4.8	9.1	12.6	15.6	16.3	14.6	14.0	14.6
C. Operating and other expenditure	1.7	3.4	5.0	6.6	6.5	6.5	6.2	6.4
D. Earmarked revenue	1.0	2.1	3.0	4.0	4.0	4.2	4.3	4.4
E. Reserve	0.1	0.2	0.7	1.0	1.3	1.2	1.2	1.2
Interest	6.4	8.0	9.7	11.3	11.3	12.0	12.3	13.1
Transfers to hospitals for the settlement of past debt	0.0	0.0	0.2	0.4	0.4	0.4	0.4	0.0
Investment	1.1	3.8	5.5	7.3	7.3	7.3	7.3	7.3
Spending on military procurement	0.1	0.2	0.5	0.7	1.1	1.0	0.8	0.8
Balance	-8.3	-12.8	-12.9	-12.1	-13.8	-12.0	-12.4	-12.6
Primary balance	-1.8	-4.8	-3.2	-0.7	-2.6	0.0	-0.1	0.6
II. Balance local governments	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1
III. Balance social security funds	-0.5	-1.0	-1.6	-2.1	-1.8	-2.4	-2.8	-2.9
IV. Balance of extra-budgetary funds (ETERPS)	0.2	0.3	0.5	0.6	0.3	0.1	0.1	0.1
V. Called guarantees from non-general govt entities	0.0	-0.1	-0.1	-0.1	-0.3	-0.2	-0.1	-0.1
VI. Change in arrears of line ministries	0.0	0.0	-0.2	-0.3	-0.1	0.0	0.0	0.0
VII. Change in arrears of hospitals	0.0	0.0	-0.2	-0.4	0.0	0.0	0.0	0.0
VII. Change in other arrears	0.0	0.0	-1.0	-3.3	-2.9	0.0	0.0	0.0
VIII. Balance of reclassified public enterprises	-0.1	-0.3	-0.4	-0.5	-0.4	-0.3	-0.3	-0.3
IX. Unidentified measures					7.8	11.7	11.4	11.9
X. Modified general government cash balance	-8.8	-13.9	-15.8	-18.2	-11.3	-3.0	-4.0	-3.7
Modified general government primary cash balance	-2.3	-5.8	-6.1	-6.8	0.0	9.0	8.3	9.4
Primary spending	13.7	29.0	44.2	60.2	52.4	43.6	42.8	43.9
Memorandum items:								
Floor on the modified general government primary cash balance	-2.5	-6.0	-6.3	-7.0	-0.2	8.8	8.1	...
Ceiling on primary spending	13.9	29.2	44.4	60.4	52.6	43.8	43.0	...

Sources: Ministry of Finance; and IMF staff projections.

Table 7. Greece: Status of Fiscal-Structural Reforms, 2012

Action taken	Time	Status of Implementation and Comments
<i>Pensions</i>		
Comprehensive reform of main pensions adopted	Jul-10	According to the latest studies (October 2011), the new law has lowered the projected increase in pension spending over the period 2010-2060 to less than 1 percent of GDP (from 12.5 percent of GDP). Supplementary and welfare funds still need to be reformed.
<i>Health</i>		
Pension law includes institutional reforms in the health sector	Jul-10	The law provides for the financial and accounting independence of health funds (by December 2010), creates a central health agency in charge of implementing uniform benefit packages across funds, and requires the integration of social security funds with the NHS (December 2012).
Arrears and unpaid bills in the health sector are settled	Jun-10	About €5.3 billion arrears and unpaid bills for the period 2005-09 in the health sector were identified to be settled using bonds. Arrears have been cleared.
Prices of pharmaceuticals are reduced by 20 percent	Jun-10	Across the board cuts implemented (average cut 20 percent); drugs started to be priced using international benchmarks and updated quarterly.
Actions to improve budgeting and reduce pharmaceutical costs are introduced	Feb-11	2011 budget included, for the first time, a consolidated budget for social security funds; e-prescription is gradually introduced in all funds and expected to be fully completed by end-2012; extended negative list of non reimbursable medicine approved; and co-payment for outpatient services increased to €5 (from €3).
Law to implement reforms of health services and organization adopted	Feb-11	The law reduces profit margins and partially liberalizes pharmacist profession, starts unifying primary healthcare services (across the four largest funds), and reforms the supply and procurement system.
Single health fund (EOPYY) created	Sep-11	EOPYY includes the health functions of the five main social security funds. Uniform health contributions have been adopted and EOPYY will proceed to create a uniform health package and doctor payment structure.
<i>Local Governments</i>		
Law reforming local governments adopted	May-10	The law reduces the number of municipalities (from 1034 to 325), regions (from 13 to 7 decentralized administrations), and local legal entities (from 6,000 to 1,500); transfers new functions to local governments (e.g. water management, specific health services); introduces new revenue sharing agreements with the central government; and, sets borrowing and debt limits. Merging of local governments completed in March 2011.
<i>State Owned Enterprises</i>		
Quarterly financial statements of the 10 largest loss-making and other public enterprises published	Oct-10	Financial statements published on a quarterly basis for 46 public enterprises, including consolidated summary results and main performance indicators, and payroll data (this latter covering 52 companies). Statements continue to be published and coverage expended.
Legislation and business plans to reform the railway sector adopted	Nov-10	The law sets: limits for government subsidies, number of staff to dismiss or transfer to other entities, assets and liabilities to be transferred to the government, and a regulatory framework for the sector. The business plan, implemented during 2011, specifies actions including tariff increases and salary reductions.
Wages of employees of public enterprises reduced	Jan-11	Wages exceeding €1,800 per month reduced by 10 percent, main supplementary pay limited to no more than 10 percent of total remuneration; monthly earnings not to exceed €4,000 per month. In 2011, salaries further reduced on average by 17 percent as part of the reform of the public sector wage scale. In November 2011, wages were aligned to the new unified pay scale of civil servants, with an average reduction of 15 percent.
Law to reform Athens urban transport companies adopted	Mar-11	The law sets: upper limits for government subsidies, number of staff to transfer to other public entities, liabilities to be transferred to the central government, reorganization of the companies' structure, and a performance monitoring system.
<i>Public Financial Management</i>		
New Fiscal Responsibility and Management Act (FRMA) approved.	Aug-10	First medium term fiscal strategy (MTFS) for the period 2012-15 approved in July 2011. The 2011 and 2012 budgets prepared according to the new Act and in line with MTFS plans, including separate State, Social, LG budgets.
General government monthly fiscal data published, including arrears.	Sep-10	Monthly data including detailed State data and cash balances for other GG entities published. Arrears data published monthly using surveys. Aggregated revenue, expenditure and transfers data for all main general government entities published for the first time in March 2011.
Commitment registers established and being rolled out.	Dec-10	Presidential decrees establishing commitment registers published (December 2010) and implementation circular issued in January 2011. Gradual rolling out of registers in line ministries and main general government entities in 2011.
MTFS 2011-2015 approved	Jun-11	The first medium-term fiscal strategy was approved, including binding spending limits for 2012 for line ministries. Next MTFS due in May-June 2012.
<i>Revenue Administration</i>		
Anti-evasion plan designed and project implementation unit established.	Dec-10	The project unit includes five task forces working on: securing the implementation of new tax legislation, collecting tax arrears, reorganizing the large tax payers unit, strengthening audits for high-wealth and income individuals, strengthening filing and payment controls and improving tax services.
Legislation to remove impediments to effective tax collection adopted	Mar-11	Legislation includes: modifications to the administrative tax dispute process, creation of an independent arbitration process, centralization and strengthening of audit functions, simplifications of the tax debt collection process, acceleration of the disciplinary process for misconduct of tax officials.
New 3-years anti-evasion plan presented	Apr-11	A three anti-evasion action plan is presented by the authorities, according to the requirement of the March 2011 law.
Strategic plan for medium term reform approved	Jul-11	The plan includes developing taxpayers services, reorganizing revenue agencies, establishing a risk management framework.
Reorganization of revenue agencies started	Oct-11	Central directorates for debt collection and audits and a large taxpayer office have been created. Performance targets for 2011 and 2012 were assigned to the new units. A fast track administrative resolution process for large cases is operational. Small local offices are closed (process to be completed by end-2012)

Source: IMF Staff

Table 8. Greece: Status of Macro-Structural Reforms, 2012

Measures	Passage	Implementation	Description	Economic outcomes
<i>Labor market</i>				
Lowering entry-exit costs	Jul-10	completed	The law facilitated firing (costs and procedures), eased overtime premia, equalized hourly remuneration for permanent and part-time work, and extended the duration of temporary contracts.	In 2011, changes to existing full time contracts into part-time and intermittent contracts doubled relative to 2010.
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 through special firm-level collective agreements (SFLCAs) and provides for symmetric access to arbitration services.	12 SFLCAs (covering 3,500 employees) were approved by end-Oct. 2011, reducing wages by an avg 10 percent. The new arbitration and mediation body started to operate in Oct.
Allowing for flexible labor contracts and working time management	Jul-11	completed	The new legislation allows for working longer hours for a longer period, while reducing the use of overtime pay, and lowering the severance pay associated with fixed-term contracts as well as limiting the times these contracts can be renewed.	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.	Total inspections in 2011 were up by 2% relative to 2010 and by 15% relative to 2009. The pilot labor card has not yet been introduced.
Facilitating firm-level collective bargaining	Oct-11	completed	New legislation eliminates the "favorability" clause, 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.	By mid-Feb, 81 firm level agreements (covering 28,000 employees) were concluded (55 with employee representatives), cutting wages by an average of 15 percent.
<i>Sectoral deregulation</i>				
Liberalization of cruise ships (cabotage)	Aug-10	completed	The law allows cruise ships with non-EU flag to dock on/ depart from a Greek port.	Three contracts were signed in 2011. Two cruises were initiated from Greek ports in 2011.
Liberalization of road freight transportation	Sep-10	completed	The law allows for automatic granting of licenses upon meeting objective criteria set by the law; implementation over a set 2.5 year transition period.	N/A
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.	N/A
Liberalization of tourist coaches	Jul-11	completed	The 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	completed	The energy law unbundles transmission and distribution of energy and establishes the independent Regulatory Authority for Energy.	N/A
<i>Business environment</i>				
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 number of start-ups registered through the new system (GEMI) was 6,752 at the total number of companies registered was 25,171 as of end-Jan. 2012.
Fast-track procedure for large investment projects	Nov-10	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.	Nine projects have been approved, but none has completed the licensing procedures.
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 simplifies and shortens 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.	N/A

Source: IMF staff.

Table 9. Greece: Medium-Term Macroeconomic Framework, 2010–20

	2010	2011	2012	2013	2014	2015	2016	2020
	Projections							
	(Percentage change, unless otherwise indicated)							
Domestic economy								
Real GDP	-3.5	-6.9	-4.8	0.0	2.5	3.1	3.0	2.2
Output gap (percent of pot. output)	2.9	-2.4	-6.7	-6.7	-4.7	-2.6	-0.9	0.0
Total domestic demand	-6.0	-8.9	-6.7	-1.4	1.3	1.9	1.9	1.3
Private consumption	-3.6	-7.2	-5.7	-1.1	0.9	0.5	0.4	0.2
Public consumption	-7.1	-9.5	-11.0	-9.5	-4.7	1.0	1.0	0.1
Gross fixed capital formation	-14.5	-17.0	-6.6	5.8	8.5	8.5	8.0	5.0
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	3.0	2.5	1.5	1.2	1.2	1.1	1.0
Exports of goods and services	4.2	3.0	3.2	5.5	7.0	7.5	6.9	5.0
Imports of goods and services	-7.2	-7.0	-5.1	0.0	2.4	3.2	3.1	2.3
Unemployment rate (percent) 1/	12.5	17.3	19.4	19.4	18.2	16.8	15.6	11.7
Employment	-2.7	-6.6	-4.8	-0.3	1.5	1.8	1.4	1.0
Unit labor costs	-0.4	-2.8	-8.6	-1.6	-1.9	-0.7	1.7	0.3
Consumer prices (HICP), end of period	5.1	2.2	0.8	0.0	0.6	1.1	1.2	1.9
Consumer prices (HICP), period average	4.7	3.1	-0.5	-0.3	0.2	1.0	1.1	2.0
GDP deflator	1.7	1.6	-0.7	-0.5	-0.1	0.8	1.0	1.9
Monetary survey								
Credit to the private sector (percent change)	-0.2	-3.2	-4.0	-2.2	3.1	3.5	4.0	4.5
Private sector deposits (percent change)	-12.1	-16.5	-10.5	-2.7	4.4	8.5	8.8	5.3
Liabilities to the BoG (in billions of Euro)	97.8	76.9	41.4	41.4	38.9	35.5	27.4	17.8
	(Percent of GDP)							
Balance of payments								
Current account	-10.1	-9.8	-7.5	-6.7	-5.4	-3.3	-2.4	1.2
Trade balance	-6.6	-5.8	-4.2	-3.0	-1.7	-0.4	0.8	5.0
Export of goods and services	20.0	22.7	24.8	25.9	26.8	27.7	28.6	31.8
Export of goods	7.5	9.4	10.5	11.0	11.4	11.7	12.0	13.1
Exports of services	12.5	13.3	14.3	14.9	15.5	16.0	16.6	18.8
Imports of goods and services	26.7	28.5	29.1	28.9	28.6	28.1	27.8	26.9
Imports of goods	20.0	22.0	22.6	22.4	21.9	21.4	21.1	20.1
Imports of services	6.7	6.5	6.5	6.6	6.6	6.7	6.7	6.8
Total transfers	0.1	0.3	0.3	0.3	0.3	0.2	0.2	-0.3
Net income receipts	-3.6	-4.2	-3.6	-4.0	-4.0	-3.2	-3.5	-3.5
Net international investment position	-99	-113	-125	-131	-134	-130	-126	-102
Gross external debt	179	192	193	200	200	193	184	141
Private sector capital flows (net)	-19	-19	-41	1	1	2	2	0
Public finances (general government, percent of GDP)								
Total revenues	39.5	41.0	42.2	42.2	42.1	40.1	40.1	40.1
Total expenditures	50.1	50.3	49.5	46.8	44.2	41.7	42.0	41.3
Primary expenditures	44.6	43.4	43.2	40.4	37.6	35.6	35.6	35.8
Overall balance	-10.6	-9.3	-7.3	-4.6	-2.1	-1.6	-1.9	-1.2
Primary balance	-5.0	-2.4	-1.0	1.8	4.5	4.5	4.5	4.3
Gross financing needs (pct of GDP)	24	29	73	23	21	17	11	9
Memo: GFN (in billions of Euro)	54	63	149	47	43	36	25	24
Memo: Deposit accumulation (in billions of Euro)	...	2.0	7.4	0.6	-2.9	0.2	0.2	0.2
New private sector borrowing (MLT, billions of Euro)	...	0.0	0.0	0.0	0.0	0.0	0.3	2.5
Privatization receipts (percent of GDP)	0.0	0.5	1.6	2.1	2.1	2.6	2.6	2.1
Gross debt (in percent of GDP)	145	165	163	167	161	153	145	117

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

1/ Based on Labor Force Survey.

Table 10. Greece: Summary of Balance of Payments, 2010–16

	2010	2011 Prel.	2012	2013	2014 Projections	2015	2016
(Billions of euro)							
Current account balance	-23.0	-21.1	-15.2	-13.6	-11.3	-7.2	-5.4
Balance of goods and services	-15.0	-12.6	-8.6	-6.1	-3.6	-0.8	1.9
Goods balance	-28.3	-27.2	-24.5	-23.1	-21.9	-21.0	-20.4
Exports	17.1	20.2	21.4	22.3	23.6	25.3	27.1
Imports	45.4	47.5	46.0	45.4	45.5	46.3	47.6
Services balance	13.2	14.6	15.9	17.0	18.3	20.2	22.3
Credit	28.5	28.6	29.2	30.3	32.2	34.6	37.4
Debit	15.2	14.0	13.3	13.3	13.8	14.4	15.0
Income balance	-8.1	-9.1	-7.3	-8.1	-8.2	-6.9	-7.8
Credit	3.6	3.3	2.5	3.1	3.6	5.4	5.5
Debit	11.7	12.4	9.8	11.1	11.8	12.4	13.3
Current transfers (net)	0.2	0.6	0.7	0.6	0.5	0.5	0.5
Capital and financial account balance	-8.1	-21.0	-104.0	-10.2	-10.2	-8.3	0.6
Capital account balance	2.1	2.7	3.8	3.7	3.3	3.2	3.0
Financial account	-10.1	-23.7	-107.8	-13.9	-13.5	-11.5	-2.5
Direct investment	-0.5	0.0	1.6	2.3	1.7	1.8	2.9
Portfolio investment	-20.9	-17.3	-56.6	-9.9	-15.2	-4.9	-1.0
<i>of which: government</i>	-26.8	-22.8	-28.6	-9.4	-16.4	-6.4	-3.3
Other investment (excl. program financing)	11.1	-6.4	-47.7	-2.4	-2.7	-8.4	-4.3
Reserve assets (increase = -)	0.1	0.0	-5.1	-3.9	2.8	0.0	0.0
Net errors and omissions	-0.4	0.5	0.0	0.0	0.0	0.0	0.0
Program financing	31.5	41.5	119.2	23.8	21.5	6.6	1.6
Unidentified financing	0.0	0.0	0.0	0.0	0.0	8.9	3.2
(In percent of GDP)							
Current account balance	-10.1	-9.8	-7.5	-6.7	-5.4	-3.3	-2.4
Balance on goods and services	-6.6	-5.8	-4.2	-3.0	-1.7	-0.4	0.8
Goods balance	-12.4	-12.6	-12.0	-11.4	-10.5	-9.7	-9.1
Services balance	5.8	6.8	7.8	8.4	8.8	9.4	9.9
Income balance	-3.6	-4.2	-3.6	-4.0	-4.0	-3.2	-3.5
Current transfers	0.1	0.3	0.3	0.3	0.3	0.2	0.2
Capital and financial account balance	-3.5	-9.8	-51.0	-5.0	-4.9	-3.8	0.3
Capital account balance	0.9	1.2	1.9	1.8	1.6	1.5	1.4
Financial account	-4.5	-11.0	-52.9	-6.9	-6.5	-5.3	-1.1
Direct investment	-0.2	0.0	0.8	1.1	0.8	0.8	1.3
Portfolio investment	-9.2	-8.0	-27.8	-4.9	-7.3	-2.3	-0.5
<i>of which: government</i>	-11.8	-10.6	-14.1	-4.6	-7.9	-3.0	-1.4
Other investment	4.9	-3.0	-23.4	-1.2	-1.3	-3.9	-1.9
Reserve assets (increase = -)	0.0	0.0	-2.5	-1.9	1.4	0.0	0.0
Net errors and omissions	-0.2	0.2	0.0	0.0	0.0	0.0	0.0
Program financing	13.8	19.3	58.5	11.7	10.3	3.0	0.7
Unidentified official financing / market access	0.0	0.0	0.0	0.0	0.0	4.1	1.4
Gross external debt	179.1	192.2	195.8	203.4	200.9	193.4	184.7
Public sector	118.3	139.6	150.3	150.7	139.8	130.1	121.2
Private sector	60.8	52.6	45.6	52.8	61.1	63.3	63.5

Sources: Bank of Greece; and IMF staff estimates.

Table 11. Greece: General Government Operations, 2009–15

	2009	2010	2011		2012	2013	2014	2015	2016
			Prog.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.
(billion of Euro)									
Revenue	88.1	89.8	87.9	88.3	86.0	85.7	87.5	86.6	90.2
Taxes on production, and imports	26.2	27.3	27.7	27.2	25.5	25.5	25.9	26.6	27.7
Taxes on income, and property	19.1	17.5	16.4	17.8	19.3	18.8	19.3	20.2	21.1
Social contributions	29.5	29.8	29.0	26.7	25.5	25.5	26.4	27.0	28.1
Other	10.1	10.5	10.8	10.0	9.9	10.0	10.1	9.8	10.2
Capital	3.2	4.6	4.1	6.6	5.7	5.9	5.7	3.0	3.1
Primary expenditure	112.7	101.0	92.8	93.4	88.0	89.8	89.8	88.3	92.0
Wages	31.0	27.5	24.7	25.8	24.1	23.1	23.0	22.9	23.9
Social benefits	49.0	47.2	44.5	46.5	43.0	44.1	44.2	44.1	46.0
Goods and services	17.1	14.0	11.7	11.7	11.2	11.4	11.4	11.0	11.5
Subsidies	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other current	3.5	3.3	3.5	2.5	2.1	3.7	3.5	2.5	2.6
Capital	12.1	8.8	8.3	6.7	7.4	7.4	7.6	7.6	7.9
Additional unidentified measures	...	...	...	...	0.0	7.8	11.7	11.4	11.9
Primary balance	-24.7	-11.3	-4.9	-5.1	-2.0	3.7	9.4	9.7	10.1
Interest payments	11.9	13.2	14.7	14.9	12.8	13.0	13.8	13.3	14.4
Overall balance	-36.6	-24.5	-19.6	-20.0	-14.8	-9.4	-4.4	-3.6	-4.3
Gross debt (Maastricht)	299.0	329.0	351.0	355.8	332.4	339.4	334.1	331.1	327.3
(percent of GDP)									
Revenue	38.0	39.5	40.5	41.0	42.2	42.2	42.1	40.1	40.1
Taxes on production, and imports	11.3	12.0	12.7	12.7	12.5	12.6	12.5	12.3	12.3
Taxes on income, and property	8.3	7.7	7.6	8.3	9.5	9.3	9.3	9.3	9.3
Social contributions	12.7	13.1	13.3	12.4	12.5	12.6	12.7	12.5	12.5
Other	4.4	4.6	5.0	4.7	4.9	4.9	4.9	4.5	4.5
Capital transfers	1.4	2.0	1.9	3.0	2.8	2.9	2.7	1.4	1.4
Primary expenditure	48.7	44.4	42.7	43.4	43.2	44.3	43.2	40.8	40.8
Wages	13.4	12.1	11.4	12.0	11.9	11.4	11.1	10.6	10.6
Social benefits	21.1	20.8	20.5	21.6	21.1	21.7	21.2	20.4	20.4
Goods and services	7.4	6.1	5.4	5.4	5.5	5.6	5.5	5.1	5.1
Subsidies	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Other current	1.5	1.5	1.6	1.2	1.0	1.8	1.7	1.1	1.1
Capital	5.2	3.9	3.8	3.1	3.6	3.7	3.7	3.5	3.5
Additional unidentified measures	...	...	...	...	0.0	3.8	5.6	5.3	5.3
Primary balance	-10.6	-5.0	-2.3	-2.4	-1.0	1.8	4.5	4.5	4.5
Interest payments	5.1	5.8	6.8	6.9	6.3	6.4	6.6	6.1	6.4
Overall balance	-15.8	-10.8	-9.0	-9.3	-7.3	-4.6	-2.1	-1.6	-1.9
Gross debt (Maastricht)	129.1	144.7	161.8	165.3	163.2	167.3	160.7	153.1	145.3
Nominal GDP (in euro billions)	231.6	227.3	217.0	215.3	203.7	202.9	207.9	216.3	225.2

Sources: Ministry of Finance; and IMF staff projections.

Table 12. Greece: Authorities' Measures to Meet the 2012 Target
(in percent of GDP)

	2012
Total net impact	1.5
I. Pharmaceutical and health spending	0.5
<i>Of which</i>	
Reduction in medicine prices (generics and off-patent: 15 percent; branded: 5 percent)	0.1
Price rebate	0.1
Additional rebate	0.1
II. Wages	0.1
Special wage regimes (average reduction: 12 percent)	0.1
Others (1:10 rule in SOEs, reductions for local governments)	0.0
III. Pensions	0.2
Supplementary pensions (for pensions above €200, reduction: 10-20 percent)	0.1
Main pensions (for pensions above €1,300 per month, depending on the fund, reduction of 12-20 percent for the part exceeding €1,300)	0.1
IV. Defense spending	0.2
Operational expenses	0.0
Procurement	0.1
V. Operational and other spending (e.g. subsidies to remote areas, targeting of family allowances, elections, others transfers)	0.2
Central government	0.1
Other transfers and subsidies	0.1
VI. Domestic investment budget (including incentives)	0.2
Memo items	
Main MTFS and Fifth Review measures affecting 2012 (marginal change)	
Reduction in the PIT threshold and exemptions/discounts	2.2
Reductions in general government wages	0.4
Reduction in supplementary and main pensions	0.3

Source: Ministry of Finance and IMF staff estimates.

Table 13. Greece: Revenue Collection Process, 2012

Stage of the Revenue Collection Process	Issues	Next Steps
1. Assessment		
Tax authorities provide services and support to voluntary taxpayer compliance	<ul style="list-style-type: none"> • About 30 percent of VAT returns are not filed or filed late. • Payment of taxes at tax offices. • Potentially large tax evasion: about 75 percent of self employed professionals declaring taxable income below minimum exemption threshold. 	<ul style="list-style-type: none"> • Central Taxpayer Service Directorate to be established as part of medium term strategic plan (Late 2012). • Further streamlining of filing and payment systems (During 2012).
2. Controls		
Tax authorities perform controls and enforce timely filing and payment	<ul style="list-style-type: none"> • Weak and decentralized filing and payment enforcement system, with not automated procedures. • Data gathering ad hoc, with no central control for monitoring and enforcing compliance. 	<ul style="list-style-type: none"> • Monitor progress towards achieving performance targets (Monthly performance reports, 2012).
Authorities identify cases to audit	<ul style="list-style-type: none"> • Limited prioritization and risk-based selection of audit cases. 	<ul style="list-style-type: none"> • Medium-term strategic plan and annual operational plans to introduce a fully-fledged risk-based compliance framework for large taxpayers and high wealth individuals (HWI) to be developed further (December 2012).
Audits are performed, taxes due assessed and collected	<ul style="list-style-type: none"> • Audit process not centralized. • Limited use of indirect methods of assessment. • Low collection of assessed taxes. 	<ul style="list-style-type: none"> • Consolidation of audit activities at GSTC headquarters and large offices, and closures of about 200 local offices (During 2012). • Assessment of auditors' qualifications and hiring process of new auditors to be completed (March 2012). • Double the auditing capacities of the large taxpayer unit (March 2012). • Expand the number of auditors (During 2012).
3. Enforcement		
Taxpayers may dispute tax assessments and appeal decisions (administrative and judicial appeals)	<ul style="list-style-type: none"> • Average time to resolve tax disputes in judicial appeals process is 7 to 12 years and has created a huge backlog of pending cases (about 165,000). • Administrative tax dispute process not independent from tax administration. • Pre-payment prior to the judicial appeal often waived by courts (no cost to appeal). 	<ul style="list-style-type: none"> • All dedicated tax chambers to be operative (March 2012) • Issue secondary legislation to enable certification of tax arbitrators (March 2012) • Backlog of judicial tax cases to receive hearing date (July 2013) • Standardize processes to determine the inability to pay taxes (including reporting assets) when accessing judicial appeals (March 2012).
Tax assessments under appeal and tax arrears (including penalties and fines) are collected	<ul style="list-style-type: none"> • Poor collection enforcement: collection of fines and penalties around 1 percent, debt collection not centralized. 	<ul style="list-style-type: none"> • Monitor progress towards achieving performance targets (Monthly performance reports 2012) • Central debt directorate to be fully operative, staff to be increased by at least 50 people, and collection activities centralized in a few offices (Early 2012).
Source: IMF staff		

Table 14. Greece: Spending Process, 2012

Stages of the Spending Process and Issues	Next Steps
1. Budgeting Develop a medium term budget framework and prepare annual budgets within medium term expenditure ceilings <ul style="list-style-type: none"> • No binding medium-term objectives for fiscal policy. • Budget process focused mainly on the year ahead. • Budgets prepared mainly 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. 	<ul style="list-style-type: none"> • A formal review process to be established for in year revisions of the MTFS (June 2012). • A formal calendar for the preparation of the 2012-16 MTFS to be issued (March 2012), and the 2012-16 MTFS to be prepared (mid 2012) • Issue regulations to fully implement the Financial Responsibility Management Act (FRMA), including rules for fiscal impact assessment of policy initiatives initiated during the year (October 2012). • Adopt legislation and regulations to streamline procedures for submission and adoption of within year supplementary budgets (October 2012)
2. Spending Controls Ensure that expenditure commitments do not exceed appropriations and arrears are avoided <ul style="list-style-type: none"> • Line ministries do not check or control expenditure commitments. • No central control on incurred commitments by decentralized agencies. • Execution of budget releases focused on verifying payments. Pay invoices and implement accounting and audit controls <ul style="list-style-type: none"> • Cumbersome checking procedures to make payments, with several institutions involved (e.g. financial services of the spending unit, the Fiscal Audit Office (FAO) and the Court of Audit locally stationed). • Controls are mainly compliance-oriented. 	<ul style="list-style-type: none"> • Coverage of data reporting from the commitment registers to be gradually expanded to cover all line ministries and GG entities as well as ordinary and investment budget (June-December 2012). • Accounting officers in line ministries to adopt new structures for directorates of financial services (June 2012). • Inter-ministerial committee to be appointed to monitor, control and report on the implementation of the social budget (March 2012). • 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 (During 2013).
3. Reporting Collect and analyze information on payments, pending bills and arrears <ul style="list-style-type: none"> • Limited real-time monitoring of arrears and other pending bills. • Collection of payment information at non-central government level difficult. Monitoring and reporting of fiscal developments for general government <ul style="list-style-type: none"> • Monitoring and reporting of detailed fiscal data focused on the state budget. No timely in-year monitoring or reporting for general government published. Deviations of GG budget not detected on time. 	<ul style="list-style-type: none"> • Commitment registers to report reliable data from all GG entities and used to publish arrears data (December 2012). • Interministerial committee to be established to monitor, control and report on the implementation of the social budget (March 2012). • Work to begin to review the functionalities of the Financial Management Information System (FMIS), to use the new system to control fiscal operations and report fiscal data for the GG on a pilot basis (During 2013). • Establish and start a process to clear past arrears subject to validation of arrears, compliance with basic PFM reforms, and no accumulation of additional arrears (During 2012-Early 2013) • Detailed monthly fiscal reports for GG, with the composition of revenue and expenditure by sub-sector and major economic categories, to be published (Late 2012). • FMIS to be launched to collect detailed data from general government entities (During 2013).
4. External Auditing Parliamentary oversight and general auditing <ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • Parliament continues to receive periodical reports (During 2012). • Re-staff the Parliamentary Budget Office (During 2012).

Source: IMF staff

Table 15. Greece: Monetary Financial Institutions: Uses and Sources of Funds, 2006–16

	2006	2007	2008	2009	2010	2011	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	476.9	407.0	387.5	391.8	406.9	428.4
Cash	2.6	2.7	2.7	2.5	2.1	2.4	2.4	2.4	2.5	2.6	2.7
Claims on other MFIs	43.6	66.3	88.5	112.2	87.0	68.6	54.5	48.2	46.4	46.6	48.5
Claims on non-MFIs	227.5	264.8	301.1	309.3	357.8	339.2	287.9	277.1	281.4	294.0	311.1
General government	35.7	31.5	31.6	41.8	63.0	59.2	26.0	25.6	25.8	32.1	39.0
Private sector 1/	170.7	202.4	221.3	211.7	256.9	247.6	237.8	232.5	239.6	248.0	258.0
Corporate	85.6	102.2	124.1	123.8	116.5	113.0	109.4	109.0	114.9	121.5	129.1
Households	85.1	100.2	97.2	87.9	140.4	134.6	128.4	123.5	124.7	126.5	128.9
Other countries	21.1	8.2	12.6	13.0	6.5	6.4	6.2	6.1	6.3	6.5	6.7
Other assets	47.4	57.6	72.2	67.9	68.4	66.7	62.1	59.8	61.5	63.7	66.1
Liabilities	321.0	391.3	464.5	491.9	515.3	476.9	407.0	387.5	391.8	406.9	428.4
Liabilities to other MFIs	45.1	69.1	77.8	91.5	66.3	44.5	39.1	36.7	38.3	42.3	47.2
Deposits of non-MFIs	211.1	248.5	280.2	278.8	280.2	232.2	213.6	210.3	223.2	240.2	259.4
Central government	3.7	4.0	4.2	3.1	9.0	4.1	6.1	8.1	12.1	12.1	12.1
Private sector	177.2	201.0	231.6	242.4	213.9	178.7	159.9	155.7	162.6	176.4	192.0
Other countries 2/	30.1	43.6	44.3	33.4	57.4	49.4	47.5	46.5	48.5	51.7	55.3
Other liabilities (including ELA)	35.2	36.0	37.9	32.6	27.1	70.3	63.1	49.8	39.8	33.8	35.5
Capital and reserves	24.8	28.9	28.0	39.3	44.0	53.1	49.8	49.5	51.6	55.1	58.9
Eurosysteem liquidity support	4.9	8.8	40.6	49.7	97.8	76.9	41.4	41.4	38.9	35.5	27.4
(in percent of GDP)											
Assets	153.8	175.8	199.5	212.6	226.6	219.7	193.1	188.1	185.1	185.7	188.3
Cash	1.2	1.2	1.2	1.1	0.9	1.1	1.1	1.2	1.2	1.2	1.2
Claims on other MFIs	20.9	29.8	38.0	48.5	38.3	31.6	25.9	23.4	21.9	21.3	21.3
Claims on non-MFIs	109.0	119.0	129.3	133.7	157.3	156.2	136.7	134.5	133.0	134.2	136.7
General government	17.1	14.1	13.6	18.1	27.7	27.3	12.3	12.4	12.2	14.7	17.1
Private sector 1/	81.8	90.9	95.1	91.5	112.9	114.1	112.9	112.8	113.2	113.2	113.4
Corporate	41.0	45.9	53.3	53.5	51.2	52.1	51.9	52.9	54.3	55.5	56.7
Households	40.8	45.0	41.7	38.0	61.7	62.0	60.9	59.9	58.9	57.7	56.6
Other countries	10.1	3.7	5.4	5.6	2.9	2.9	3.0	3.0	3.0	3.0	3.0
Other assets	22.7	25.9	31.0	29.3	30.1	30.7	29.5	29.0	29.1	29.1	29.1
Liabilities	153.8	175.8	199.5	212.6	226.6	219.7	193.1	188.1	185.1	185.7	188.3
Liabilities to other MFIs	21.6	31.1	33.4	39.6	29.1	20.5	18.5	17.8	18.1	19.3	20.8
Deposits of non-MFIs	101.1	111.7	120.3	120.5	123.2	107.0	101.4	102.1	105.4	109.7	114.0
Central government	1.8	1.8	1.8	1.3	3.9	1.9	2.9	3.9	5.7	5.5	5.3
Private sector	84.9	90.3	99.5	104.8	94.1	82.3	75.9	75.6	76.8	80.5	84.4
Other countries 2/	14.4	19.6	19.0	14.4	25.2	22.8	22.6	22.6	22.9	23.6	24.3
Other liabilities (including ELA)	16.9	16.2	16.3	14.1	11.9	32.4	29.9	24.2	18.8	15.4	15.6
Capital and reserves	11.9	13.0	12.0	17.0	19.3	24.4	23.7	24.0	24.4	25.1	25.9
Eurosysteem liquidity support	2.3	4.0	17.4	21.5	43.0	35.4	19.7	20.1	18.4	16.2	12.0
Memorandum items											
Domestic private sector deposit growth (percent)	10.9	14.3	13.3	4.9	-12.4	-16.5	-10.5	-2.7	4.4	8.5	8.8
Private sector credit growth (percent)	21.1	21.5	15.9	4.2	0.0	-3.2	-4.0	-2.2	3.1	3.5	4.0
Eurosysteem liquidity support (in percent of total assets)	1.5	2.2	8.7	10.1	19.0	16.1	10.2	10.7	9.9	8.7	6.4

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

Table 16. International Experience with Banking Crises and Recapitalizations

International Experience with Banking Crises and Recapitalizations

Country	Year	Total cost to government (gross) (in percent of GDP)	Recapitalization using....	...paid for by:	Timeline
Finland	1991/92	8.6	subordinated debt; preferred shares		crisis start Sep-91; first bank intervention Sep-91; blanket guarantees Feb-93 to Dec-98
Jamaica	1996/97	13.9	preferred shares; purchase of bad loans; assumption of bank liabilities; ordinary shares		first bank intervention Dec-94; crisis start Dec-96; blanket guarantees Feb-97 to Mar-98
Thailand	1997	18.8		government bonds	first bank intervention Mar-97; crisis start July 1997; blanket guarantees Aug-97 to Jan-05
Indonesia	1997	37.3		government bonds; cash	crisis start Nov-97; blanket guarantees Jan-98 to Jul-05
Korea	1997	19.3	subordinated debt; preferred shares; purchase of bad loans	overnment bonds;	first bank intervention Oct-97; crisis start Aug-97; blanket guarantees Nov-07 to Dec-00
Malaysia	1997	16.4	preferred shares; credit line		crisis start Jul-97; blanket guarantee Jan-98 to Aug-05;
Turkey	2000/01	24.5	government bonds	government bonds	first bank intervention Nov-00; crisis start Nov-00; blanket guarantees Dec-00 to Jul-04
Argentina	2001/02	9.6	government bonds	government bonds	crisis start Dec-01; Dec-01 deposit freeze and bank holiday; first bank intervention Apr-02;
Uruguay	2002	6.2	subordinated debt	cash	crisis start Jan-02; first bank intervention Feb-02; introduction of deposit freeze and bank holiday
Iceland	2008	55.0	purchase of bad loans	government bonds	targeted deposit guarantees Oct-08; introduction of asset management corporation and first bank takeover Mar-09;
Latvia	2008	5.0	ordinary shares; subordinated term debt		targeted deposit guarantees Oct-08; liability guarantee program Dec-08; bilateral swap facilities with DEN & SWE Dec-08; first bank intervention Dec-08;
Ireland	2010	25.0	purchase of bad loans; preference shares; ordinary shares; convertible non-voting shares	government bonds; government-guaranteed bonds cashable at ECB	blanket guarantees Oct-08; liability guaranty program Oct-08; bank recapitalization Dec-08;

Sources: Laeven, L. and F. Valencia (2008), Systemic Banking Crises: A New Databas, IMF Working Paper WP/08/224, Washington; International Monetary Fund (2011) Global Policy Responses To Financial Crisis--Range of Interventions: Tables I and II, Washington; Claessens, S. C. Pazarbasioglu, L. Laeven, M. Dobler, F. Valencia, O. Nedelescu, and K. Seal, Crisis Management and Resolution: Early Lessons from the Financial Crisis, IMF Staff Discussion Note, SDN/11/05, Washington.

Table 17. Greece: Structural Reforms Ahead

Measures	MEFP/MoU deadline	Description	Macroeconomic implications
<i>Labor market</i>			
Further facilitating collective bargaining, adjusting minimum wages, and eliminating unilateral recourse to arbitration.	Feb-12	The government legislates: (i) a modification of the after effects of contract expiration (to allow only the basic wage and maturity, child, education, and dangerous allowances to apply 3 months after a collective contract expires); (ii) a limit of contract duration to 3 years; (iii) a freeze in maturity coefficients; (iv) an elimination of tenure in all legacy contracts; (v) an elimination of unilateral arbitration, requiring mutual consent for arbitration. It also legislates a reduction in the current levels of the minimum wage by 22 percent, freezing them for the duration of the program, and a reduction in the minimum wage for youth (under the age of 25) by a further 10 percent.	Improves the efficiency of collective bargaining and reduces wage floors, supporting employment and an improvement in unit labor costs and competitiveness.
Review of the minimum wage framework	Jul-12	The government prepares, together with social partners, a clear timetable for an overhaul of the national general collective agreement to bring it into line with peers and allow it to fulfill its basic function of ensuring a uniform safety net for all employees.	Improves competitiveness, and promotes employment and growth.
Reducing non-wage labor costs	Feb-12 and Sep-12	The government reduces the employer share of social security contributions by 5 ppt in a budget-neutral way by rationalizing small earmarked funds (legislation to be completed by end-Feb, with a transition period not to exceed 6 months), reducing pensions, and broadening the base). It also prepares, jointly with social partners, an actuarial study of first pillar occupational pension schemes in companies with excessive social security costs (relative to comparable firms or industries covered by IKA) and finalize a list of concrete proposals to eliminate this differential in a fiscally neutral manner.	Improves competitiveness, and promotes employment and growth.
<i>Product and service markets</i>			
Liberalization of regulated professions	Feb-12 and Sep-12	By end-Feb., the government screens and cleans legislation for 20 priority professions so as to be fully in line with the new law opening up restricted professions. By end-March, the government prepares a detailed quarterly timetable for 2012 for the screening and cleaning of existing legislation prioritized according to economic performance(to be completed by end-2012). For professions where reinstatement of restrictions is required in line with the principles of necessity, proportionality, and public interest, the government passes the required legislation by end-June.	Fosters competition, lowers intermediate costs and promotes investment and growth.
Liberalization of road freight	Feb-12	The government ends the transition period for the full liberalization of road freight and establishes the license price to reflect administrative costs.	Fosters competition, lowers intermediate costs and promotes investment.
Product market liberalization	Apr-12	The government screens the retail, wholesale, and distribution sectors and prepare an action plan to promote competition and facilitate price flexibility in product markets.	Fosters competition, improves price flexibility and competitiveness.
<i>Business environment and judicial reform</i>			
Fast-track investment procedures	Mar-12	The government passes a law improving the functioning of the fast-track investment framework by making it available to more projects, lowering fees, and relaxing financing requirements.	Boosts investment, employment, and growth.
Simplification of export procedures	Mar-12 and Dec-12	The government passes a law codifying the legislative framework of exports, eliminating the obligation of registration with the exporters' registry, and establishing the framework for an e-customs system and electronic export window (to be implemented by end-2012).	Stimulates exports and growth.
Simplification of business and environmental licensing	Mar-12 and Dec-12	By end-March, the government publishes the main secondary legislation required to implement the licensing laws technical professions manufacturing activities, business parks and environmental licensing. All secondary legislation is implemented to fully operationalize the two new laws and introduce an electronic environmental register by end-year.	Simplifies regulations to boost investment.
Reducing the case backlog in courts	Jul-13	The Ministry of Justice will work to reduce the tax case backlog as per their January 2012 work plan through setting hearing dates for the backlogged cases, placing priority on high-value tax cases exceeding €1 million. Regarding the non-tax case backlog, a study will be completed by end-June, on the basis of which an action plan will be finalized (by end-August) with specific targets for the clearance of all cases.	Improves system efficiency, recover tax revenues.
Speeding up case processing	Mar-12	A new law will improve the efficiency of administrative court proceedings by streamlining procedures for group adjudication of similar administrative cases and will require submission of decisions in electronic form by administrative and civil judges.	Improves system efficiency.
Improving the performance and accountability of courts	Sep-12	Secondary legislation will be published by end-May, merging existing courts to reduce their number. To improve transparency, at end-March the Ministry of Justice will start publishing detailed court(initially on tax cases) information on its web site. The ministry of Justice will design (by end-September) a performance framework for all courts, including the development of a dependable data management system, and a workload measurement system.	Improves transparency and efficiency of courts.
Reforming the Code of Civil Procedure	Dec-12	By end-March, the Ministry of Justice will establish a Task Force to review the Code of Civil Procedure to bring it in line with international best practices. By end-June, the Task Force will issue a concept paper, and by end-December, a detailed paper will be prepared outlining the main proposals for amendments to the Code of Civil Procedure.	Improves system efficiency.

Source: IMF staff.

Table 18. Greece: General Government Financing Requirements and Sources
(Billions of Euros, unless otherwise indicated)

	2010	2011	2012	2013	2014	2015	2016
			Projections				
Gross borrowing need	60.8	63.2	148.7	47.4	43.4	36.2	24.6
Overall balance (accrual)	24.5	20.0	14.8	9.4	4.4	3.6	0.0
Amortization	28.5	37.3	48.1	36.0	43.4	32.7	22.6
MLT (non-official)	19.6	28.1	36.3	30.9	35.7	23.7	19.0
Residents	3.9	5.6	10.3	10.3	9.3	6.7	3.0
Non-residents	15.6	22.5	26.0	20.6	26.3	17.0	16.0
ST	8.9	9.2	11.8	3.5	0.4	0.4	0.4
Residents	0.7	8.0	11.4	3.2	0.1	0.1	0.1
Non-residents	8.2	1.2	0.4	0.3	0.3	0.3	0.3
Official creditors	0.0	0.0	0.0	1.7	7.4	8.6	3.2
IMF	0.0	0.0	0.0	1.7	7.4	8.6	3.2
EAMS	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other 1/	8.4	-3.0	85.7	2.0	-4.5	-0.1	2.1
Gross financing sources	29.3	12.8	6.6	4.6	4.7	6.0	6.5
Privatization receipts	0.0	1.0	3.2	4.3	4.4	5.7	5.9
Other	0.9	4.5	0.0	0.0	0.0	0.0	0.0
Market access	28.5	11.8	3.5	0.4	0.4	0.4	0.7
MLT	19.3	0.0	0.0	0.0	0.0	0.0	0.3
Residents	12.8	0.1	0.0	0.0	0.0	0.0	0.2
Non-residents	6.5	-0.1	0.0	0.0	0.0	0.0	0.1
ST	9.2	11.8	3.5	0.4	0.4	0.4	0.4
Residents	8.0	11.4	3.2	0.1	0.1	0.1	0.1
Non-residents	1.2	0.4	0.3	0.3	0.3	0.3	0.3
Official financing already disbursed	31.5	41.5	0.0	0.0	0.0	0.0	0.0
IMF (3/11)	10.4	9.5	0.0	0.0	0.0	0.0	0.0
EC bilateral loans (8/11)	21.1	32.0	0.0	0.0	0.0	0.0	0.0
Financing gap (including not yet disbursed)	...	...	142.0	42.7	38.6	30.1	18.1
Financing provided by PSI	...	...	22.8	19.0	17.1	14.6	13.3
Official financing	...	...	119.2	23.8	21.5	6.6	1.6
EAMS	...	...	112.6	17.2	14.9	0.0	0.0
IMF	...	...	6.6	6.6	6.6	6.6	1.6
Unidentified official financing/market access	...	...	0.0	0.0	0.0	8.9	3.2
Net market access	0.0	0.3	-26.8	-16.5	-9.3	-6.7	-2.8
Residents	4.3	-2.2	-18.5	-13.4	-9.3	-6.7	-2.8
MLT	-3.1	-5.5	-10.3	-10.3	-9.3	-6.7	-2.8
ST (net increase)	7.3	3.3	-8.2	-3.1	0.0	0.0	0.0
Non-residents	-4.2	2.6	-8.3	-3.1	0.0	0.0	0.0
MLT	2.8	-22.6	-26.0	-20.6	-26.3	-17.0	-15.9
ST (net increase)	-7.0	-0.8	-0.1	0.0	0.0	0.0	0.0
Rollover rates of existing MLT debt (in percent)	98.5	0.0	0.0	0.0	0.0	0.0	1.6
Total Maastricht debt	328.6	355.8	332.4	339.4	334.1	331.1	327.3
Official creditors	31.5	73.7	193.0	215.0	229.1	227.1	225.5
IMF	10.4	20.7	27.2	32.1	31.3	29.3	27.7
(in percent of quota)	845	1592	2100	2474	2413	2258	2138
EAMS	21.1	53.1	165.7	182.9	197.8	197.8	197.8
Private sector	297.0	282.0	139.4	124.4	105.0	95.0	89.6
Unidentified official financing/market access	...	...	0.0	0.0	0.0	8.9	12.1
Total Maastricht debt (in percent of GDP)	144.5	165.3	163.2	167.3	160.7	153.1	145.3
Official creditors	13.9	34.3	94.7	106.0	110.2	105.0	100.2
IMF	4.6	9.6	13.4	15.8	15.1	13.5	12.3
EAMS	9.3	24.7	81.4	90.2	95.1	91.5	87.8
Private sector	130.7	131.0	68.4	61.3	50.5	43.9	39.8
Unidentified official financing/market access	...	...	0.0	0.0	0.0	4.1	5.4

Sources: Ministry of Finance; and IMF staff projections.
1/ Includes bank assistance and stock-flow adjustments.

Table 19. Greece: External Financing Requirements and Sources, 2010–16
(Billions of euros, unless otherwise indicated)

	2010	2011	2012	2013	2014	2015	2016
		Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
GROSS FINANCING REQUIREMENTS	216.7	239.4	239.3	183.7	195.7	190.2	180.7
Current account deficit	23.0	21.1	15.2	13.6	11.3	7.2	5.4
Medium- and long-term debt amortization	22.7	35.5	38.9	18.8	28.0	19.3	9.1
Public sector	15.6	22.5	28.5	11.1	23.8	15.0	6.5
<i>of which: EC/IMF</i>				1.7	7.4	8.6	3.2
Banks	6.7	10.7	10.2	5.8	3.7	2.3	1.4
Other	0.3	2.3	0.2	1.9	0.6	2.0	1.2
Short-term debt amortization	171.1	182.9	185.1	151.2	156.4	163.7	166.2
Public sector & BoG	57.2	88.2	100.6	78.6	65.5	52.8	43.0
BoG 1/	49.0	87.1	100.3	78.4	65.2	52.5	42.7
Public sector	8.2	1.2	0.4	0.3	0.3	0.3	0.3
Banks 2/	113.2	93.4	83.7	72.1	90.2	110.1	122.3
Other	0.6	1.3	0.8	0.6	0.6	0.7	0.9
SOURCES OF FINANCING	185.2	197.9	120.0	159.9	174.2	174.7	175.8
Capital account (net)	2.1	2.7	3.8	3.7	3.3	3.2	3.0
Foreign direct investment (net)	-0.5	0.0	1.6	2.3	1.7	1.8	2.9
Inward	0.3	1.3	2.5	3.7	3.9	4.1	5.2
Equities (net)	-2.3	-0.2	-1.3	0.5	1.3	1.8	2.7
by nonresidents	-1.1	-0.2	-0.5	1.5	2.5	3.0	4.0
Assets drawdown (- increase)	21.7	12.2	-12.4	-2.3	-0.6	-0.3	-0.6
New borrowing and debt rollover	164.1	183.3	153.0	159.5	165.8	168.2	167.8
Medium and long-term borrowing	-18.8	-1.8	1.7	3.2	2.1	2.1	1.3
Public sector 3/	-5.6	-0.1	0.0	0.0	0.0	0.0	0.1
Banks	-12.3	-2.7	1.5	2.6	1.8	1.2	0.7
Other	-0.8	0.9	0.2	0.6	0.3	0.9	0.5
Short-term borrowing	182.9	185.1	151.2	156.4	163.7	166.2	166.5
Public sector & BoG	88.2	100.6	78.6	65.5	52.8	43.0	36.2
BoG 1/	87.1	100.3	78.4	65.2	52.5	42.7	35.9
Public sector 4/	1.2	0.4	0.3	0.3	0.3	0.3	0.3
Banks 2/	93.4	83.7	72.1	90.2	110.1	122.3	129.4
Other	1.3	0.8	0.6	0.6	0.7	0.9	0.9
Other	0.1	-0.2	-24.6	-3.9	2.8	0.0	0.0
PROGRAM FINANCING	31.5	41.5	119.2	23.8	21.5	6.6	1.6
EAMS	21.1	32.0	112.6	17.2	14.9	0.0	0.0
IMF	10.4	9.5	6.6	6.6	6.6	6.6	1.6
<i>in percent of quota</i>	829	736	508	508	508	508	127
UNIDENTIFIED OFFICIAL FINANCING / MARKET ACCESS	0.0	0.0	0.0	0.0	0.0	8.9	3.2
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
Greece IMF quota (Euro millions)	1,297.0	1,297.0	1,297.0	1,297.0	1,297.0	1,297.0	1,297.0

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/ Actual figures on public sector medium and long-term borrowing are based on non-residents amortization figures provided by GAO and net flows from the balance of payment statistics provided by Bank of Greece. Negative sign indicates debt buybacks.

4/ Includes market instruments and trade credits.

Table 20. Greece: Schedule of Proposed Purchases under the Extended Arrangement, 2012–16

Review	Availability Date	Action	Purchase		Total disbursements
			Millions of SDRs	Percent of quota	Billions of Euro 1/
	March 15, 2012	Board approval of EA	1,399.1	127.0	1.6
First Review	May 31, 2012	Observance of end-March 2012 performance criteria, completion of first review	1,399.1	127.0	1.6
Second Review	August 31, 2012	Observance of end-June 2012 performance criteria, completion of second review	1,399.1	127.0	1.6
Third Review	November 30, 2012	Observance of end-September 2012 performance criteria, completion of third review	1,399.1	127.0	1.6
Fourth Review	February 28, 2013	Observance of end-December 2012 performance criteria, completion of fourth review	1,399.1	127.0	1.6
Fifth Review	May 31, 2013	Observance of end-March 2013 performance criteria, completion of fifth review	1,399.1	127.0	1.6
Sixth Review	August 31, 2013	Observance of end-June 2013 performance criteria, completion of sixth review	1,399.1	127.0	1.6
Seventh Review	November 30, 2013	Observance of end-September 2013 performance criteria, completion of seventh review	1,399.1	127.0	1.6
Eighth Review	February 28, 2014	Observance of end-December 2013 performance criteria, completion of eighth review	1,399.1	127.0	1.6
Ninth Review	May 31, 2014	Observance of end-March 2014 performance criteria, completion of ninth review	1,399.1	127.0	1.6
Tenth Review	August 31, 2014	Observance of end-June 2014 performance criteria, completion of tenth review	1,399.1	127.0	1.6
Eleventh Review	November 30, 2014	Observance of end-September 2014 performance criteria, completion of eleventh review	1,399.1	127.0	1.6
Twelfth Review	February 28, 2015	Observance of end-December 2014 performance criteria, completion of twelfth review	1,399.1	127.0	1.6
Thirteenth Review	May 31, 2015	Observance of end-March 2015 performance criteria, completion of thirteenth review	1,399.1	127.0	1.6
Fourteenth Review	August 31, 2015	Observance of end-June 2015 performance criteria, completion of fourteenth review	1,399.1	127.0	1.6
Fifteenth Review	November 30, 2015	Observance of end-September 2015 performance criteria, completion of fifteenth review	1,399.1	127.0	1.6
Sixteenth Review	February 29, 2016	Observance of end-December 2015 performance criteria, completion of sixteenth review	1,399.7	127.0	1.6
Total			23,785.3	2,158.8	28.0

Source: IMF staff projections.

1/ Exchange rate of January 5, 2012.

Table 21. Greece: Indicators of Fund Credit, 2012–26
(Millions of SDRs, unless otherwise specified)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Prospective drawings (4-year EFF)	5,596	5,596	5,596	5,596	1,400	...	...	...	...	...	...	...	...	...	...
(in percent of quota)	508	508	508	508	127	...	...	...	...	...	...	...	...	...	...
(Projected Debt Service to the Fund based on Existing and Prospective Drawings)															
Amortization	0	1,472	6,278	7,299	2,726	1,166	2,099	3,031	3,848	3,964	3,731	2,798	1,866	933	117
Amortization (SBA)	0	1,472	6,278	7,299	2,493	0	0	0	0	0	0	0	0	0	0
Amortization (4-year EFF)	0	0	0	0	233	1,166	2,099	3,031	3,848	3,964	3,731	2,798	1,866	933	117
Interest and service charge	443	839	1,052	986	927	868	808	711	576	413	249	105	28	9	1
SDR charges and assessments	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Total debt service	443	2,311	7,330	8,285	3,653	2,034	2,907	3,743	4,423	4,377	3,980	2,903	1,894	942	118
in percent of: Exports of G&S	1.0	5.2	15.5	16.3	6.7	3.4	4.6	5.5	6.1	5.8	5.0	3.5	2.2	1.0	0.1
GDP	0.3	1.3	4.2	4.5	1.9	1.0	1.4	1.7	2.0	1.9	1.6	1.1	0.7	0.3	0.0
(Projected Level of Credit Outstanding based on Existing and Prospective Drawings)															
Outstanding stock	23,138	27,263	26,581	24,879	23,552	22,386	20,288	17,256	13,409	9,444	5,713	2,915	1,049	117	0
(in percent of quota)	2,100	2,474	2,413	2,258	2,138	2,032	1,841	1,566	1,217	857	519	265	95	11	0
(in percent of GDP)	13.4	15.8	15.0	13.5	12.3	11.2	9.8	7.9	5.9	4.0	2.3	1.1	0.4	0.0	0.0
Memorandum items:															
Exports of goods and services (in billion of euros)	51	53	56	60	64	70	75	80	85	90	94	99	103	107	111
GDP (in billions of Euros)	204	203	208	216	225	235	245	256	266	277	288	298	309	320	331
Euro/SDR rate (of January 5, 2011)	1.177														
Quota	1,102														

Source: IMF staff projections.

APPENDIX I. DEBT SUSTAINABILITY ANALYSIS

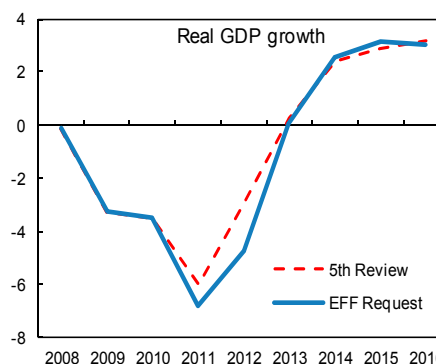
1. **This appendix considers the sustainability of Greece's public and external debt.** Section A provides an overview of the macro, policy, and financing inputs underpinning the program macro framework. Section B considers public debt sustainability, examining the debt trajectory under the program baseline, and under a variety of stress scenarios (to illuminate how the debt trajectory would evolve if macro, policy, and financing assumptions were to differ, either individually, or jointly). Section B considers external debt sustainability, again under baseline and stress scenarios. Results show that the program can place Greek debt on a sustainable trajectory, but there are significant risks that debt declines may be interrupted or even reversed by shocks.

A. Key inputs for the DSA

2. **Three sets of inputs underpin the DSA.** These relate to the macroeconomy, policy settings, and financing. These are modeled jointly under the program (e.g., with feedback from policies to the macroeconomy).

Macroeconomic framework

- GDP growth.** Continued deep recession in 2012 is expected to give way to stabilization in 2013, followed by a mild cyclical recovery in 2014–17. Thereafter the economy tracks its estimated potential growth (2½ percent per annum initially, falling to 1½ percent in the late 2020s, as the impact of program structural reforms fade, and demographic factors dominate). The path has been adjusted compared to the final review of the previous program to account for: (i) the worse-than-expected outturn for 2011; (ii) the deterioration in the 2012–13 outlook for Europe (and globally); and (iii) the revised package of structural reforms agreed, which will tend to deepen the contraction initially, but will pull forward the recovery (by improving unit labor costs, which through the other structural reforms assumed in the program, translates into increased price competitiveness and higher investment).
- Deflator and REER.** Mild economy-wide deflation is expected in 2012–14, as labor market reform and high unemployment combine to generate significant declines in wages and, with a lag, declines in prices. The pace of inflation thereafter gradually recovers to reach the Euro area average by 2019. Measured in unit labor cost terms,



the real effective exchange rate overvaluation disappears by 2015, with GDP-deflator based measures taking another half decade to fully correct.

- **External conditions.** External demand by Greece's trading partners is expected to remain flat in 2012, 4½ percentage points lower than under the WEO fall projections. A modest increase in Greece's trading partner demand is projected to start in 2013, although remaining on average 1 percent lower in the medium-term than previously projected. Cumulative import growth over the program period is expected to reach 6½ percent. Regarding the terms of trade, these are forecast to worsen by 2½ percentage points in 2012, reflecting commodity price movements and internal devaluation, before stabilizing.

Policy framework

- **Fiscal adjustment.** The fiscal path generates a primary surplus of 4½ percent of GDP in 2014. It steps down to 4 percent by 2020. The near-term adjustment path involves a primary deficit of 1 percent in 2012, followed by adjustment of 2¾ percent of GDP in both 2013 and 2014. The medium-term primary balance target is unchanged versus the final review of Greece's previous program, although the near-term path is slightly more accommodative. The path remains ambitious in the context of previous fiscal performance in Greece and in international comparisons, although not without precedent (Table).

Persistence of Large (Cyclically Adjusted) Primary Balances			
	CAPB between 5 and 10 percent of GDP	Number of countries	
		total	advanced countries
for 4 years	Panama (1989-92); Canada (1997-2000); Italy (1997-00); Tunisia (1986-89); Austria (1976-79)	5	3
for 5-7 years		6	2
	Turkey (2000-06); Chile (2003-08); Jamaica (1983-88); New Zealand (1993-98); Barbados (1991-95); Denmark (1985-89)		
for 8-10 years		2	0
	Romania (1982-89); Egypt (1993-00)		
for 11-13 years		2	0
	Mexico (1983-95); Israel (1983-94)		
for 14-15 years		3	1
	Belgium (1990-04); Jamaica (1992-06); Bulgaria (1994-07)		

Source: Strategies for Fiscal Consolidation in the Post-Crisis World (IMF, 2010)

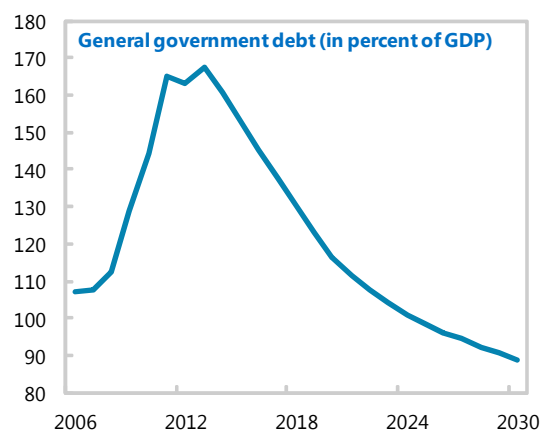
- **Privatization.** Privatization is projected to bring €46 billion over 2012–20, with fairly modest inflows during 2012–14 (€12 billion). Receipts are projected to gradually increase with the resumption of growth and improvements in the perception of economic prospects, before settling at a rate averaging about 2 percent of GDP per year. The projections—unchanged from the final review of Greece’s previous program—remain ambitious, but not unprecedented in international context.
- **Financial system support.** The cost of financial system support is estimated at €50 billion (versus €40 billion in the final review of Greece’s previous program). The estimate reflects the results of the BlackRock diagnostic exercise, the impact of the PSI (including its likely accounting treatment), and refined estimates of resolution costs (as opposed to recapitalization costs). Recoveries, through the sale of bank equity, are conservatively estimated to amount to about €16 billion.
- **Central government balance sheet adjustments.** A total amount of €7 billion in arrears is assumed to be cleared in 2012–13, representing the stock of arrears outstanding at end-2011, and a buffer for clearance of any arrears that may be identified as 2011 fiscal results are finalized. This assumption is unchanged from the 5th SBA review. The financing framework also builds a deposit buffer of €5 billion by mid-2014. This is to address risks from unexpected revenue, spending or debt service developments. The level has been reduced relative to the final review of Greece’s previous program (which targeted €11 billion).

Financing framework

- **Private sector involvement.** The assumptions about PSI reflect the offer made by Greece to its creditors on February 24, and the outcome as of March 9. The terms include: (i) a reduction in the nominal value of eligible Greek government bonds by 53.5 percent (15 percent paid upfront with EFSF short-term notes acquired by Greece, with the remaining 31.5 percent exchanged into 30-year bonds amortizable after 10 years); (ii) coupons of 2 percent in 2012–15, 3 percent in 2016–20, 3.65 in 2021, and 4.3 percent from 2022 onwards; (iii) a GDP-linked additional payment (capped at 1 percent of the notional amount of new bonds); and (iv) a co-financing structure with the EFSF concerning the 15 percent upfront payment. The pool of eligible debt issued or guaranteed by the Greek government for the debt exchange amounts to €206 billion, and includes Greek and foreign law government bonds as well as SOE loans guaranteed by the Hellenic Republic. In line with the results

released by the authorities on March 9th, and their intention to activate CACs, the creditor participation rate is assumed to be 95.7 percent on this base.

- **Official sector involvement.** The assumptions about OSI reflect the agreement reached at the Eurogroup meeting on February 21, 2012: (i) a reduction in the margin of the Greek Loan Facility (GLF) to a uniform 150 basis points; and (gain of 2.8 percent of GDP through 2020, and reduction in financing needs of €1.4 billion); (ii) Greece to receive, until 2020, the income accruing on bonds held by national central banks in their investment portfolio (in an amount sufficient to reduce debt-to-GDP in 2020 by 1.8 percentage points and to lower financing needs over the program period by approximately €1.8 billion).
- **Official financing.** Funding from euro area member states is assumed to be provided by the EFSF at cost, with loans amortized over a 25-year period (with 10 years grace), and interest paid annually. IMF lending is calibrated to be on EFF terms.¹
- **Market access.** It is assumed that, post-program, potential access to markets would initially be at short maturities and still high interest rates, due to high debt, a senior debt overhang, and the need for Greece to establish a considerable track record. This would initially discourage large issuances and imply continued reliance on official financing, as committed by Euro area member states on standard EFSF borrowing terms. For purpose of this DSA, therefore, recourse to private market financing is conservatively assumed to start at short maturities and in light volumes and gradually increase during the post-program period.



B. Public Sector DSA

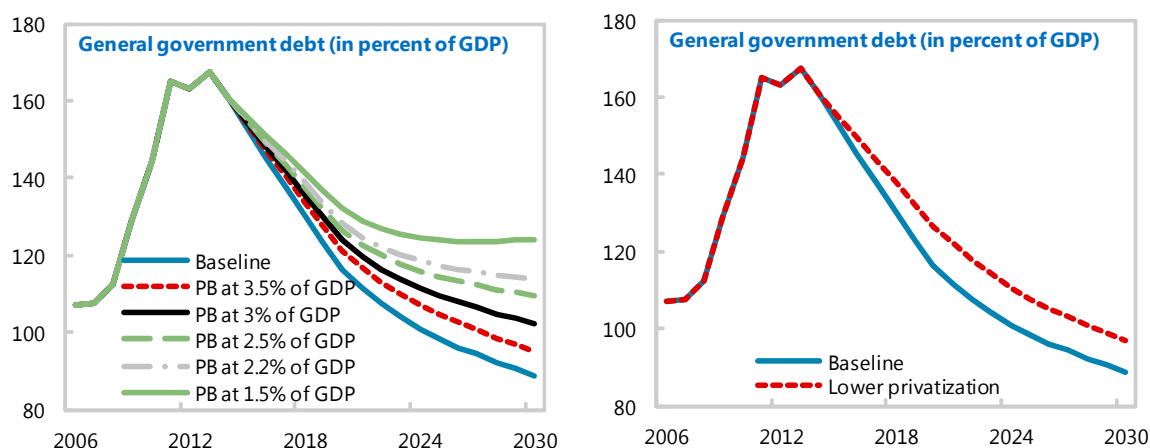
3. **Baseline projections indicate that debt ratio would fall to 116½ percent of GDP in 2020** (Table 1). This is a significant improvement over levels projected without PSI at the time of the 4th and 5th SBA Reviews (130 and 156 percent of GDP respectively). In terms of trajectory, the PSI deal helps to initially reduce debt, but debt then spikes up again to 167 percent of GDP in 2013 due to the shrinking economy and incomplete fiscal adjustment. Once the fiscal adjustment is complete, growth has been restored, and

¹ <http://www.imf.org/external/np/exr/facts/eff.htm>

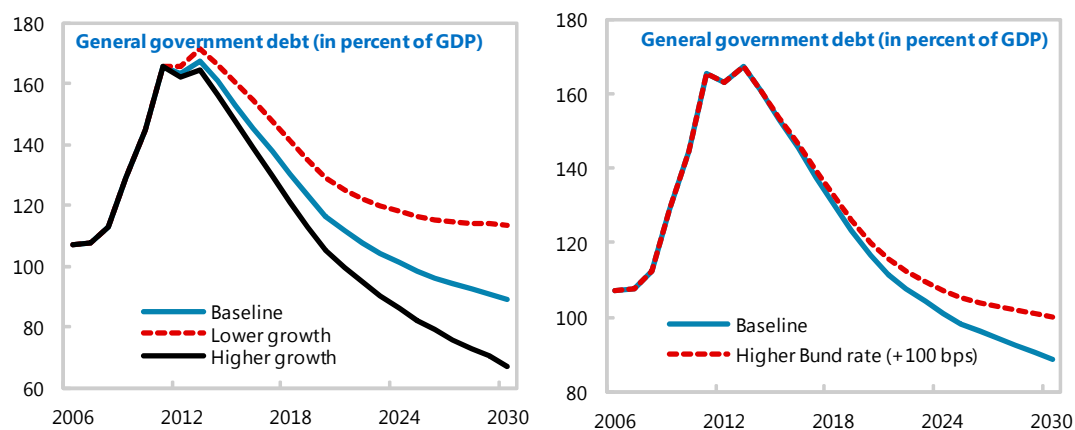
privatization receipts are accruing, steady reductions on the debt ratio commence. Greece would have to maintain good policies through 2030 to reduce the ratio below 100 percent of GDP.

4. **Stress tests point to a number of sensitivities, with the balance of risks mostly tilted to the downside:**

- **Policies.** If the primary balance gets stuck below 1½ percent of GDP (a level it will only marginally exceed in 2013), then debt would be on an ever-increasing trajectory. Significant shortfalls in privatization proceeds (only €10 billion of €46 billion realized by 2020), would raise the level of debt appreciably, and slow its projected decline, leaving it at 130 percent of GDP by 2020.

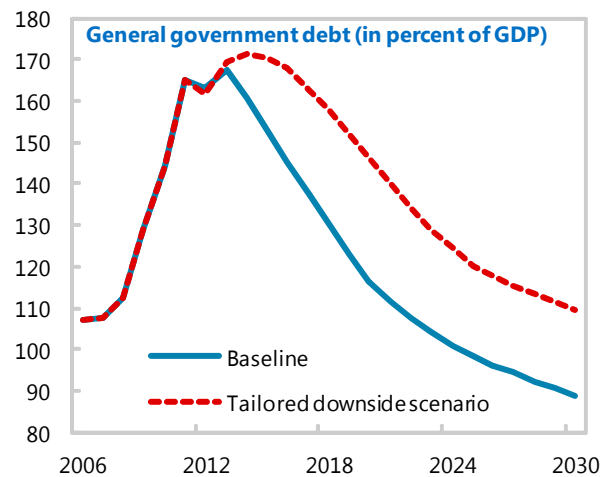


- **Macro parameters.** Debt outcomes are very sensitive to growth or variations in the speed of internal devaluation. Fixing the primary balance, nominal growth permanently lower by 1 percent per annum would send debt-to-GDP to 129 percent by 2020. Nominal growth permanently higher by 1 percent per annum would allow debt to fall to 105½ percent of GDP by 2020. Interest rate sensitivities arise via the rate charged on official financing (since Greece is out of the market for most of the decade under the assumed borrowing rule). If the spread on EFSF borrowing were to be 100 bps higher, then debt-to-GDP would reach 121 percent by 2020.



5. **A combined stress test on the pace of policy implementation and macro adjustment is also of interest.** The Greek authorities may not be able to implement at the pace envisioned in the baseline. Greater wage flexibility may in practice be resisted by economic agents; product and service market liberalization may continue to be plagued by strong opposition from vested interests; and business environment reforms may also remain bogged down in bureaucratic delays. On the policy side, it may take Greece much more time than assumed to identify and implement the necessary structural fiscal reforms to improve the primary balance from -1 percent in 2012 to 4½ percent of GDP, and concerning assets sales, delays may arise due to market-related constraints, encumbrances on assets, or political hurdles. And of course a less favorable macro outcome would itself further hurt policy implementation prospects.

6. **A tailored scenario can be modeled on the basis of several assumptions.** Specifically, a failure to reinvigorate structural reforms is assumed to hold up the recovery, forcing higher unemployment and deeper recession to secure internal devaluation over a longer period. At the same time, it is assumed that this, and difficulties in identifying reforms, delay the completion of fiscal adjustment by three full years. Finally, it is assumed that privatization plans take an additional four years to complete (with proceeds through 2020 reduced by €20 billion). Prospects for a return to the market become even less certain. For illustrative purposes, the additional financing requirements in this scenario are assumed to be covered by the official sector on EFSF terms (under the assumption that despite delays Greece continues to make slow progress towards program objectives).



7. **The debt trajectory is extremely sensitive to program delays, suggesting that the program could be accident prone, where sustainability could come into question** (Table 2). Under the tailored scenario, the debt ratio would peak at 171 percent of GDP in 2014. Once growth did recover, fiscal policy achieved its target, and privatization picked up, the debt would begin to slowly decline. Debt to GDP would fall to around 145.5 percent of GDP by 2020. Under the assumption that stronger growth could follow on the eventual elimination of the competitiveness gap, the debt ratio would slowly converge to that in the baseline, but likely only in the late 2020s. With debt ratios so high in the next decade, smaller shocks would produce unsustainable dynamics.

Greece: Baseline vs. Tailored Downside: Key Macro and Policy Assumptions

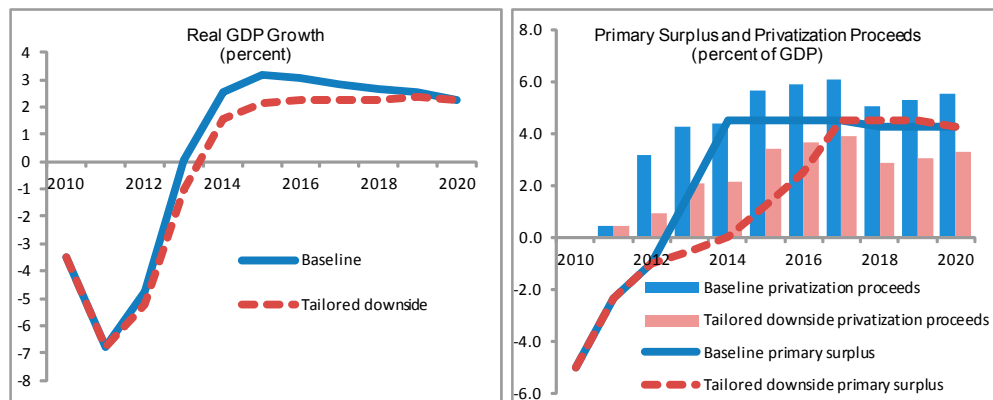


Table A1. Greece: Debt Sustainability Baseline, 2007-2030
(in percent of GDP, unless otherwise indicated)

	Actual					Projections											Debt-stabilizing primary balance 9/
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2030		
Baseline: Public sector debt 1/ o/w foreign-currency denominated	107.4	112.6	129.0	144.5	165.3	163.2	167.3	160.7	153.1	145.3	137.5	130.4	123.3	116.5	88.0	1.5	
Change in public sector debt	0.1	5.2	16.3	15.6	20.7	-2.1	4.2	-6.6	-7.6	-7.7	-7.8	-7.1	-7.1	-6.8	-2.0		
Identified debt-creating flows (4+7+12)	0.1	6.2	18.3	16.9	18.9	43.6	3.9	-6.6	-7.6	-7.7	-7.8	-7.1	-7.1	-6.8	-2.0		
Primary deficit	2.0	4.8	10.6	5.0	2.4	1.0	-1.8	-4.5	-4.5	-4.5	-4.5	-4.3	-4.3	-4.3	-3.5		
Revenue and grants	40.8	40.7	38.0	39.5	41.0	42.2	42.2	42.1	40.1	40.1	40.1	40.1	40.1	40.1	40.1		
Primary (noninterest) expenditure	42.8	45.5	48.7	44.4	43.4	43.2	40.4	37.6	35.6	35.6	35.6	35.8	35.8	35.8	36.6		
Automatic debt dynamics 2/	-1.9	0.4	5.8	8.3	15.0	15.1	6.3	1.7	-0.6	-0.5	-0.7	-0.7	-0.8	-0.5	1.5		
Contribution from interest rate/growth differential 3/	-1.9	0.4	5.8	8.3	15.0	15.1	6.3	1.7	-0.6	-0.5	-0.7	-0.7	-0.8	-0.5	1.5		
Of which contribution from real interest rate	1.2	0.3	2.1	3.7	4.6	6.8	6.3	5.8	4.2	4.0	3.3	2.8	2.4	2.2	2.7		
Of which contribution from real GDP growth	-3.1	0.1	3.7	4.6	10.4	8.3	-0.1	-4.2	-4.9	-4.5	-4.0	-3.5	-3.2	-2.7	-1.2		
Contribution from exchange rate depreciation 4/	0.0	0.0	0.0	0.0	0.0	...	...	...	...	...	...	...	...	...	...
Other identified debt-creating flows	0.0	1.0	1.9	3.7	1.5	27.5	-0.6	-3.8	-2.5	-2.7	-2.7	-2.1	-2.1	-2.1	0.0		
Privatization receipts (negative)	0.0	0.0	0.0	0.0	-0.5	-1.6	-2.1	-2.1	-2.6	-2.6	-2.6	-2.1	-2.1	-2.1	0.0		
Recognition of implicit or contingent liabilities	0.0	1.0	0.3	1.0	2.1	25.8	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other (specify, e.g. bank recapitalization)	0.0	0.0	1.6	2.6	-0.1	3.3	0.0	-1.7	0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0		
Residual, including asset changes (2-3) 5/	0.0	-1.0	-2.0	-1.3	1.9	-45.7	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Public sector debt-to-revenue ratio 1/	263.3	276.8	339.2	366.1	403.1	386.6	396.2	381.9	382.2	362.9	343.3	325.6	307.8	290.9	219.8		
Gross financing need 6/ in billions of U.S. dollars	6.8	9.9	15.8	19.4	26.6	34.3	13.0	14.6	10.4	5.8	5.4	3.7	5.5	5.8	10.1		
	20.8	33.9	50.9	57.5	73.6	89.2	33.6	38.4	28.2	16.5	15.9	11.5	17.7	19.3	48.1		
Scenario with key variables at their historical averages 7/						163.2	167.4	168.2	170.2	171.9	173.6	175.9	178.2	180.5	227.8	-1.1	
Scenario with no policy change (constant primary balance) in 2012-2017						163.2	170.1	169.0	166.9	164.6	162.2	160.2	158.2	156.5	183.1	-3.4	
Key Macroeconomic and Fiscal Assumptions Underlying Baseline																	
Real GDP growth (in percent)	3.0	-0.1	-3.3	-3.5	-6.8	-4.8	0.0	2.5	3.1	3.0	2.8	2.6	2.5	2.2	1.4		
Average nominal interest rate on public debt (in percent) 8/	4.8	5.0	4.5	4.4	4.5	3.3	3.4	3.5	3.6	3.8	3.8	3.8	3.8	3.8	5.0		
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	1.3	0.3	1.7	2.7	2.9	3.9	3.9	3.6	2.8	2.7	2.4	2.1	2.0	1.9	3.1		
Nominal appreciation (increase in US dollar value of local currency, in percent)	10.3	-6.6	7.2	-11.8	-0.5	...	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	3.5	4.7	2.8	1.7	1.6	-0.7	-0.5	-0.1	0.8	1.0	1.3	1.6	1.8	1.9	1.9		
Growth of real primary spending (deflated by GDP deflator, in percent)	8.9	6.0	3.6	-11.9	-9.0	-5.1	-6.4	-4.7	-2.4	3.0	2.8	3.4	2.5	2.2	1.4		
Primary deficit	2.0	4.8	10.6	5.0	2.4	1.0	-1.8	-4.5	-4.5	-4.5	-4.5	-4.3	-4.3	-4.3	-3.5		

1/ General government gross debt.

2/ Derived as $[(r - \pi(1+g) - g + \alpha\epsilon(1+\pi))/((1+g+\pi+g\pi))]$ 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 local currency value of U.S. dollar).

3/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi(1+g)$ and the real growth contribution as $-g$.

4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha\epsilon(1+\pi)$.

5/ For projections, this line includes exchange rate changes.

6/ Defined as public sector deficit, plus amortization of medium and long-term public sector 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/ 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.

Table A2. Greece: Debt Sustainability in Alternative Scenario, 2007-2030
(in percent of GDP, unless otherwise indicated)

	Actual					Projections											Debt-stabilizing primary balance 9/
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2030		
Baseline: Public sector debt 1/ o/w foreign-currency denominated	107.4	112.6	129.0	144.5	165.3	161.7	169.4	171.2	170.5	168.0	162.8	157.5	151.7	145.7	110.0	1.7	
Change in public sector debt	0.1	5.2	16.3	15.6	20.7	-3.6	7.7	1.8	-0.7	-2.5	-5.2	-5.2	-5.8	-6.0	-1.7		
Identified debt-creating flows (4+7+12)	0.1	6.2	18.3	16.9	18.9	41.7	5.1	-2.7	-4.1	-2.5	-5.2	-5.2	-5.8	-6.0	-1.7		
Primary deficit	2.0	4.8	10.6	5.0	2.4	1.0	-1.8	-4.5	-4.6	-2.5	-4.5	-4.5	-4.5	-4.3	-3.5		
Revenue and grants	40.8	40.7	38.0	39.5	41.0	41.8	42.0	42.2	40.8	40.8	40.8	40.8	40.8	40.8	40.8		
Primary (noninterest) expenditure	42.8	45.5	48.7	44.4	43.4	42.8	40.2	37.7	36.2	38.3	36.3	36.3	36.3	36.5	37.3		
Automatic debt dynamics 2/	-1.9	0.4	5.8	8.3	15.0	13.4	6.7	3.3	2.0	1.8	1.3	0.6	0.0	-0.3	1.7		
Contribution from interest rate/growth differential 3/	-1.9	0.4	5.8	8.3	15.0	13.4	6.7	3.3	2.0	1.8	1.3	0.6	0.0	-0.3	1.7		
Of which contribution from real interest rate	1.2	0.3	2.1	3.7	4.6	4.4	5.1	5.9	5.6	5.5	4.9	4.2	3.6	3.0	3.3		
Of which contribution from real GDP growth	-3.1	0.1	3.7	4.6	10.4	9.1	1.6	-2.6	-3.6	-3.7	-3.7	-3.5	-3.6	-3.3	-1.5		
Contribution from exchange rate depreciation 4/	0.0	0.0	0.0	0.0	0.0	...	...	...	...	...	...	...	...	...	...
Other identified debt-creating flows	0.0	1.0	1.9	3.7	1.5	27.3	0.2	-1.5	-1.5	-1.8	-2.0	-1.4	-1.4	-1.4	0.1		
Privatization receipts (negative)	0.0	0.0	0.0	0.0	-0.5	-0.5	-1.0	-1.0	-1.6	-1.7	-1.7	-1.2	-1.3	-1.3	0.0		
Recognition of implicit or contingent liabilities	0.0	1.0	0.3	1.0	2.1	25.5	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other (specify, e.g. bank recapitalization)	0.0	0.0	1.6	2.6	-0.1	2.2	-0.3	-0.4	0.1	-0.1	-0.2	-0.1	-0.1	-0.1	0.1		
Residual, including asset changes (2-3) 5/	0.0	-1.0	-2.0	-1.3	1.9	-45.3	2.6	4.5	3.3	0.0	0.0	0.0	0.0	0.0	0.0		
Public sector debt-to-revenue ratio 1/	263.3	276.8	339.2	366.1	403.1	386.6	403.5	405.7	417.9	411.8	399.1	386.3	371.9	357.3	269.7		
Gross financing need 6/ in billions of U.S. dollars	6.8	9.9	15.8	19.4	26.6	34.0	12.9	14.8	11.0	9.7	8.3	4.9	6.6	6.9	12.9		
	20.8	33.9	50.9	57.5	73.6	89.2	33.6	38.7	29.3	26.5	23.5	14.3	20.0	22.0	58.4		
Scenario with key variables at their historical averages 7/						161.7	168.9	176.5	183.0	185.9	188.7	192.0	195.3	198.6	241.1	0.1	
Scenario with no policy change (constant primary balance) in 2012-2017						161.7	172.1	179.5	184.5	185.6	186.0	186.4	186.0	185.3	206.8	-0.5	
Key Macroeconomic and Fiscal Assumptions Underlying Baseline																	
Real GDP growth (in percent)	3.0	-0.1	-3.3	-3.5	-6.8	-5.2	-1.0	1.6	2.2	2.3	2.3	2.3	2.4	2.3	1.4		
Average nominal interest rate on public debt (in percent) 8/	4.8	5.0	4.5	4.4	4.5	3.3	3.4	3.5	3.7	3.9	3.8	3.9	3.9	3.9	5.0		
Average real interest rate (nominal rate minus change in GDP deflator, in perc	1.3	0.3	1.7	2.7	2.9	2.5	3.1	3.5	3.4	3.4	3.0	2.7	2.4	2.1	3.1		
Nominal appreciation (increase in US dollar value of local currency, in percent)	10.3	-6.6	7.2	-11.8	-0.5	...	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	3.5	4.7	2.8	1.7	1.6	0.8	0.3	0.0	0.3	0.5	0.8	1.2	1.5	1.8	1.9		
Growth of real primary spending (deflated by GDP deflator, in percent)	8.9	6.0	3.6	-11.9	-9.0	-6.5	-7.1	-4.7	-1.9	8.1	-3.1	2.3	2.4	3.0	2.8		
Primary deficit	2.0	4.8	10.6	5.0	2.4	1.0	-1.8	-4.5	-4.6	-2.5	-4.5	-4.5	-4.5	-4.3	-3.5		

1/ General government gross debt.

2/ Derived as $[(r - \pi(1+g) - g + \alpha\epsilon(1+r))/(1+g+\pi+g\pi)]$ 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 local currency value of U.S. dollar).

3/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi(1+g)$ and the real growth contribution as $-g$.

4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha\epsilon(1+r)$.

5/ For projections, this line includes exchange rate changes.

6/ Defined as public sector deficit, plus amortization of medium and long-term public sector 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/ 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.

C. External Sector DSA

8. **Baseline projections suggest that external debt could drop markedly by 2020.**

The gross external debt-to-GDP ratio would peak at 203 percent of GDP in 2013 to rapidly decline to 141 percent of GDP by end-2020. This would be in the context of continued build-up of assets abroad by residents (mostly deposits and securities) in the short-term—expected to peak at around 90 percent of GDP by 2013—and some repatriation in outer years as market confidence strengthens. Accordingly, the net external debt-to-GDP ratio would reach 113 percent of GDP in 2013 and decline to 72 percent of GDP by end-2020. External debt is set on a sustainable medium-term trajectory due first and foremost to improvements in the trade balance, which reaches a positive balance by 2016. The deep PSI haircut and the additional OSI support from euro area member states also have an important impact on both the debt stock and income balance in the current account (enough to offset the expected deterioration in the external environment and secure a debt stabilizing current account level by 2015).

9. **Nevertheless, external debt dynamics remain exposed to macroeconomic shocks or policy slippages:**

- **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 over 1½ percent of GDP higher compared to the baseline. As a result, the external debt ratio would also be significantly higher by about percent of GDP by 2020, although remaining 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 8 percent of GDP in 2020 relative to the baseline, slowing down the debt ratio decline over the projection period.
- **Lower FDI:** Reduced FDI from a shortfall in planned privatization receipts (a shock paralleling that considered in the public DSA) would significantly affect external debt dynamics, with a sizable upward shift in the debt adjustment path, although still on a downward trajectory. Specifically, the debt ratio would increase by 11 percent of GDP in 2020 compared to the baseline, as the result of lower non-debt creating external inflows by almost €25 billion.

10. **As in the case of public debt, Greece has limited capacity to absorb a combined shock involving weaker competitiveness from lagged program implementation.** On account of lower export performance, a further deterioration in market sentiment, and

reduced foreign investment, external debt would end on a significantly higher trajectory, threatening sustainability. The debt ratio would reach 101 percent of GDP by 2020, 29 percent of GDP higher than under the baseline.

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

	Actual					Projections										Debt-stabilizing non-interest current account 7/ -4.1
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	
Baseline: External debt	62.0	67.7	75.7	87.0	100.0	114.1	107.2	113.1	111.4	107.3	101.7	94.3	87.1	79.1	71.6	
Change in external debt	3.9	5.7	8.0	11.3	13.0	14.1	-6.9	5.9	-1.7	-4.1	-5.7	-7.3	-7.3	-7.9	-7.5	
Identified external debt-creating flows (4+8+9)	1.5	3.4	8.8	8.0	9.5	11.6	9.9	1.2	-3.0	-6.8	-8.5	-8.7	-8.4	-8.9	-8.9	
Current account deficit, excluding interest payments	7.3	9.6	9.1	6.0	5.0	3.9	2.5	1.6	0.1	-2.0	-3.1	-4.2	-4.9	-5.7	-6.2	
Deficit in balance of goods and services	9.5	11.0	11.6	7.8	6.6	5.8	4.2	3.0	1.7	0.4	-0.8	-2.2	-3.3	-4.3	-5.0	
Exports	21.2	21.5	23.1	18.3	20.0	22.7	24.8	25.9	26.8	27.7	28.6	29.6	30.5	31.2	31.8	
Imports	30.6	32.5	34.7	26.1	26.7	28.5	29.1	28.9	28.6	28.1	27.8	27.4	27.1	26.9	26.9	
Net non-debt creating capital inflows (negative)	-3.7	-4.3	-2.0	-0.9	0.3	-1.2	-2.0	-3.2	-3.0	-3.1	-3.8	-4.2	-3.4	-3.1	-3.1	
Automatic debt dynamics 1/	-2.1	-1.9	1.7	2.9	4.2	8.9	9.4	2.8	-0.2	-1.7	-1.6	-0.2	-0.1	-0.1	0.3	
Contribution from nominal interest rate	2.0	2.5	2.9	2.5	2.5	3.3	2.9	2.4	2.6	2.6	2.7	2.5	2.3	2.0	2.1	
Contribution from real GDP growth	-2.4	-2.6	1.1	2.5	3.1	7.2	5.7	0.0	-2.8	-3.4	-3.1	-2.8	-2.4	-2.1	-1.7	
Contribution from price and exchange rate changes 2/	-1.7	-1.8	-2.3	-2.1	-1.5	-1.6	0.7	0.5	0.1	-0.9	-1.1	-1.3	-1.5	-1.6	-1.5	
Residual, incl. change in gross foreign assets (2-3) 3/	2.5	2.3	-0.8	3.3	3.5	2.5	-16.7	4.7	1.4	2.7	2.8	1.3	1.1	1.0	1.4	
External debt-to-exports ratio (in percent)	292.9	314.2	327.3	476.5	499.0	502.7	431.7	436.4	415.4	387.5	355.0	318.5	285.8	253.3	224.9	
Gross external financing need (in billions of euros) 4/	73.9	93.2	122.9	194.4	216.7	239.4	239.3	183.7	195.7	190.2	180.7	179.6	171.0	167.5	159.5	
in percent of GDP	35.1	41.2	52.8	83.9	95.3	111.2	117.5	90.6	94.1	88.0	80.2	76.5	69.8	65.5	59.9	
Scenario with key variables at their historical averages 5/						116.7	101.4	105.2	106.1	108.0	109.8	111.4	112.8	114.1	115.5	-5.9
Key Macroeconomic Assumptions Underlying Baseline																
Real GDP growth (in percent)	4.5	4.5	-1.6	-3.3	-3.5	-6.8	-4.8	0.0	2.5	3.1	3.0	2.8	2.6	2.5	2.2	
GDP deflator (change in percent)	3.1	3.0	3.5	2.8	1.7	1.6	-0.7	-0.5	-0.1	0.8	1.0	1.3	1.6	1.8	1.9	
Nominal external interest rate (in percent) 6/	3.8	4.3	4.4	3.3	2.9	3.1	2.4	2.2	2.3	2.5	2.6	2.6	2.6	2.5	2.7	
Growth of exports (euro terms, in percent)	7.4	9.6	10.4	-21.5	7.7	7.2	3.6	3.9	6.1	7.4	7.6	7.8	7.3	7.1	6.2	
Growth of imports (euro terms, in percent)	20.2	14.3	9.6	-25.2	0.3	1.4	-3.6	-1.0	1.2	2.2	3.1	2.9	3.2	3.7	3.8	
Current account balance	-11.3	-14.4	-14.9	-11.1	-10.1	-9.8	-7.5	-6.7	-5.4	-3.3	-2.4	-1.1	-0.1	1.1	1.2	
Net non-debt creating capital inflows	3.7	4.3	2.0	0.9	-0.3	1.2	2.0	3.2	3.0	3.1	3.8	4.2	3.4	3.1	3.1	

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.

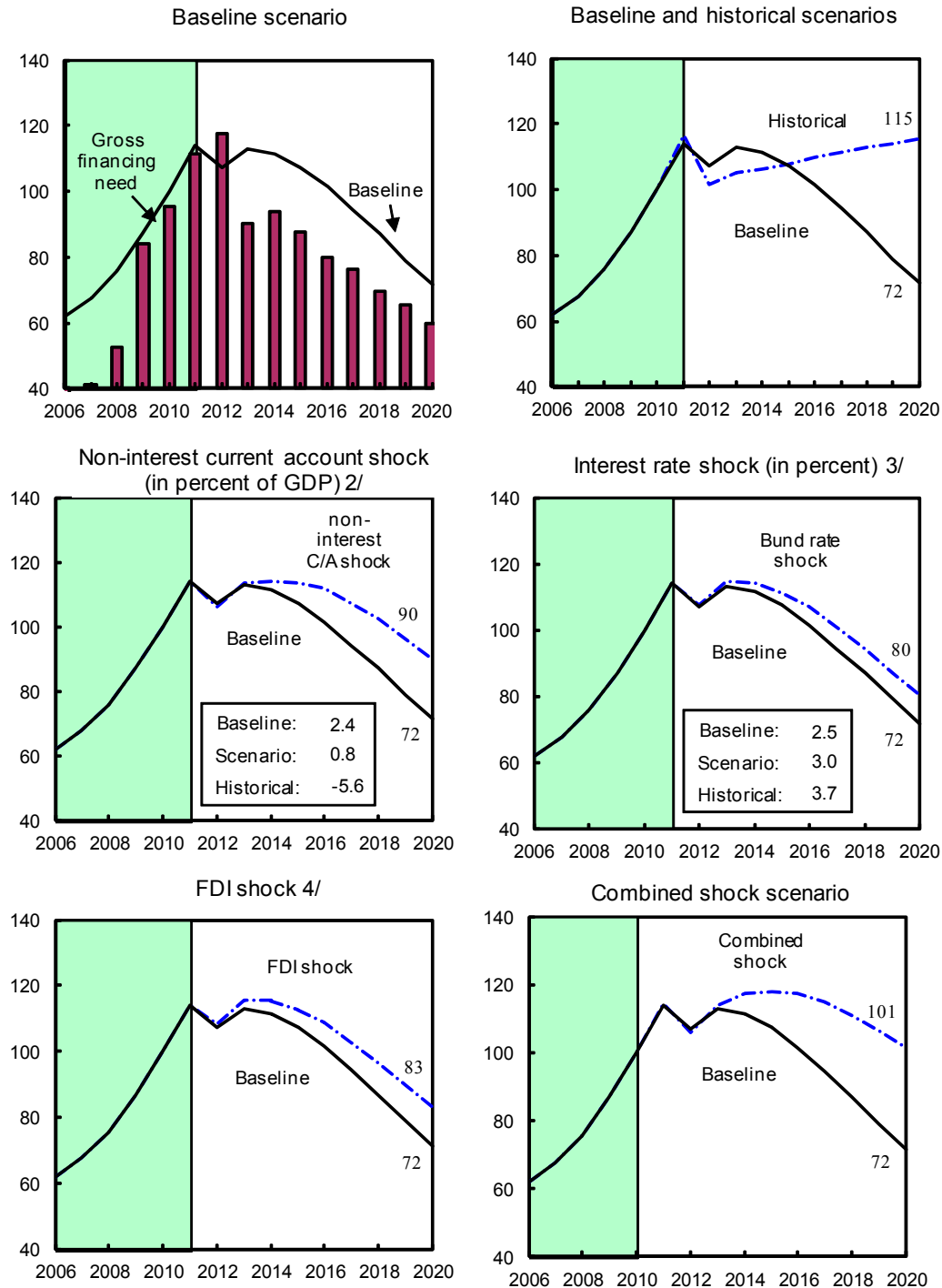
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

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/preliminary 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 1.6 percent of GDP due to delayed program implementation and terms-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.

APPENDIX II. FUND RELATIONS

(As of February 29, 2012)

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//08.

III. General Resources Account:	SDR Million	Percent Quota
Quota	1,101.80	100.00
Fund holdings of currency	,402.93	1,670.26
Reserve position in Fund	240.74	21.85

IV. SDR Department:	SDR Million	Percent Allocation
Net cumulative allocation	782.36	100.00
Holdings	553.71	70.77

V. Outstanding Purchases and Loans:	SDR Million	Percent Quota
Stand-by Arrangements	17,541.80	1,592.10

VI. **Latest Financial Arrangements:**

<u>Type</u>	<u>Date of Arrangement</u>	<u>Expiration Date</u>	<u>Amount Approved (SDR Million)</u>	<u>Amount Drawn (SDR Million)</u>
Stand-By	May 09, 2010	May 08, 2013	26,432.90	17,541.80

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

	Forthcoming				
	2012	2013	2014	2015	2016
Principal		1,471.81	6,277.79	7,299.09	2,493.11
Charges/Interest	364.42	548.53	499.33	199.38	17.37
Total	364.42	2,020.35	6,777.12	7,498.47	2,510.48

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 EFF Program Mission:** This took place from January 16 to February 10. The mission met with the Prime Minister, 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, W. Maliszewski, 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

Department	Purpose	Date
FAD/LEG	Tax administration: anti-evasion and structural reforms	April 2011
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, March 9, 2012

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington DC

Dear Ms. Lagarde:

The attached Memorandum of Economic and Financial Policies (MEFP) outlines the economic and financial policies that the Greek Government and the Bank of Greece will implement during 2012–2015. These policies aim to address Greece’s balance of payments problems, correct Greece’s competitiveness gap, support growth and employment; restore public finances to sustainability; secure financial system stability, and to distribute the cost of adjustment in an equitable way, within our commitment to the common currency.

In support of our objectives, we have committed to a set of key policies, building on what has been achieved under the Stand-By Arrangement approved in May 2010. These policies place strong emphasis on restoring growth and ensuring an equitable fiscal adjustment:

- To restore competitiveness and growth, we will accelerate implementation of far-reaching structural reforms in the labor, product, and service markets. Indeed to give a strong upfront impetus to unit labor cost reductions, and protect employment, we have already reformed the collective bargaining framework and reduced the minimum wage as a prior action for this program. And to reduce market rigidities, boost productivity, and increase long-term growth potential we are implementing reforms in product and service markets and improvements in the business environment.
- To bring the fiscal deficit to a sustainable position, we will implement bold structural spending and revenue reforms. The adjustment will be achieved through permanent expenditure reductions, and measures to this end have already been implemented as prior actions. These efforts will be supported on the revenue side by a tax reform to broaden the tax base and achieve a fairer distribution of the tax burden, and by tax administration reforms to stem tax evasion. Indeed to reinvigorate this crucial latter effort, we have already taken actions to strengthen the tax administration.
- We have adopted a comprehensive banking sector strategy to secure a viable and well-capitalized private banking sector that supports the economic recovery and sustained growth. The banking system will be restructured and recapitalized following the upcoming sovereign debt exchange. We have already completed a

capital needs assessment and a plan for a large state-owned bank as prior actions. In support of these efforts, and as prior actions, we have strengthened our resolution and recapitalization framework and financial oversight framework

- We remain committed to our ambitious privatization plans. Transferring assets in key sectors of the economy to more productive uses through privatization and concessions will encourage private investment and support long-term growth.

In support of our ambitious multi-year policy program, we request a 4 year arrangement under the Extended Fund Facility (EFF) in the amount of SDR 23.7853 billion (2,158.8 percent of quota; €28 billion). We also notify the Fund of our cancellation of the existing SBA effective March 14, 2012. We have sent a parallel request for financial assistance to euro area member states for a total amount of €144.7 billion over 2012-14. The euro area member states have given assurances that adequate financing will be available to support Greece during the period of our policy program and beyond for as long as it takes for Greece to regain market access, provided that we implement and adhere to the program.

The government believes that sustained implementation of this program, complemented by debt restructuring, will put the public debt on a clear downward path. In this context we have launched a debt exchange with the goal of reaching agreement on a restructuring of our debt. We will successfully complete the debt exchange, as described in the attached MEFP, prior to the meeting of the IMF Executive Board to consider this EFF request.

The implementation of our program will be monitored by the Fund through quarterly reviews, quantitative performance criteria and indicative targets, as well as structural benchmarks as described in the attached MEFP and Technical Memorandum of Understanding (TMU). The EC/ECB will also monitor implementation of the program as described in this MEFP, as well as monitor the detailed and specific economic policy criteria in the Memorandum of Understanding agreed with the European Commission (EC). There will be 16 quarterly reviews under the arrangement. The quarterly reviews will assess progress in implementing the program and reach understandings on any additional measures that may be needed to achieve its objectives.

We believe that the policies set forth in the attached MEFP are adequate to achieve the objectives under the program and stand ready to take any measures that may become appropriate for this purpose as circumstances change. We will consult with the Fund on the adoption of any such actions and in advance of revisions to the policies contained in this MEFP, in accordance with the Fund's policies on such consultations.

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

/s/

Lucas Papademos
Prime Minister

/s/

Evangelos Venizelos
Deputy PM and Minister of Finance

/s/

George Provopoulos
Governor of the Bank of Greece

ATTACHMENT II. GREECE: MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

Objectives, Strategy, and Outlook

1. **Greece faces three key challenges.** First, the Greek economy lacks competitiveness. While progress has been made since 2010 in containing unit labor costs, the estimated real effective exchange rate overvaluation still amounts to perhaps 15–20 percent. Second, fiscal sustainability needs to be restored. The primary deficit has been brought down considerably since 2009, but the estimated 2011 outcome, a primary deficit of about 2½ percent of GDP, remains well below the debt-stabilizing surplus. Lastly, the financial sector faces liquidity and solvency issues due to its exposures to the sovereign, deteriorating quality of the domestic loan portfolio, and a steady loss of deposits.

2. **To address these challenges, the government will build on policies laid down in its previous program, but amend the mix of adjustment and financing.** To reduce policy conflicts, the program will continue to place emphasis on ambitious implementation of productivity-enhancing structural reforms in the labor, product, and service markets and to improve the business environment. However, we must be realistic about the ultimate magnitude and timing of their effects, which is inherently uncertain. To rebalance the economy, support growth and employment, restore fiscal sustainability, and secure financial stability, we will thus:

- Place more emphasis on securing reductions in unit labor costs and improvements in competitiveness, through a combination of upfront nominal wage cuts and structural labor market reforms. In unison with the elimination of rigidities in product and service markets, these are expected to lower costs and facilitate the reallocation of resources towards the tradable sectors, stronger growth, and higher employment.
- Smooth the impact of the deep and prolonged recession and deeper structural reforms (and give them time to take effect) by reducing the amount of fiscal adjustment in 2012.
- Fundamentally reduce the footprint of government in the economy through bold structural fiscal reforms and by privatizing public assets. Greece's recovery must come from a vigorous private sector response and this cannot happen with the government controlling access to key assets.
- Strengthen the capacity of the government to implement policies, via a wide ranging administrative reform. We need to improve significantly the quality of public services, the efficiency and effectiveness of the civil service (including in mobilizing structural funds), and its ability to manage economic policy.
- These cost-reducing structural reforms and FDI-encouraging privatization plans, when combined with fiscal retrenchment and gradual arrears clearance, will free up

liquidity for the private sector. Together with continued program finance, and liquidity assistance for the banking system, this will help improve the tight financial conditions now affecting the economy.

3. Nonetheless, the government recognizes that eliminating Greece's large initial imbalances, and achieving a balanced growth path, will take significant time:

- **Real GDP** is expected to recover to positive quarter-on-quarter growth rates during 2013. The program assumes that over time business sentiment benefits from the successful implementation of the PSI operation, and economic activity and employment growth gather momentum as unit labor costs decline, other productivity-enhancing structural reforms are implemented, and fiscal adjustment is completed. Still in the short-term GDP is projected to contract by another 4–5 percent cumulatively in 2012–13 on account of the worsened external environment, the needed fiscal consolidation, private sector wage adjustment, and adjustments in the banking system.
- **Competitiveness** is programmed to improve at an accelerated pace, supported by upfront labor market reforms and by a comprehensive set of product market reforms. Inflation is projected to drop significantly below the euro area level as cost-reducing reforms and wage reductions filter through to prices. It should be possible to significantly shrink the competitiveness gap relative to trading partners by the end of the program period, and the economic system should continue to adjust for some time thereafter to fully eliminate the gap.
- The **external balance** is projected to adjust only modestly in the remainder of 2012 given the deterioration of global economic conditions. However, as domestic demand continues to contract and competitiveness improves the pace of external adjustment should pick up. Still it is projected to take some time before Greece's current account deficit falls to a level that will allow Greece's external debt to steadily decline.

4. The government's policy program, assisted by debt relief from private creditors and official support on favorable terms, should put public debt on a sustainable path. Under our program baseline, public debt will remain high during the program period, but is projected to fall to about 120 percent of GDP by 2020, with continued declines thereafter. Given the lengthy period of elevated debt levels, and Greece's continued vulnerability to shocks, we recognize that full and timely policy implementation will be critical to realize this debt trajectory, notwithstanding the favorable financing we have received. These policies and program financing are discussed in more detail in what follows.

Economic Policies

A. Fiscal Policy

5. **The government is committed to achieve a general government primary surplus of 4½ percent of GDP by 2014.** This is above Greece's debt stabilizing primary balance, and will allow debt to gradually decline (even with small shocks), and it is a level which Greece and many other countries have sustained in the past. Mindful of the initial fiscal position, the potential macroeconomic impact of fiscal tightening, and limitations on the pace at which we can develop and implement structural fiscal reforms, we have adjusted our 2012 fiscal target to a primary deficit of 1 percent of GDP (versus our previous target of a small surplus). We will target an adjustment of 2¾ percent of GDP in the primary balance in both 2013 and 2014, drawing on bold fiscal structural reforms to be defined in the context of the 2012 update of the MTFS, due in June. We would consult with the EC, ECB, and IMF in the event of a significantly deeper than anticipated recession, to evaluate whether the fiscal adjustment path should be extended beyond 2014.

6. **To secure the program's fiscal adjustment path, the government will undertake bold structural spending reforms.** Accounting for the projected pace of recovery, Greece's ongoing problems with tax compliance, and the need to adjust some of our previous measures, additional measures will be needed beyond those already approved in the context of the 2011 MTFS and 2012 budget. We project a need for 1½ percent of GDP in measures in 2012, 1½ percent of GDP in tax administration improvements, and a further 5½ percent of GDP in spending measures in 2013-14 to get to the primary surplus target of 4½ percent of GDP by 2014. The bulk of adjustment will be achieved through expenditure cuts that aim at permanently reducing the size of the state and improving government efficiency, including by closing entities that no longer provide a cost-effective public service and by targeted reductions in public employment. Many of these cuts will need to fall on social transfers, the category of spending which increased most explosively in the post euro accession period, but specific measures will be introduced to protect the core of our social safety net and the most vulnerable segments of the population.

7. **Key reforms, including those defined under the MTFS and 2012 budget, include:**

- **Public sector wage bill reductions.** We intend to bring our general government wage bill into line with the performance of the most efficient OECD countries. This would yield 1½ percent of GDP in savings by 2015, including ¼ percent of GDP in new savings not captured in the existing MTFS. To achieve this objective, we will combine reforms of employee compensation with personnel reductions.
- **Reform of the public sector employee compensation.** By end-June, we will reform the special wage regimes (that account for about one-third of the public sector wage bill). In line with the principles of the reform initiated in 2011, we

will adjust the wage grid for special regimes effective July 1, 2012 (including for judges, diplomats, doctors, professors, police and armed forces), while protecting those at lower pay scales, to realize permanent net savings of about 0.2 percent of GDP on an annual basis. We will also review the new promotion system to ensure that there are appropriate controls against wage drift through such channels.

- **Personnel reductions.** We remain committed to reduce general government employment by at least 150,000 in the period 2011–15. To achieve this target, we will continue to strictly apply the existing 1:5 hiring to attrition ratio (1:10 for state-owned enterprises) as well as the newly established pre-retirement scheme, reduce contractual employment, and furlough enough redundant public employees into the labor reserve by end-2012 to achieve 15,000 mandatory separations (i.e. once their time in the labor reserve has been exhausted). The planned functional review of public administration (below), and plans to close, merge or shrink general government entities, will help identify redundant public employees.
- **Controls on hiring.** To better control and limit hiring, we will: (i) reduce the annual intake into schools for public sector employees, namely military and police schools and other public academies, to a level consistent with hiring plans; (ii) augment the labor reserve annually; and (iii) eliminate vacant positions in the context of public sector restructuring. If slippages vis-à-vis the targeted personnel reductions emerge, we will immediately enact a hiring freeze.
- **Rationalizing and better targeting of social spending.** Over the last few years, we started reforms to contain the projected increase in pension spending to less than 2½ percentage points of GDP by 2060 (from a projection of 12½ percent of GDP), maintain public health expenditures at about 6 percent of GDP, and to improve the targeting of our social benefits. In our program we intend to bring this work agenda to closure, realize in total around 4 percent of GDP in additional savings, while improving social programs for those who are most in need:
 - **Pension reform.** Given the high share of pensions in Greek government spending, the large remaining fiscal adjustment will necessarily have to involve further pension adjustments. We will do this in a way that protects lower income pensioners. As upfront measures, to generate savings of about €450 million in 2012 (0.2 percent of GDP), we will: (i) reduce with a progressive schedule supplementary pensions above €200 per month; (ii) adopt a framework law to eliminate the structural deficit in supplementary pension funds over time; and (iii) reduce by 12 percent the part for main pensions exceeding €1,300 a month. Looking forward, by end-June, we will introduce reforms to eliminate arrears and deficits in lump sum pension funds.

- **Health spending.** Our key aims are to bring pharmaceutical spending closer to levels in other European countries, and to continue to reform health system governance. For 2012, we have set a target to reduce public spending on outpatient pharmaceuticals from 1.9 to 1½ percent of GDP. Key upfront actions include: promotion of the use of generics (e.g. via compulsory prescription by active substance), reduction by about 15 percent in the maximum price of generic relative to branded medicines, reduction in margins of pharmacists, and extend the coverage of copayments. An automatic claw back mechanism will guarantee that outpatient pharmaceutical spending for 2012–15 will not exceed budget limits. Through the new health fund EOPYY, we will also complete the introductions of new and more cost-effective contracts for physicians and adopt uniform conditions for the purchase of health services. To rationalize the system and exploit economies of scale, we will merge all health funds in EOPYY and move its responsibility to the Ministry of Health.
- **Other social benefit programs.** Greece's level of social spending (as a share of GDP) remains well above the euro area average. We will thus continue to reform social benefit programs and the governance of social assistance and social security programs. As an upfront measure, we will improve the targeting of the family allowances by excluding high income earners. Drawing on external assistance, we will also undertake a thorough review of social spending programs with the aim to identify 1½ percent of GDP in additional measures to be taken over 2013–14. The review, to be completed by end-June 2012, will identify programs to be discontinued, and opportunities to rationalize and strengthen core social programs to better support individuals in need, while reducing transfers to individuals who do not require them.
- **Restructuring of government operations.** The Greek public administration is highly fragmented, has overlapping structures, and lacks coordination and adequate IT systems. To address this we will take upfront actions, and identify deeper changes to implement over the course of the program:
 - **Upfront actions.** To help meet our 2012 fiscal target, we will: (i) in anticipation of the forthcoming functional review, curtail operational spending and selected subsidies and transfers at the central government level by an additional 0.2 percent of GDP (compared to the 2012 budget); and (ii) reduce investment subsidies and lower-priority investment projects by 0.2 percent of GDP (compared to the 2012 budget).
 - **Deeper restructuring.** By end-June 2012, we will complete a plan to restructure government operations and achieve additional savings of at least 1 percent of GDP over the period 2013–14. The focus will be on closing and downsizing general government units; identifying opportunities to outsource functions;

identifying redundancies, and restructuring both central and local public administrations. The plan will also include the rationalization of defense spending (without compromising defense capabilities).

8. **Tax system reforms will also contribute to the fiscal adjustment through base broadening, and reforms will also aim to facilitate revenue-neutral tax rate reductions.** The strategy involves:

- **Tax reform.** We intend to introduce a budget-neutral tax reform to simplify the tax system, broaden the tax base to allow reductions in selected tax rates, and rebalance the tax burden across tax categories to foster growth and competitiveness. We will define a full schedule of intermediate steps towards adoption of such a tax reform, including initial public consultation, review by the EC/ECB/IMF staff and release of a formal proposal for discussion. This process will be concluded with the presentation to parliament and enactment of reform legislation by end June 2012. The reform package will include: (i) the repeal of the Code of Books and Records and its replacement by simpler legislation, (ii) the elimination of several tax exemptions and preferential regimes; (iii) simplification of the VAT and of the property tax rate structure; (iv) a more uniform tax treatment of individual capital income; and (v) a simplified personal and corporate income tax schedule.
- **Revenue administration reforms.** Given our low tax collection compared to other European countries, our adjustment strategy relies on the introduction of extensive revenue administration reforms (see below). These reforms will facilitate a more equitable distribution of the adjustment burden across taxpayers. For medium-term budget planning purposes, these reforms will be assumed to provide only back loaded gains, limited to 1½ percent of GDP over the period 2011–15 and expected to accrue only from 2013.

9. **We are committed to deliver our fiscal target and stand ready to take corrective measures in the event of underperformance.** Corrective measures, if necessary, would include additional targeted reductions in the public sector wage bill and social transfer expenditures. Likewise, in the event of a sustained over performance that is deemed permanent, we will tighten our deficit targets, but may also consider a reduction in social contribution rates. We intend to maintain the relative tax burden from indirect taxes.

10. **To secure early gains we will implement several prior actions, and to assist with subsequent monitoring of the fiscal adjustment program, we will set several key steps as program benchmarks.** As **prior actions** for the program, we will: (i) fully implement all overdue measures (Annex I); and (ii) enact and implement measures needed to reach the fiscal deficit target in 2012 (Annex II). The adoption of a budget-neutral tax reform by end-June 2012, and the completion of reviews of social spending programs and government functions that identify, respectively, 1½ and 1 percent of GDP in additional measures, are

proposed as **structural benchmarks** for end-June 2012. Identification and enactment (where feasible) of all measures necessary to attain the medium-term fiscal target will be an over-arching condition for completion of the first program review.

B. Fiscal Institutional Reforms

11. **Strengthening fiscal institutions is of the utmost importance.** Greece has for many years suffered from a widespread problem of nonpayment of taxes, eroding the fairness of the system and forcing less growth-friendly policy measures, such as high tax rates. Meanwhile, the public sector has had difficulties paying its bills and tax refunds on time, driving up procurement costs and damaging corporate sector liquidity. Putting an end to these practices will require a deep restructuring of the revenue administration and the public financial management system. Of course, these are complex institutional reforms, and gains both in terms of higher revenue and lower spending can only be achieved over time with resolute efforts. Therefore, we are determined to undertake the needed reforms with urgency.

12. **We are committed to reform our revenue administration.** It is not operating at the level Greece requires, and will need to be overhauled completely. We have started this process, and made progress over the past two years, but much more remains to be done:

- **Strengthening of operations is the near-term priority:**
 - **The dispute resolution system.** As upfront actions, we will: (i) approve legislation making it compulsory for large tax cases to exhaust the administrative dispute phase before accessing judicial appeals; (ii) tighten rules for waiving the deposit to access judicial appeals (without prejudice to the independence of the judicial system); and (iii) issue secondary legislation enabling the certification of tax arbitrators, making the arbitration system established in 2011 fully operational.
 - **Making use of additional tools.** We will integrate anti-money laundering tools into our anti-tax evasion strategy. As upfront actions, we will: clarify the Bank of Greece's rules on financial institutions' obligations to detect and report to the Financial Intelligence Unit (FIU) transactions suspected of being related to the proceeds of tax evasion; and take measures to ensure that complaint reports related to confirmed unpaid tax debts arising from an audit are transmitted to the prosecution services and to the FIU as required under the system in place.
 - **Upgrading personnel.** Consistent with our operational plans, by April, we will complete the reassessment and hiring of 1,000 auditors and will gradually bring the numbers of auditors to 2,000 (consistent with public sector attrition and hiring rules). For existing employees, we will establish a formal performance review framework that will specify targets against which to evaluate manager

performance. The framework will be operational by June 2012. We intend to replace managers that have underperformed their targets.

- **Anti-corruption measures.** By end-June 2012, we will set up the internal affairs services established in Law 3943/2011 and reform the role of the financial inspection unit so as to limit its focus to the revenue administration. We also plan to improve the system to protect whistle-blowers reporting corruption in the tax administration, introduce procedures for the rotation of managers, and set targets for audits of asset declarations of tax administration officials. By end-September, we will prepare a fully-fledged anti-corruption plan.
- **Over time, we need to restructure the administration** to create an independent but accountable tax administration, with a functional organization centered in a strong headquarters. Towards this end, for 2012 our priorities include:
 - **Establishing key functional units.** The major units have been set up, including the large taxpayer unit, the debt collection unit and the audit department. Looking ahead, our priority is to build capacity in these directorates. In 2012, by end-March we will increase the staff of the debt collection directorate by 50, and by the second quarter, we will complete the doubling of the audit capacity of the large taxpayer unit.
 - **Consolidating tax administration operations.** We plan to close a total of 200 underutilized local tax offices by end-December 2012.
 - **Securing greater control over local tax offices.** By end-March 2012 the GSTC headquarters will set operational targets for local tax offices for core activities including audits, dispute resolution and filing, and performance targets for local managers against which they will be assessed. The GSTC headquarters will be given legal powers to direct how local tax office resources must be used. Additionally, collection of large debts will be placed under direct central control and consolidated in the largest 35 tax offices. Processing of all tax payments in local offices will be discontinued by end-September 2012 and replaced by mandatory bank transfers, and payments at banks.
 - **Steps towards independence.** By end-March, we will appoint as Secretary General of the revenue administration an individual with an impeccable track record of tax compliance and with significant experience in tax matters. To support independent decision-making, we will delegate from the ministerial to the administrative level, via a ministerial decision, the control over core business activities and human resource management. We will ensure that at the same time activities of the tax administration headquarters will be externally audited.

- **Collection of social security contributions will be strengthened.** We will undertake a thorough review of current collection and enforcement practices, drawing on external assistance. A fully articulated reform plan will be developed by end-September 2012, which will, among other things, lay out a timeline and set of intermediate steps to fully integrate tax and contribution collections. In the near term, to help stem recent deep problems with social security collections, by March 2012 we will expand monthly declarations to a wider range of large taxpayers, unify the collection of tax and social security contribution debts of the largest tax debtors, enact common audits of tax and social security contribution of large taxpayers, increase the number of inspections and establish targets for inspectors.
- **The government undertakes to fully enforce the tax code, and to forego any tax amnesties.** We commit not to implement any new or extend any existing amnesties or incentive schemes for the collection of taxes and social security contributions. Given the importance of making this regime change, we will amend law 4038/2012 to restrict the extension of payment terms for tax debt and overdue social security contributions and the suspension of criminal prosecution and asset freezing, in line with good international practices.

13. **We are determined to secure tighter control over all general government spending and to prevent the accumulation of arrears.** This will require improving every step of our spending process: budgeting procedures; commitment-based spending controls; and fiscal reporting and budget monitoring:

- **Budgeting.** To improve budgeting at both the medium and short term horizons, we will: (i) issue a circular during Q1 2012 regulating the calendar, deadlines, and the role of all institutions in formulating the next MTFS (covering 2012–6); and (ii) adopt legislation and regulations by October 2012 to streamline submission and approval procedures of within-year supplementary budgets.
- **Spending controls.** Once fully established, commitment-based spending controls, and the architecture accompanying them, will help us to prevent units both at the central and decentralized level from overspending their budgets. There are two near-term issues, and a set of next steps for the remainder of the program:
 - **Commitment registers.** By March 2012, we will begin to extend registers to cover the investment budget. By June 2012, we will increase the number of fully functional commitment registers reporting on the e-portal of the Ministry of Finance to 70 percent of spending units, including in local governments, social security funds, extra budgetary funds, and hospitals. We will also consistently enact sanctions (when needed) to improve data reporting from commitment registers, and expand the content of the e-portal reporting system to include the

whole expenditure cycle (e.g. cumulative appropriations released, commitments made, invoices received, and payments made at the end of each month).

- **Accounting officers.** We have appointed permanent accounting officers in all line ministries. The officers will be responsible for line ministries' financial management, including budget formulation, spending controls, and data reporting. The accounting officers will be obliged to adopt and implement new organizational plans for their directorates by end-June 2012.
- **Revised audit procedures.** Looking forward, we will focus on the progressive devolution of financial responsibility to accounting officers and reforming the functions of financial audit offices in line ministries and the Court of Audit. This will involve a shift away from preventive audits towards ex-post quality audits, and reconfiguration of our financial information systems.
- **Fiscal reporting.** More comprehensive, timely, and accurate reports will help us better monitor budget execution and spot problems early. To this end, in 2012 we will: (i) expand our arrears data base to cover tax refunds, and establish standards for their processing and payment (by end-June 2012); (ii) make operational by end-March the inter-ministerial committee to monitor, control, and report on the implementation of the social budget; and (iii) expand the recently piloted information systems to collect more detailed revenue and spending data from general government entities (the new system will cover more than 90 percent of spending by end-June 2012).
- **Clearance of domestic arrears.** We expect to clear our existing domestic arrears in line with available program financing. The 2012 budget includes a budget appropriation, based on the end-2011 outturn, and conditions to access it will include the verification of arrears claims, compliance with basic financial management reforms (as described above), and that line ministries and general government entities requesting access demonstrate that they have not accumulated any further arrears and have reported at least three months of consistent data from commitment registers.

14. **We will further strengthen the Greek statistical agency, El.Stat.** We will revise the statistics law to reform El.Stat's governance arrangements. The law will establish the El.Stat Board as advisory, and clarify the professional authority of El.Stat's president as the institution's chief officer and coordinator of the national statistical system.

15. **We are taking prior actions to secure early gains, and to track progress during the program.** As **prior actions** for the program, we will implement various measures to strengthen tax administration operations, including meeting end-2011 performance targets, reversing a recent amnesty, tightening administrative regulations, and strengthening

delegation of powers to the revenue administration (Annex III). Looking ahead, we have set and will monitor targets for quantified quarterly performance indicators for revenue administration and public financial management (see the Technical Memorandum of Understanding for a full description of the indicators; the targets for end-June 2012 and end-December 2012 are proposed as **structural benchmarks**). Beyond these indicators, an additional **structural benchmark** will focus on the completion of the strategy for strengthening social security collections (by end-September 2012).

C. Financial Sector Policies

16. **The government is committed to provide the support needed to restore confidence in the Greek banking system.** The combination of the deepening recession and government debt restructuring will require significant government support to ensure the soundness of the banking system and to maintain depositor confidence. Well-targeted recapitalization and resolution actions will be needed, alongside legal changes to facilitate the strategy and improve the financial oversight framework. With the actions specified, the Greek authorities intend to support banking system liquidity, and create a viable and well-capitalized private banking sector that can support the economic recovery and sustainable growth. Depositors will be protected.

17. **The financial sector reform strategy comprises several key elements:**

- **An assessment of capital needs.** All banks will be required to achieve a core tier 1 capital ratio set at 9 percent by end-September 2012, reaching 10 percent in June 2013. The BoG, with the support of external consultants, will undertake an assessment of banks' capital needs (**prior action**). This assessment will be based on, inter alia, the results from the BlackRock loan diagnostic exercise, the PSI impact, and the business plans banks have submitted. In addition banks' capital needs will be determined on the basis of a requirement to maintain a 7 percent core tier 1 capital ratio under a three year adverse stress scenario (Pillar II requirements). Based on these capital needs identified by the Bank of Greece, banks will revise their business plans and submit capital raising plans by end-March 2012.
- **In parallel, a strategic assessment of the banking sector will be carried out.** In consultation with the EC/ECB/IMF, the Bank of Greece will conduct a thorough and rigorous assessment of each bank, using a set of quantitative and qualitative criteria. The criteria will include in non-exhaustive terms: shareholders' soundness and willingness to inject new capital; quality of management and risk management systems; capital, liquidity, and profitability metrics (both forward and backward looking); the Bank of Greece's assigned ratings to bank risks; and a sustainable business model. The assessment will be complete by end-March 2012 (proposed as a **structural benchmark**).

- **Agricultural Bank (ATE).** Based on the ongoing work by the commissioned external audit firms, the Ministry of Finance will complete a study on how to address ATE (as a **prior action**). This study will illustrate the legal, operational, and financial aspects of the different solutions and lay out the associated costs.
- **Recapitalization and resolution actions.**
 - **Banks will be given time to raise capital in the market.** Based on an assessment of their viability and capital raising plans, the Bank of Greece will communicate to banks, by end-April, specific deadlines to raise capital in the market. The deadlines to raise capital will be set for each bank on a case by case basis—with a maximum duration to end-September—taking into account the regulatory framework and the requirements set by the Hellenic Capital Market Commission.
 - **Banks submitting viable capital raising plans** will be given the opportunity to apply for and receive public support in a manner that preserves private sector incentives to inject capital and thus minimizes the burden for taxpayers. Specifically, banks will be able to access capital from the Hellenic Financial Stability Fund (HFSF) through common shares and contingent convertible bonds.
 - **We will ensure that Greek banks have business autonomy both de jure and de facto.** The voting rights of the HFSF for the common shares it holds will be strictly limited to specific strategic decisions (unless the private participation in the form of common shares is less than a given minimum percentage of the bank's total capital needs). This percentage will be defined in the amended HFSF law. The shares and/or the voting rights acquired by the HFSF shall not be transferred or sold to any other state-related entity in any form. Private shareholders will be given incentives to purchase HFSF-held shares. A ministerial decision in line with EC, ECB and IMF advice shall provide the technical details of the banks' recapitalization framework, embodying these principles, by end-March 2012 (proposed as a **structural benchmark**).
 - **Banks that do not submit viable capital raising plans and do not raise the capital needed to meet the regulatory requirements within the deadline set by the Bank of Greece** will be resolved in an orderly manner and at the lowest cost to the State, in a way that ensures financial stability and which follows the overall strategic plan for resolved banking system assets. Resolution options will include the tools available under the law such as, inter alia, purchase and assumption (transfer order), interim credit institution (bridge banks), and orderly wind down.

- **Follow up.** To ensure that the system remains well-capitalized, the Bank of Greece will by end-June 2013 conduct a new stress test exercise, based on end-2012 data, using a methodology determined in consultation with the EC/ECB/IMF (proposed as a **structural benchmark**).

18. **We will enact legislation to support our strategy for bank recapitalization and resolution (prior action):**

- **Capital adequacy requirements.** The banking law (3601) will be amended to enable the Bank of Greece to set new bank capital standards through regulation, and the Bank of Greece will introduce regulations to phase in the foreseen increases in Core Tier 1 requirements.
- **Technical aspects of bank resolution.** Building on the recent changes in the bank resolution framework and the experiences gained so far, we will clarify the procedures and responsibilities for the valuation of assets and liabilities and thus for the opening balance sheet of the interim credit institutions. We will also clarify that resolution should proceed in a manner that minimizes costs to the HFSF. In this context, we will strengthen the framework to ensure that future resolutions initially use conservative asset valuations of failed banks' assets, based on fair value, and subsequently allowing for a proper due diligence and revaluation followed by complementary asset transfers within a specified time period. We will also identify the legislative impediments to a flexible management of employment contracts in the context of bank resolutions and adopt the needed legislative changes to remove them.
- **Recapitalization framework.** The HFSF law will be amended to allow the use of contingent convertible bonds and to provide for restrictions on HFSF voting rights for a 5 year period. The voting rights of the HFSF for the common shares it holds will depend on the size of the capital injection by private investors via common shares. If this injection is below a given minimum percentage of a bank's total capital needs (to be defined in the HFSF law), the HFSF will have full voting rights. The HFSF shall hold its shares for a period of two years, with the possibility to extend for an additional two years for financial and market stability reasons. If instead this private injection is larger than this percentage, the HFSF voting rights will be strictly limited to specific strategic decisions. In this case, the legal framework will be revised to allow the HFSF to hold bank shares for five years.
- **Resolution framework.** We will introduce a clear separation of the supervisory, resolution and restructuring functions. In particular, the legal framework shall vest resolution responsibilities in a separate department in the BoG and restructuring responsibilities (pertaining to management of all temporary credit institutions) in the HFSF. As regards interim credit institutions, the Bank of Greece will continue

pursuing its financial stability role, notably via its supervisory authority, while the HFSF will continue aiming at safeguarding its investments.

- **Framework for managing non-performing loans.** Separate from the prior action, during Q2 2012 we will prepare changes to the legal framework for addressing non-performing loans and those at risk of becoming non-performing, with input from international experts and in line with EC/ECB/IMF advice. Any changes will be guided by several principles, including the need to: target our interventions (and in line with fiscal and financial sector capacity); preserve the payment culture and avoid strategic loan defaults; maximize asset recovery; and facilitate market distinctions between rehabilitation of viable borrowers and the efficient exit from the economy of non-viable borrowers.

19. **The government will ensure that enough financing is available to provide for recapitalization and resolution needs.** Total bank recapitalization needs and resolution costs are estimated to amount to €50 billion. The timing of transfers to the HFSF will take into account the expected timeline for bank resolution and recapitalization, and requirements for continued ECB liquidity support. Funds received via program disbursements will be deposited in the HFSF's ring-fenced account.

20. **We are committed to preserve continued access to central bank liquidity support.** The Bank of Greece, following Eurosystem procedures and rules, will stand ready to continue disbursing adequate appropriate emergency liquidity support in a timely manner. 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. To this end, medium-term funding plans will be updated after completion of the recapitalization and restructuring exercise to ensure that the gradual unwinding of exceptional liquidity support proceeds at a pace consistent with the program's macroeconomic, fiscal, and financial framework.

21. **The government will enact legislation to strengthen governance arrangements in financial oversight agencies (prior action):**

- **Hellenic Financial Stability Fund:**
 - The Board of Directors will reorganize the HFSF to introduce legislation to clarify that the HFSF shall have two departments, responsible for separate functions:
 - A department responsible for managing its ownership interest in banks on behalf of the government. In this capacity, its mandate shall be to ensure that the banks under its stewardship operate on a commercial basis and are restored to a well-functioning and profitable part of the Greek financial sector, which can eventually be returned to private ownership in an open and transparent manner.

- A department for management of interim credit institutions (bridge banks), established following the resolution of non-viable banks. It will undertake this role in a cost-effective manner, based on a comprehensive strategy agreed by the BoG, MoF and HFSF, and in compliance with EU state aid rules. From time-to-time, this function may require funding to accomplish its restructuring role. Such funding will be reduced, either partly or entirely, by a contribution from the HDIGF Depositor Branch to the extent of its obligations for deposit insurance.
- We will introduce legislation to changes the HFSF's governance structure to include a General Council and an Executive Board:
 - The General Council shall have five members: two members, including the Chair, with relevant international experience in banking, one other member, one representative from the MoF, and one member nominated by the BoG. All members shall be appointed by the Minister of Finance with the approval of the Euro Working Group (EWG); other than the representative from the MoF and the nominee from the BoG. EC and ECB observers on the Council will be maintained.
 - The Executive Board shall have three members: two members—one of which shall be the CEO—with international experience in banking and bank resolution, and one member nominated by the BoG. All members shall be appointed by the Minister of Finance with the approval of the EWG. Staff and officials of the BoG shall not sit on the Board of the HFSF. EC and ECB observers will be present on the Executive Board.
- We, in consultation with HFSF, will adopt regulations to help the HFSF execute its mandate with full autonomy and at the same time coordinate effectively with the MoF. It will cover reporting lines and frequencies, strategic decision-making (and the involvement of the MoF therein), investment mandate and business plan, relationship with the MoF (in its role as shareholder in the HFSF), and remuneration policy.
- **Hellenic Deposit & Investment Guarantee Fund.** We will strengthen the funding of the HDIGF Depositor Branch by revising the HDIGF Law to: (i) prescribe that fees shall be increased if its funds fall below a certain level of coverage of insured deposits, which should be set taking due account of developments in the financial system; (ii) ensure adequate diversification of re-deposits of HDIGF funds and to gradually eliminate re-deposits in covered banks, as developments with the restructuring of the Greek banking sector permit; and (iii) clarify that the HDIGF's status as privileged creditor does not impinge on claims secured with financial collateral in the sense of the financial collateral directive. With a view to limiting

any real or perceived conflicts of interest we will prohibit HDIGF board membership for individuals who are actively involved in credit institutions and introduce in the law strong conflict of interest rules for Board members.

22. **We will also reform governance arrangements in the Bank of Greece.** In light of the BoG's responsibility for resolution, restructuring, and supervision, we will revise the BoG Statute to provide for collegial decision-making at the level of executives (Governor and Deputy Governors) and ongoing accountability through internal oversight by nonexecutives in the General Council (also including oversight in matters other than ESCB-related tasks). We will also revise the structure and rights of BoG shareholders to eliminate possible conflicts of interest in the Bank of Greece's public policy role (e.g. prohibiting supervised institutions from shareholdings and setting a cap on the number of votes that each or related private shareholders can exercise). We propose that this become a **structural benchmark** for end-December 2012.

D. Privatization

23. **Under the program, we aim to accomplish a fundamental shift of public assets to private sector control.** Transferring assets in key sectors of the economy (such as ports, airports, motorways, energy, and real estate) to more productive uses through privatization and concessions should help encourage FDI and other private investment, supporting the economic recovery and long-term growth. It will also help to reduce public debt, contributing to improved market sentiment over time and supporting Greece's return to bond markets. The government is determined to overcome the challenges posed by market conditions and clean the assets from technical and legal complexities, and the program defines targets and the steps towards achieving these.

24. **The assets comprising the privatization program have been identified.** The list includes state enterprises, concessions, and real estate (Annex IV) along with any bank assets either previously owned or to be acquired during the recapitalization process. Given the assets targeted for sale, the government anticipates €50 billion in proceeds over the lifetime of the asset sale program, including at least €19 billion through 2015. Because many of these assets are encumbered, and with current poor market conditions, we expect it to take time beyond the program period to realize the full amount of proceeds. We will annually update the expected value of proceeds over the timeframe in question, and to the extent proceeds fall short of target, we will identify additional assets to be brought into the program, including stakes in public corporations not now included. In light of the need for assets to use in and backstop the privatization program, we will not transfer any public assets to the recently established pension fund SPV (and we will consult with the EC/ECB/IMF staff on a mutually agreed approach to manage this SPV). The program will monitor progress towards objectives via quarterly indicative targets.

25. **The privatization process for each asset is in general expected to comprise several stages.** This includes most prominently transferring the asset to the privatization fund and

appointing the advisors. Other steps include, restructuring of the asset, filling in public policy and regulatory policy gaps, design of the tender process, EC clearances (for procurement, competition and state aid), running the tender, and obtaining all of the necessary by-law approvals.

26. To move the privatization process forward in 2012, we will take a number of steps:

- **Appointment of advisors.** We expect to appoint by end-March 2012 all remaining advisors for thirteen 2012/13 projects which do not currently have all their advisors.
- **Transfer of assets to the privatization fund (HRADF).** By end-March 2012, all assets included in the MTFS will be transferred, except banking shares and loss making assets which HRADF cannot finance before their privatization (TRAINOSE, ELVO, EAS). Also the remaining balance of the shares of the two large ports (OLP and OLTH) will be transferred. Real estate assets will be transferred at HRADF's request from the Government Real Estate Company (ETAD). Shares already transferred or to be transferred to the HRADF will be provided their voting rights in full so that the HRADF will be able to make all the changes necessary for the swift privatization of each asset.
- **Preparations of state-owned enterprises.** We will work with the EU authorities to obtain clearance for state aid for the lottery, DEPA/DESFA, EAS, OPAP and ODIE, and develop the necessary regulatory frameworks with assistance from the EU Task Force for Greece. Ministries and other public bodies will expedite administrative decisions and/or special legislation to facilitate privatizations.
- **Preparation of real estate assets.** The government will correct legal and technical deficiencies, expedite zoning, and issue required permits for real estate assets. It has requested technical assistance from the Task Force to develop a comprehensive land registry, and in this context, the HRADF will register 3,000 plots by end-June.
- **Policy coordination.** The government will formulate new policies regarding the use of assets (e.g. town planning, REITS) and set up new regulatory authorities and frameworks (e.g. for water, ports, airports, motorways). The Task Force for Greece is expected to support the government through technical assistance.
- **Offer of assets for sale.** We intend to launch some landmark asset sales in the first half of 2012, such as DEPA/DESFA, HELPE, OPAP, EYDAP, EYATH, and IBC, and in the second half of the year to proceed with tenders for the ports, airports and Egnatia Odos motorway.

27. We remain committed to a process insulated from political pressures. The HRADF has been set up to operate under a mandate to privatize assets at prevailing market

conditions as soon as technically feasible and in an open and transparent manner. Under the HRADF, assets will be overseen and directed so as to accelerate their transfer to the private sector. The HRADF will not be able to transfer assets back to the general government, and if it is determined by the Board that an asset cannot be sold in its current form, it will be sold in pieces or liquidated. The Fund is able to raise money, on market terms, but cannot grant liens over any of its assets if this might prevent or delay the relevant assets from being privatized. The Fund will return all proceeds received to the government without delay.

E. Structural Reforms

28. **As noted above, the government's most pressing priority is to restore competitiveness and economic growth.** We recognize a need to significantly accelerate the implementation of comprehensive and deep structural reforms aimed at boosting employment, output, and productivity growth by liberalizing labor, product, and service markets and removing existing barriers in the business environment. However, as these will likely require some time to fully translate into sustained growth, we will also take upfront measures to allow a reduction in nominal wages to rapidly close our competitiveness gap and lay an earlier foundation for sustained growth.

29. **The government will take actions to improve the functioning of the labor market.** Rigidities in the labor market are preventing wages from adjusting to economic conditions and are pushing labor into the informal sector. To protect employment and close Greece's competitiveness gap more rapidly, the government intends to target a reduction in unit labor costs of about 15 percent during the program period. If the ongoing social dialogue is unsuccessful in identifying concrete solutions, then to achieve this goal the government will take legislative measures in the urgent public interest to allow wage and non-wage costs to adjust as needed. The package of labor market measures that will be implemented includes:

- **Structural measures to level the playing field in collective bargaining.** The key measures we will enact into law (as a **prior action**) include:
 - ***Length of collective contracts and revisions of the 'after effects' of collective contracts.*** Changes will specify that: (i) all collective contracts should have a maximum duration of 3 years; (ii) collective contracts already in place for 24 months or more will expire not later than one year after the law is adopted; (iii) the grace period after a contract expires is reduced from six to three months; and (iv) in the event that a new collective agreement cannot be reached after three months of efforts, remuneration will revert back to the basic wage plus the following general allowances (seniority, child, education, and hazardous). This will continue to apply until replaced by terms specified in a new collective agreement or in new or individual contract.

- ***Removal of ‘tenure’ in all existing legacy contracts*** in all companies. The new legal provision will automatically transform contracts with definite duration (defined as those expiring upon age limit or retirement) into indefinite duration contracts for which standard layoff procedures apply.
- ***A freeze of ‘maturity’*** provided by law and/or collective agreements (referring to all automatic increases in wages dependent on time) until unemployment falls below 10 percent.
- ***Elimination of unilateral recourse to arbitration***, allowing requests for arbitration only if both parties consent. At the same time, we will clarify (by law or circular) that: (i) arbitrators are prohibited to introduce any provisions on bonuses, allowances, or other benefits, and thus may rule only on the basic wage; and (ii) economic and financial considerations must be taken into account alongside legal considerations.
- **Adjustment of wage floors.** This will help ensure that as the economy adjusts, and collective bargaining agreements respond, firms and employees do not find themselves bound at a lower limit (and a limit which is very high in international comparison):
 - We will legislate: (i) an immediate realignment of the minimum wage level determined by the national general collective agreement by 22 percent at all levels based on seniority, marital status and daily/monthly wages; (ii) its freeze until the end of the program period; and (iii) a further 10 percent decline for youth, which will apply generally without any restrictive conditions (under the age of 25) (**prior action**). These measures will permit a decline in the gap in the level of the minimum wage relative to peers (Portugal, Central and Southeast Europe). We expect this measure to help address high youth unemployment, the employment of individuals on the margins of the labor market, and to help encourage a shift from the informal to the formal labor sector.
 - Together with social partners, we will prepare by end-July 2012 a clear timetable for an overhaul of the national general collective agreement. This will bring Greece’s minimum wage framework into line with that of comparator countries and allow it to fulfill its basic function of ensuring a uniform safety net for all employees.
- **Adjustment to non-wage labor costs.** To help reduce non-wage costs and foster employment, we will bring the labor tax wedge in Greece broadly into line with European peers:
 - We will enact legislation to reduce IKA social security contribution rates for employers by 5 percentage points, and implement measures to ensure that this is

budget neutral. Rates will be reduced only once sufficient measures are in place to cover revenue losses. The measures to finance rate reductions will be legislated in two steps. First, as a **prior action**, we will enact legislation to close small earmarked funds engaged in non-priority social expenditures (OEK, OEE), with a transition period not to exceed six months. Second by end-September 2012, we will adjust pensions (with protections for low-income pensioners), and broaden the base for contribution collections (proposed as a **structural benchmark**).

- As an additional measure, by end-September we will prepare jointly with social partners an actuarial study of first pillar occupational pension schemes in companies with excessive social security costs (relative to comparable firms or industries covered by IKA) and finalize a list of concrete proposals to eliminate this differential in a fiscally neutral manner.
- **Follow up work.** We will review on an ongoing basis the effects of these measures on the labor market and unit labor costs and, if necessary, are prepared to take additional corrective measures to facilitate collective bargaining, in order to ensure wage flexibility and higher employment. If by end-2012 effects on the labor market remain elusive, we will consider more direct interventions.

30. **The program will, like our previous program, place deep emphasis on product and service market reforms.** The slow response of inflation to the current crisis, even after adjusting for taxation and energy prices, suggests that rigidities remain in such markets. These will need to be addressed in tandem with labor market reforms to facilitate the pass-through from wages to prices. Our strategy will consist of prioritizing and phasing service sector reforms while pushing forward with product market reforms:

- **Service sector reforms.** As a **prior action**, we will abolish restrictions in 20 high value and/or highly restricted professions, from the list of professions and economic activities covered in Annex II of KEPE's "Second Report on the Impact of Liberalizing Regulated Professions." We will also publish the ministerial decision establishing the road haulage license price in line with administrative costs. Looking forward, by end-March we will prepare a detailed quarterly timetable for 2012 for the screening and cleaning of existing legislation prioritized according to economic performance, and again drawn from Annex II of the KEPE report (completion of this work by end-2012 is proposed as a **structural benchmark**). Finally, for professions where reinstatement of restrictions is required in line with the principles of necessity, proportionality, and public interest, we will pass the required legislation no later than end-June and upon consultation with the Hellenic Competition Commission and in line with EC/ECB/IMF advice.
- **Product market reforms.** To promote price flexibility, by April 2012 we plan to

screen the retail, wholesale, and distribution sectors and prepare an action plan to promote competition and facilitate price flexibility in product markets.

31. **The government is committed to continue with improvements in Greece's business environment.** A number of reforms initiated in 2011—fast-tracking investments, speeding up licensing procedures and facilitating electronic business registration—will be fully implemented this year. These reforms are key to promoting investment and exports, and will boost growth once the recovery takes hold.

- By end-March, we will enact and publish legislation facilitating investment and exports:
 - We will enact legislation which: (i) improves the functioning of the fast-track investment law (by making the framework available to more projects, lowering fees, and relaxing financing requirements), and (ii) eliminates the registration requirement in the Export Registry and simplifies export legislation.
 - Moreover, we will publish the main secondary legislation required to implement the licensing laws covering technical professions, manufacturing activities, business parks, and environmental licensing.
- By end-March we will also establish timetables with the key steps needed to complete (by end-December) the implementation of an electronic export window, e-customs, and the new electronic environmental register, as well as to fully implement the two licensing laws.

32. **In support of efforts to improve the business climate, we will advance our medium-term reform agenda aimed at improving the efficiency of the judicial system.** Greece's judicial system is highly inefficient, with significant backlogs despite a relatively large number of courts and judges. Complex judicial procedures, cumbersome execution of court decisions, lack of transparency, and disconnect between court performance and budgeting, have negatively affected FDI, other private investment, entrepreneurship, exports, and employment. In this regard, our efforts will focus on:

- ***Addressing the case backlog in the courts.*** We are committed to meet the objectives and implement the measures specified in our January 2012 work plan for the reduction of tax cases backlog through setting semi-annual milestones, including by placing priority on high-value tax cases exceeding €1 million). Regarding the non-tax case backlog, we have commissioned a study to be completed by end-June, on the basis of which we will draw up an action plan (by end-August) with specific targets for the clearance of all backlog cases.
- ***Speeding Up Case Processing:*** We plan to speed up civil and administrative case processing through the adoption (by end-March) of a law aimed at improving the

efficiency of administrative court proceedings (including by streamlining procedures for group adjudication of similar administrative cases) and requiring submission of decisions in electronic form by administrative and civil judges.

- ***Improving the Performance and Accountability of Courts:*** To improve the effectiveness of magistrate courts, secondary legislation will be published by end-May, merging existing courts to reduce their number. To improve transparency, at end-March the Ministry of Justice will start publishing detailed court information on its website. This quarterly exercise will initially cover data for tax cases. These actions will help set the stage for the design (by end-September) of a performance framework for all courts, including the development of a dependable data management system, and a workload measurement system.
- ***Reforming the Code of Civil Procedure:*** By end-March, we will establish a task force to review the Code of Civil Procedure so as to bring it in line with international best practices. By end-June, the task force will issue a concept paper identifying the core issues and bottlenecks in the pre-trial, trial, and enforcement stages of civil cases and set out proposed solutions. Following its issuance, we will consult with domestic and international experts, such that, by end-December, a detailed paper can be prepared outlining the main proposals for amendments to the Code of Civil Procedure.

33. **The government will accelerate efforts to improve structural reform management and monitoring.** To this end, by March we will implement a directorate of planning, management, and monitoring of reforms. Starting with end-March, we will start publishing on a quarterly basis monitoring indicators for each reform initiative on the government's website. Our efforts to carry out our ambitious reform agenda (including for judicial reform, screening of legislation for closed professions, and using the competition toolkit to identify rigidities in product markets) will be supported by the Commission's Technical Assistance Task Force.

F. Program Financing

34. **Greece will face sizable balance of payments financing needs during the program period.** It is expected to take time for Greece to restore sovereign market access, given the long process of reforms and adjustment ahead, and the projected government debt trajectory. Given the insufficient level of domestic savings to finance these needs (alongside private investment), we expect to face sizable balance of payments financing needs in the period ahead, which we anticipate to be covered through financial support from our European partners, the IMF, and private sector involvement (PSI) in the form of a comprehensive debt restructuring operation.

35. **We expect private sector involvement (PSI) to help Greece achieve debt sustainability and to cover a significant portion of our financing gap.** While the measures outlined above would bring about an improvement in the fiscal accounts, they would not by themselves close the financing gaps and put debt on a sustainable path. Accordingly, with the assistance of our debt advisors, and after consultations with creditors, we have launched a comprehensive debt exchange offer, covering a pool of government debt of €205.6 billion.¹ Our program assumes that the financial contribution of the private sector through the debt exchange, together with the official sector support, will deliver a debt to GDP ratio of 120 percent by 2020 (given anticipated macroeconomic and policy developments). We recognize that this financing is essential to the program and securing it is necessary to give the program financing assurances. We expect the debt exchange offer to be successfully completed prior to the meeting of the IMF Executive Board to consider our request for an Extended Arrangement under the EFF.

36. **Beyond our request to the Fund for a 4 year EFF from (in an amount of SDR 23.7853 billion, or 2,158.8 percent of quota), we have secured additional financial resources from our European partners to fill remaining needs.** Euro area partners have committed a total of €144.7 billion over 2012–14. They have also committed to support Greece for as long as it takes to restore market access, provided Greece implements and adheres to its policy program. Finally, to ensure that this financing places Greece on a sustainable debt trajectory, to deliver a debt-to-GDP ratio of about 120 percent by 2020, with continued declines thereafter, they have committed to: (i) new lending at maturities of 30 years and at close to funding costs, using the EFSF as a financing vehicle; (ii) reduce the margin of the Greek Loan Facility to a uniform 150 basis points; and (iii) for eurozone countries where central banks currently hold Greek government bonds in their investment portfolio, pass on to Greece an amount equal to any future income accruing to their national central bank stemming from this portfolio until 2020.

G. Program Modalities

37. **Progress in the implementation of the policies under this program will be monitored through quarterly reviews and consultations, as well as via quarterly (and continuous) quantitative performance criteria (PCs) and indicative targets, and structural benchmarks.** These are detailed in Tables 1 and 3. The attached Technical Memorandum of Understanding (TMU) defines the quantitative performance criteria, indicative targets, and various benchmarks under the program. Quantitative targets up to end-December 2012 are PCs. Targets for 2013–15 are indicative and for 2013 will be converted into PCs at the time of the second review. It is expected that the first and second reviews under the Extended Arrangement take place by end-June and end-September 2012. A Memorandum of Understanding (MoU) on specific policy conditionality agreed with the

¹ See: www.greekbonds.gr

European Commission, on behalf of the euro-area Member States, specifies additional structural policies, and sets a precise time frame for their implementation.

38. **In the context of the arrangement, the Bank of Greece will undergo an updated safeguards assessment in accordance with the IMF safeguards policy.** Given that Fund disbursements will be deposited into the government's single treasury account at the BoG, the existing Memorandum of Understanding between the Ministry of Finance and the BoG will be updated.

Annex I: Pending Fiscal Measures

From the July MTFS
<ul style="list-style-type: none"> • Government to enact a framework law to reform supplementary pensions, to generate savings of 0.4 percent of GDP by 2014 (in line with MTFS estimates) • Issue MDs for the implementation of the business tax (Article 31 of Law 3986)
From the end-October implementation bill
<ul style="list-style-type: none"> • Issue the 4 pending MDs to fully implement the new wage grid (see TMU) • Pass law to establish deadline for implementation of the wage grid reform in the general government and the recovery of wage overpayments since November 1, 2011 • Issue MD to bring down the transfer time from PPC of the property tax proceeds to 10 days after the end of each month
From the November prior actions
<ul style="list-style-type: none"> • Issue the pending MDs on the closure/merger of extra-budgetary funds • Update the positive list mechanism to deliver the 2012 savings target of €250 million

Annex II. Measures to reach the 2012 deficit target

<ul style="list-style-type: none"> • Pass a supplementary budget with a primary deficit target of 1 percent of GDP for 2012 that reflects all of the changes that follow.
<ul style="list-style-type: none"> • Reduce operational spending of the state by €200 million Adjust other spending by €280 million: election spending, subsidies for remote areas; allocations for the ministry of education, (including for service abroad; staff allowance for universities, alternate teachers in secondary schools; operational spending of high schools); allocation of the ministry of agriculture; and transfers to entities.
<ul style="list-style-type: none"> • Reduce pensions in OTE, DEI, ETE, ATE, ETVA, Emporiki, Ex-Olympic Airways and in all other main pension funds, above the monthly amount of €1,300, by 12 percent, effective January, 2012. Reduce supplementary pensions between €200–250 by 10 percent, between €250–300 by 15 percent, and above €300 by 20 percent, effective January 1, 2012.
<ul style="list-style-type: none"> • Eliminate all family allowances for families with annual incomes above €45,000, with the exception for families with 5 or more children, effective January 1, 2012.
<ul style="list-style-type: none"> • Cut domestic investment spending by €400 million relative to the 2012 budget.
<ul style="list-style-type: none"> • Implement a 1:10 hiring to attrition rule in the state-owned enterprises for 2012.
<ul style="list-style-type: none"> • In local governments: (i) reduce wages of all political employees by 10 percent (effective January 1, 2012); and (ii) issue a decision to reduce the number of fixed term contracts, and to limit the number of these paid from the state budget.
<ul style="list-style-type: none"> • Take actions (all laws, Ministerial Directives (MDs), and circulars) to limit overprescribing of pharmaceuticals and reduce generic costs: <ul style="list-style-type: none"> ➤ Pass law and issue MDs to set maximum price of generics to 40 percent and for off-patented products to 50 percent of patented products. ➤ Reduce profit margins for pharmacies to below 15 percent and wholesale margins to a maximum of 5 percent. Establish a fixed rate of €30 for all medicine above €200. Increase rebate for pharmacies with turnover above €35,000 by average 1½ percent. ➤ Pass law on rebates that will yield €250 million; pass law on an additional rebate covering 2012–15 to be paid if outpatient pharmaceutical spending (including taxes), retroactive to January 1, 2012 exceed €240 million per month. ➤ Make compulsory: electronic prescription for all doctors (and only reimburse pharmacies for electronic entries); prescriptions of the cheapest product by active substance; international protocols for 160 diseases, including the 10 most expensive. ➤ Update negative list; issue MD to allow for intakes of new brands into the positive list only if they have been included by two-thirds of EU countries.

Annex III. Upfront Revenue Administration Reforms

<i>Meeting end-2011 targets</i>
<ul style="list-style-type: none"> • General Secretariat for Tax and Customs to meet end-2011 revenue administration performance indicators (full scope and VAT audits of large taxpayers).
<i>Amnesty reversal</i>
<ul style="list-style-type: none"> • Amend the recent “Omnibus bill” to repeal/modify articles 3 and 21 (to eliminate the extension of payment terms of tax debt, and eliminate the suspension of criminal prosecution and asset freezing).
<i>Regulations</i>
<ul style="list-style-type: none"> • Amend the Bank of Greece's decisions on the reporting by financial institutions, to the Financial Intelligence Unit, of suspicious transactions linked or related to tax evasion (Decisions 285/2009 and 281/2009) to enhance monitoring and detection mechanisms. • Take measures to ensure that complaint reports related to confirmed unpaid tax debts arising from an audit are transmitted to the prosecution services and to the FIU, as required under the system in place. • Make it compulsory for large tax cases to exhaust the administrative dispute phase before accessing judicial appeals. • Tighten rules concerning suspension of payment of taxes in dispute when accessing judicial appeals (Article 202, Administrative Procedure Code).
<i>Delegation of powers</i>
<ul style="list-style-type: none"> • Minister of Finance to issue decisions to delegate from the ministerial to the administrative level the control powers over core business activities and human resource management. • Place under direct control and management of GSTC headquarters the collection of large debts, and focus activities in the largest 35 tax offices.

Annex IV. Privatization Program

Timing of Privatization (launch)	Project	Transferred to Fund	Advisors contracted	Intermediate steps
I. State-owned enterprise/share sale				
2012 Q1	Public Gas (DEPA)	✓	✓	Call for tender launched in February 2012.
Q1	Public Gas (DESFA)	✓	✓	Call for tender launched in February 2012.
Q1	Football Betting (OPAP)	✓	✓	State aid clearance.
Q2	Hellenic Defense Systems (EAS)	1/	✓	Clearance by Ministry of Defense. Adopt restructuring law by April 2012. State aid clearance.
Q2	Hellenic Petroleum (HELPE)	March 2012 2/	March 2012	Sign MoU with Paneuropean by April 2012.
Q2	Athens Water (EYDAP)	✓	March 2012	Establish regulator and pricing policy by June 2012. Extend concession.
Q2	Horse Racing (ODIE)	March 2012 2/	✓	Adopt restructuring law and establish time-bound concession rights by March 2012. State aid clearance.
Q2	Athens Water (EYDAP)	March 2012	March 2012	Establish regulator and pricing policy by June 2012. Extend concession.
Q2	Thessaloniki Water (EYATH)	March 2012	March 2012	Establish regulator and pricing policy by June 2012. Extend concession.
Q2	Mining and Metallurgical Company (LARCO)	March 2012 2/	✓	Adopt restructuring law by March 2012.
Q2	Hellenic Post (ELTA)	1/	March 2012	Adopt law determining the public service by February 2012.
Q2	Casino Mont Parnes	1/	March 2012	State aid clearance.
Q2	Electricity Company (PPC)	1/	March 2012	Restructuring to be decided by June 2012.
Q3	Hellenic Vehicle Industry (ELVO)	1/	March 2012	Adopt restructuring law by June 2012.
Q4	Railways (Trainose)	1/	August 2012	Ongoing restructuring and last phase of state aid clearance by June 2012.
Q4	Athens Airport (AIA)	March 2012 2/	✓	Re-approach Hochtief Airports by June 2012.
II. Concessions				
2011 Q4	Hellenic Motorways	✓	March 2012	Complete negotiations. Ratify changes in concession. Establish regulatory framework by end-2012.
Q4	State Lottery	✓	✓	Expected financial offer from the three bidders by April 2012.
2012 Q2	Egnatia Odos	✓	March 2012	Unbundling into services/motorway rights. Establish regulatory framework by end 2012.
Q3	Small ports and marinas	1/	✓	Identify policy. First lot of rights transferred by March 2012. Est. regulatory framework by Sept. 2012
Q3	Regional airports	✓	March 2012	Identify proper policy. Establish regulatory framework by September 2012.
Q4	Thessaloniki Port (OLTH)	March 2012 2/	March 2012	Identify policy. All share voting rights transferred by March 2012. Est. reg. framework by Sept. 2012
Q4	Piraeus Port (OLP)	March 2012 2/	March 2012	Identify policy. All share voting rights transferred by March 2012. Est. reg. framework by Sept. 2012
Q4	Large regional ports	1/	March 2012	Identify policy. All share voting rights transferred by March 2012. Est. reg. framework by Sept. 2012
Q4	South Kavala Gas Storage	✓	March 2012	Clear legal obstacles by September 2012.
To be determined	Mining rights	✓		
To be determined	Digital dividend			
III. Real Estate				
2011 Q4	Hellenikon 1	March 2012 2/	✓	Adopt law on land use by March 2012.
2012 Q1	Sale/repurchase buildings	✓	✓	Government to sign rental contracts by May 2012. Transfer clean title to the HRADF by May 2012.
Q1	Real Estate IBC	March 2012	✓	Strategic environmental study. ESCHADA to be issued by June 2012. 3/
Q1	Real Estate/Astir Vouliagmenis	1/	✓	Negotiations with NBG. ESCHADA to be issued. Process led by NBG by June 2012.
Q1	Real Estate/Cassiopi	March 2012	✓	Move NATO radar. ESCHADA to be issued by June 2012.
Q1	Real Estate lot 1 (Afantou)	1/	✓	ESCHADA to be issued by June 2012.
Q2	Real Estate lot 2	1/	✓	Identify assets by June 2012.
Q3	Real Estate lot 3	1/	✓	Identify assets by September 2012.

Source: HRADF update on projects under development.

1/ Transfer of assets/rights at the point of privatization.

2/ Shares have already been transferred, but not yet voting rights.

3/ ESCHADA = Zoning and land planning permit.

Table 1. Greece: Quarterly Performance Criteria and Indicative Targets (2012-15 Program)
(billions of Euros, unless otherwise indicated)

	2012				2013	2014	2015
	Mar-12	Jun-12	Sep-12	Dec-12	Dec-13	Dec-14	Dec-15
	Progr. 1/	Progr. 1/	Progr. 1/	Progr. 1/	Progr. 2/ 5/	Progr. 3/ 5/	Progr. 4/ 5/
Performance Criteria (unless otherwise indicated)							
1. Floor on the modified general government primary cash balance	-2.5	-6.0	-6.3	-7.0	-0.2	8.8	8.1
2. Ceiling on State Budget primary spending	13.9	29.2	44.4	60.4	52.6	43.8	43.0
3. Ceiling on the overall stock of central government debt	340	340	340	340	..	..	..
4. Ceiling on the new guarantees granted by the central government	0.0	0.0	0.0	0.0	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 6/	0.0	0.0	0.0	0.0	0.0	0.0	0.0
6. Ceiling on the accumulation of new domestic arrears by Hospitals and Line Ministries 6/	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indicative Targets							
7. Ceiling on the accumulation of new domestic arrears by the general government 6/	0.0	0.0	0.0	0.0	0.0	0.0	0.0
8. Floor on privatization receipts 7/	0.03	0.03	1.20	3.2	7.5	11.0	16.0

1/ Cumulatively from January 1, 2012 (unless otherwise indicated).

2/ Cumulatively from January 1, 2013 (unless otherwise indicated).

3/ Cumulatively from January 1, 2014 (unless otherwise indicated).

4/ Cumulatively from January 1, 2015 (unless otherwise indicated).

5/ Indicative targets.

6/ Applies on a continuous basis from program approval.

7/ Calculated on a cumulative basis from January 1, 2012 and applied on a continuous basis from program approval.

Table 2. Greece: Prior Actions

Measures	Macro critical relevance	Status
Fiscal		
1. Government to fully implement all overdue MTFS measures (Annex 1).	To help restore fiscal sustainability.	Proposed.
2. Government to enact and implement measures needed to reach the fiscal deficit target in 2012 (Annex II).	To help restore fiscal sustainability.	Proposed.
3. Government to implement measures to strengthen tax administration operations (Annex III).	To improve tax collection.	Proposed.
Structural		
4. Government to legislate measures to level the playing field in collective bargaining, including: (i) removal of the 'after effects' of contract expiration; (ii) removal of 'tenure' in all existing legacy contracts; (iii) a freeze of 'maturity' in all private contracts; (iv) elimination of compulsory arbitration.	To promote competitiveness and employment.	Proposed.
5. Government to legislate a realignment of the minimum wage level determined by the national collective agreement by 22 percent; freeze it until the end of the program period, and a further 10 percent decline for youth, which will apply generally without any restrictive conditions.	To promote competitiveness and employment.	Proposed.
6. Government to close small social security funds and reduce other non-priority social security spending to allow a fully-funded reduction in social security contribution rates.	To promote competitiveness and employment.	Proposed.
7. Government to enact secondary legislation establishing license prices for road-haulage in line with administrative costs, and to screen specific service sector legislation and repeal or modify unnecessary and outdated regulations for an additional 20 high value and/or highly restricted professions to ensure full consistency with the law liberalizing restricted professions (3919).	To effectively deregulate key service sectors.	Proposed.
Financial		
8. Bank of Greece to undertake a comprehensive assessment of banks' capital needs.	Financial stability	Proposed.
9. Ministry of Finance to complete a detailed study on how to address ATE, based on work by the commissioned external audit firms.	Financial stability	Proposed.
10. Government to enact legislation to improve the framework for resolution and recapitalization to: (i) enable the Bank of Greece to set new bank capital standards through regulation, and to use this power to establish new Core Tier 1 requirements; (ii) remove impediments to a flexible management of employment contracts in the context of bank resolutions; (iii) ensure the use of conservative asset valuations for failed banks; (iv) allow the use of contingent convertible bonds in recapitalization; (v) introduce the possibility of restrictions on HFSF voting rights; and (vi) vest resolution responsibilities in a separate department in the BoG and systemic restructuring responsibilities in the HFSF.	To support effective recapitalization of banks	Proposed.
11. Government to enact legislation to improve the financial oversight framework. In particular, covering reforms to: (i) establish two departments in the HFSF mandated, respectively, to manage the government's ownership of banks and interim credit institutions; (ii) revise the HFSF's governance structure to include a General Council and an Executive Board; and (iii) address HDIGF funding arrangements, and to eliminate possible conflicts of interest within the HDIGF.	To strengthen governance arrangements for financial oversight agencies.	Proposed.

Table 3. Greece: Proposed Structural Benchmarks

Measures	Macro critical relevance	Status
End-March 2012		
1. A ministerial decree shall be issued to provide the technical details of the banks' recapitalisation framework	To strengthen financial sector resilience	Proposed.
2. Bank of Greece to complete a strategic assessment of banks' business plans.	To strengthen financial sector resilience	Proposed.
End-June 2012		
3. Government to adopt a budget-neutral tax reform package, including: (i) the repeal of the Code of Books and Records and its replacement by simpler legislation; (ii) the elimination of several tax exemptions and preferential regimes; (iii) simplification of the VAT and of the property tax rate structure; (iv) a more uniform tax treatment of individual capital income; and (v) a simplified personal and corporate income tax schedule.	To simplify the tax system, improve its efficiency, and broaden the tax base.	Proposed.
4. Government to complete the reviews of social spending programs to identify 1 percent of GDP in savings, while at the same time making proposals to strengthen core safety net programs.	To help achieve medium-term fiscal targets.	Proposed.
5. Government to complete the reviews of public administration to identify 1 percent of GDP in savings.	To help achieve medium-term fiscal targets.	Proposed.
6. Government to meet quantified quarterly performance indicators for revenue administration	To improve tax collection	Proposed.
7. Government to meet quantified quarterly performance indicators public financial management.	To contain arrears	
End-September 2012		
8. Government to complete the strategy for strengthening social security collections.	To improve social security collections.	Proposed.
9. Government to adjust pensions, with protections for low income pensioners, and the social security contribution base, to permit a fully-funded reduction in rates (cumulatively 5 percent from January 1, 2012)	To improve unit labor costs and competitiveness	
End-December 2012		
10. Government to meet quantified quarterly performance indicators for revenue administration	To improve tax collection	Proposed.
11. Government to meet quantified quarterly performance indicators for public financial management	To contain arrears	
12. Government to complete the screening and cleaning of existing legislation covering the list of professions and economic activities covered in Annex II of KEPE's "Second Report on the Impact of Liberalizing Regulated Professions."	To improve competitiveness	Proposed.
13. Government to reform the governance of the BoG, to provide for collegial decision-making at the level of executives (Governor and Deputy Governors) and expanded internal oversight by nonexecutives of the existing General Council, and to revise the structure and rights of BoG shareholders to eliminate possible conflicts of interest in the Bank of Greece's public policy role.	To strengthen financial sector stability	Proposed.
End-June 2013		
14. Bank of Greece will complete an additional assessment of capital needs based on end-2012 data.	To align capital buffers to banks' individual risk profiles	Proposed.

ATTACHMENT III. GREECE: TECHNICAL MEMORANDUM OF UNDERSTANDING

March 9, 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 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. We will also consult and provide information to the European Commission and the ECB in the same manner.

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

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, 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.

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 AND CONTINUOUS PERFORMANCE CRITERIA, INDICATIVE TARGETS, AND CONTINUOUS PERFORMANCE CRITERIA: DEFINITIONS AND REPORTING STANDARDS

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

4. **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, the change in net financial assets of local government, the change in net financial assets of social security, 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 (i) ordinary budget revenues (recurrent revenue plus non-recurrent revenue, including NATO revenues, but excluding tax refunds and all transfers related to the Eurogroup decision of February 21, 2012 (in regard to income of euro zone national central banks, including the BoG, stemming from their investment portfolio holdings of Greek government bonds)); minus (ii) 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, and transfers made from the special budget allocation for clearance of arrears to any general government entity) 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 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.
 - 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 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 ELEGEF), 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.
5. **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.

6. **Adjustor:** The floor on the modified general government primary cash balance will be adjusted upward by the difference between transfers to any general government entity made for the purpose of clearance of arrears from the special budget allocation and the arrears actual paid out of transfers from the special budget allocation. Timetable for the clearance of arrears from the special budget allocation included under the ceiling is reflected in Schedule A.

Schedule A: Payments made from the special budget allocation for clearance of arrears.
(in billions of Euro)

	2012				2013	2014	2015
	Mar-12 Progr. 1/	Jun-12 Progr. 1/	Sep-12 Progr. 1/	Dec-12 Progr. 1/	Dec-13 Progr. 2/	Dec-14 Progr. 3/	Dec-15 Progr. 4/
Payments made from the special budget allocation for clearance of arrears	0	0	1.3	4.0	0.0	0.0	0.0

1/ Cumulatively from January 1, 2012.

2/ Cumulatively from January 1, 2013.

3/ Cumulatively from January 1, 2014.

4/ Cumulatively from January 1, 2015.

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.
- Data on the amount of arrears cleared from the special budget allocation will be provided by the General Accounting Office in the Ministry of Finance within three 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, 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. **Adjustor:** The Ceiling of State Budget Primary Spending will be adjusted downward by the difference between transfers to any general government entity made for the purpose of clearance of arrears from the special budget allocation and the arrears actual paid out of transfers from the special budget allocation.

10. **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 Line Ministries and Hospitals (Performance Criterion)**

11. **Definition.** For the purpose of the program, domestic arrears of Line Ministries and Hospitals 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 non-accumulation of domestic arrears is defined as no increase in the stock of all general government arrears (including ordinary investment budget) outstanding at the end of every month, measured on cumulative basis, irrespective of the time period in which the unpaid commitments were entered into plus transfers to any General government entity made out of special budget allocation for clearance of arrears. This does not include the arrears which are being accumulated by the Civil Servants' Welfare Fund.

12. **Supporting material.** 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. The Ministry of Finance will 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 the 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. 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.

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

13. **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.

14. **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 the 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.

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

15. **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.

16. **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.

17. **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.

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

18. **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 paragraphs 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 above a total cumulative amount of €500 million per calendar year. Modification of existing guarantees (without changing the maturity, amount of guarantees, and beneficiaries of the loan) will not be treated as new guarantees. 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.

19. **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.

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

20. **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. For purposes of this program, the term “falling due” means the date in which external debt payments are due according to the relevant contractual agreement, including any contractual grace periods. The performance criterion will apply on a continuous basis throughout the program period.

21. **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.

H. Floor on Privatization Proceeds (Indicative Target)

22. **Definition.** Privatization proceeds will be defined as the cash receipts from the asset sales to be carried out by the privatization agency (HRADF) 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.

23. **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.

24. **Other.** For QPC monitoring, receipts from privatization are 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 established 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

25. **ESA Program Deficit.** For the purposes of the program, the ESA deficit (EDP B.9) 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). The ESA deficit will also exclude all transfers related to the Eurogroup decision of February 21, 2012 per schedule B (in regard to income of euro zone national central banks, including the BoG, stemming from their investment portfolio holdings of Greek government bonds).

Schedule B: Amounts to be Transferred to the Greek Government by Eurosystem National Central Banks.
(in millions of Euro)

	2012	2013	2014	2012-14	2015	2016	2017	2018	2019	2020	2015-20	Total
Total	654.4	606.1	478.8	1,739.3	595.5	537.7	440.3	349.3	269.3	168.6	2,300.1	4,099.9
o/w. from the BoG	305.3	275.8	236.2	817.3	331.5	312.7	289.3	271.3	234.7	150.7	1,590.2	2,407.5

Source: European Commission

26. **ESA Primary Balance.** For the purpose of the program, the ESA primary balance is defined as general government ESA95 balance (EDP B.9) plus ESA 95 general government consolidated interest payable (EDP D.41).

27. **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

28. **Benchmark on progress in revenue administration, 2012.** Progress in revenue administration in 2012 will be defined as reaching the targets set in table 1.

29. **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. Risk-based audits for large taxpayers are defined as audits selected on a risk basis using the ELENXIS audit management system.

30. **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.

31. **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 2.0

32. **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.

33. **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.

Table 1. Structural Benchmark in Revenue Administration

Area	Indicator	2012 targets 1/	
		end-June	end-December
Debt collection			
	a. Collection of tax debt as of end-December 2011 (million of euros)	1,000	2,000
	b. Collection of new debt accumulated in 2012 (percent of new debt)	20%	20%
Tax audits and collection of large taxpayers			
	a. Number of completed risk-based full-scope audits	150	300
	b. Number of completed risk-based temporary audits (VAT, Withholding, refunds, exemptions etc.)	150	325
	<i>Of which field audits</i>	25	100
	c. Collection of assessed tax and penalties from all risk-based full scope and temporary audits (percent of assessed tax and penalties)	50%	50%
Audits and collection for high wealth individuals			
	a. Number of completed new risk-based audits of high wealth individuals, as identified by the task force in 2011 2/	600	1,300
	b. Collection of assessed tax and penalties from all risk-based audits, as identified by the task force in 2011 (percent of assessed tax and penalties)	50%	50%
Audits and collection for VAT non filers			
	a. Number of completed risk-based VAT audits of VAT non-filers	5,000	10,000
	b. Collection of all assessed tax and penalties (percent of assessed tax and penalties)	20%	20%

1/ Cumulative target from January 1, 2012. Targets are defined net of the audits completed in the first two months of 2012 counted against meeting the end-2011 targets (prior action).

2/ The audits completed since January 2011 will amount to at least 1,700 audits as identified by the task force in 2011.

Table 2. Structural Benchmark in Public Financial Management

Area	Indicator	2012 targets 1/	
		end-June	end-December
Expenditure Controls			
	a. Percent of institutional units (State and general government entities) reporting (on the E-portal of GAO) total budget allocations (including any revisions), pending outstanding commitments, unpaid commitments, and arrears data (for both ordinary and investment) at the end of each month, based on data from their commitment registers.	70%	90%
	b. Discrepancy between the total arrears to third parties of non-state general government entities reported under the E-Portal of GAO using data from the commitment registers and the total arrears reported through monthly surveys (% of arrears)	25%	1%

1/ Cumulative target from January 1, 2012.

**ATTACHMENT IV. GREECE: LETTER OF INTENT TO THE EUROPEAN COMMISSION AND
THE EUROPEAN CENTRAL BANK**

Athens, 11 March 2012

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

Mr. Olli Rehn,
Vice President for Economic and Monetary Affairs and the Euro,
European Commission,
Brussels.

Mr. Mario Draghi,
President,
European Central Bank,
Frankfurt am Main.

Dear Messrs Juncker, Rehn and Draghi,

The attached Memorandum of Economic and Financial Policies (MEFP) and Memorandum of Understanding on Economic Policy Conditionality (MoU) outline the economic and financial policies that Greece will implement during the remainder of 2012 and in the period 2013-14. These policies aim to address Greece's competitiveness gap, support growth and employment, restore public finances to sustainability, secure financial system stability, and distribute the cost of adjustment in an equitable way, within our commitment to the common currency.

In support of our objectives, we have committed to a set of key policies, building on what has been achieved under the programme agreed in May 2010. This set of policies places strong emphasis on restoring growth and ensuring an equitable fiscal adjustment:

- To restore competitiveness and growth, our policies aim to accelerate the implementation of deep structural reforms in the labour, product and service markets. Indeed to give a strong upfront impetus to unit labour cost reductions, and protect employment, we have already reformed the collective bargaining framework and reduced the minimum wage as a prior action for this programme. And to reduce market rigidities, boost productivity, and increase long-term growth potential we are implementing reforms in product and service markets and improvements in the business environment.
- To bring the fiscal deficit to a sustainable position, while protecting the most vulnerable members of the population, our policies target bold structural spending and revenue reforms. The adjustment will be achieved through permanent expenditure reductions. Measures to this end have already been implemented as prior actions. These efforts will be supported on the revenue side by a tax reform to broaden the tax base and achieve a fairer distribution of the tax burden, and by revenue administration reforms to improve tax and social contribution, collection. To reinvigorate this crucial latter effort, we have taken prior actions to strengthen the tax administration.

- We have adopted a comprehensive banking sector strategy to secure a viable and well-capitalized private banking sector that supports the economic recovery and sustained growth. The banking system will be restructured and recapitalized following the upcoming sovereign debt exchange. We have completed a capital needs assessment and a plan for a large state-owned bank as prior actions. In support of these efforts, and as a further prior action, we have strengthened our resolution and financial oversight framework
- We remain committed to our ambitious privatization plans. Transferring assets in key sectors of the economy to more productive uses through privatization and concessions will encourage private investment and support long-term growth.

In support of our ambitious multi-year policy program, we request a financing arrangement, until end-2014, by the European Financial Stability Facility (EFSF) in the overall amount of EUR 144.7 billion (including the already committed or disbursed amounts for PSI liability management exercise and bank recapitalisation). At the same time, we are requesting financing by the IMF, under the Extended Fund Facility, in the amount of EUR 28 billion in a four-year arrangement, of which EUR 19.75 billion are expected to be disbursed by end-2014.

The implementation of our program will be monitored through quantitative performance criteria and structural benchmarks as described in the attached MEFP, MoU and Technical Memorandum of Understanding (TMU). The quarterly reviews will assess progress in implementing the program and reach understandings on any additional measures that may be needed to achieve its objectives.

We believe that the policies set forth in the attached memoranda are adequate to achieve the objectives under the programme. We stand ready to take any corrective actions that may become appropriate for this purpose as circumstances change. We will consult with the European Commission, the IMF and the ECB staff before the adoption of any such actions and in advance of revisions to the policies contained in these memoranda.

This letter is being copied to Ms Lagarde.

/s/

Lucas Papademos
Prime Minister

/s/

Evangelos Venizelos
Deputy Prime Minister and Minister of Finance

/s/

George Provopoulos
Governor of the Bank of Greece

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

The disbursements of financial assistance to Greece, by the European Financial Stability Facility (EFSF), 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 12 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.

Greece commits 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. The Government publishes a quarterly report in line with Article 4 of the Council Decision.

In line with the conclusions of the euro-area summit of 26 October 2011, the Government will fully cooperate with the Commission, the ECB and the IMF staff teams to strengthen the monitoring of programme implementation, and will provide the staff teams with access to all relevant data and other information in the Greek administration. However the ownership of the programme and all executive responsibilities in the programme implementation remain with the Greek Government.

1 FISCAL CONSOLIDATION*Budget implementation*

For **2012**, the annual general government primary deficit should not exceed EUR 2 037 million; and for **2013** and **2014** the primary surplus should be at least EUR 3 652 million and EUR 9 352 million, respectively.

Proceeds from the privatisation of financial and non-financial assets do not substitute fiscal consolidation efforts and will not be considered when assessing compliance with the annual general government deficit ceilings established in this memorandum and in the Council Decision. The bank recapitalisation-related flows will not be considered in the monitoring of annual general government deficit ceilings irrespective their recording in the ESA accounts by ELSTAT and Eurostat.

Prior to the first disbursement of the new programme, the Government adopts the following measures, through a supplementary budget, and other legal acts:

- Reduction in pharmaceutical expenditure by at least EUR 1 076 million, in 2012 by reducing medicine prices (generics, off-patent and branded medicines), increasing co-payments, reducing pharmacists' and wholesalers' trade margins, application of compulsory e-prescription by active substance and protocols, the update of the positive list of medicines and the implementation of a mechanism of quarterly rebates (automatic claw-back) to be paid by the pharmaceutical industry. (See below section 2.8).
- Reduction in overtime pay for doctors in hospitals by at least EUR 50 million.
- Reduction in the procurement of military material by EUR 300 million (cash and deliveries).
- Reduction by 10 percent in the remuneration of elected and related staff at local level and reduction in the number of deputy mayors and associated staff in 2013 with the aim of saving at least EUR 9 million in 2012 and 28 million in 2013 onwards.
- Reduction in the central government's operational expenditure, and election-related spending, by at least EUR 370 million (compared to the 2012 budget), of which at least EUR 100 million in military-related operational expenditure., and at least EUR 70 million in electoral spending.
- Reduction in operational expenditure by local government with the aim of saving at least EUR 50 million.
- Frontloading cuts in subsidies to residents in remote areas, and cuts in grants to several entities supervised by the several ministries, with the aim of reducing expenditure in 2012 by at least EUR 190 million.
- Reduction in the public investment budget (PIB) by EUR 400 million: this cut will be implemented through cuts in subsidies to private investments and nationally-financed investment projects. The reduction in the PIB will not have any impact on projects that are co-financed by structural funds (uncompleted project financed by the 2000–06 operational programmes, cohesion fund (2000–06) projects, 2007–13 operational programmes, and non-eligible expenditure related to the above projects, including TEN-T projects).
- Changes in in supplementary pension funds and pension funds with high average pensions or which receive high subsidies from the budget and cuts in other high

FISCAL CONSOLIDATION

pensions, with the aim of saving at least EUR 450 million (net after taking into account the impact on taxes and social contributions).

- Cuts in family allowances for high-income households, with the aim of saving EUR 43 million.

Prior to the disbursement, the Government also adopts the following pending acts:

- Ministerial Decisions for the implementation of the business tax (minimum levy on self-employed) provided for Article 31 of Law 3986/2011;
- Ministerial Decisions to complete the full implementation of the new wage grid in all the pertinent entities, and legislation on the modalities for the recovery of wages paid in excess from November 2011 afterwards.

By **end-June 2012**, the Government will legislate an average reduction by 12 percent in the so-called 'special wages' of the public sector, to which the new wage grid does not apply. This will apply from 1 July 2012 on and deliver savings of at least EUR 205 million (net after taking into account the impact on taxes and social contributions).

In order to prepare the measures that will be adopted with the 2013 and 2014 budgets and contribute to meet the fiscal targets, the Government initiates, before **end-February 2012**, a review of public spending programmes. This review should be completed by **June 2012**. 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 (**June 2012**), a further rationalization of pharmaceutical spending and operational spending of hospitals, and of welfare cash benefits will also be specified.

Preliminary results from the spending review will be included in the update of the medium-term fiscal strategy (MTFS), which will be tabled in Parliament by **May 2012**.

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.

The Government stands ready to define and enact additional measures, if needed, in order to respect the budgetary targets.

2 STRUCTURAL FISCAL REFORMS

2.1 *Asset management and privatisation*

The Government implements the privatisation programme with the aim of collecting EUR 50 billion in the medium term.

Cumulative privatisation receipts since June 2011 should be at least EUR 5 200 million by **end-2012**, EUR 9 200 million by **end-2013** and, EUR 14 000 million by **end-2014**.

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 will continuously transfer assets to the Hellenic Republic Asset Development Fund (HRADF). In particular, the Government will transfer to the HRADF all the assets that are expected in 2012 and 2013 at the request of the HRADF.

All legal, technical and financial advisors for the privatisations planned for 2012 and 2013 will be appointed by end **Q1-2012**.

Privatisation is conducted in a transparent manner and will clearly set out post-privatisation property rights and obligations. For a number of assets, successful privatisation requires a proper regulatory framework ensuring that entry in a competitive market is possible after privatisation, consumers are adequately protected, and privatised assets are deployed in competitive markets. The conditions for sales or concessions shall avoid the creation of unregulated private monopolies, prevent any form of discrimination, facilitate open access, and impose full transparency of accounts.

Intermediate steps for privatisation are specified, including clearing all legal titles, securing state-aid approval, unbundling assets, respecting public procurement rules, having a more comprehensive inventory of real estate assets; reallocating land uses; seeking the council of experts' and audit court's approvals.

The Government will neither propose nor implement measures which may infringe the rules on the free movement of capital. Neither the State nor other public bodies will conclude shareholder agreements with the intention or effect of hindering the free movement of capital or influence the management or control of companies. The Government will neither initiate nor introduce any voting or acquisition caps, and it will not establish any disproportionate and non-justifiable veto rights or any other form of special rights in privatised companies. No further special rights will be introduced in the course of future privatisation projects.

To ensure compliance with the EU Treaty, the Government repeals or appropriately amends the existing special rights granted to the State in the process of privatisation. In particular, the Law on Strategic Companies (Law 3631/2008, Art 11) is repealed or appropriately amended. **[Q2-2012]**

In order to ensure a timely clearance of state-aid issues that could constitute a hurdle for privatisation:

- the Government appoints an interlocutor formally designated for ensuring compliance of privatisation with State aid rules by **end-Q1 2012**.
- the Government, in cooperation with the HRADF, submits by **end-Q2 2012**, to the Commission information on the financial situation of each asset that will be privatised in the course of 2012, whether the privatisation needs to be preceded by restructuring and respective modalities; liabilities to the state which might hinder the privatisation process or the final price; legislation which grants an advantage to the firm (or concessionaire), such as tax discrimination or monopoly status, etc.; conditions that may be imposed on interested buyers, as well as conditions on buyers' eligibility; and the method of privatisation planned (public tender, negotiation with existing shareholders, IPO, etc.). A similar report will be submitted in **Q4-2012** for each asset that is expected to be launched for privatisation in 2013.

The Government continues compiling and publishing a comprehensive inventory of state-owned assets, including stakes in listed and non-listed enterprises and commercially viable real estate and land. The inventory will be published in successive stages by **mid-2012** and **end-2012** on the Ministry of Finance's website.

The Government accelerates state land ownership registration. For this purpose, the Government (i) prepares a comprehensive asset-inventory (ii) prepares a special law for the land development of the Hellinikon Area (iii) clarifies land-use status for the single assets and/or portfolios of assets that will be assessed and selected for exploitation within 2012. [**Q2-2012**]

2.2 Reducing waste in public enterprises and other public entities

Tariffs in OASA, OSE Group and Trainose increase by at least 25 percent, while their business plans are appropriately updated. [**Q1-2013**]

2.3 Tax policy

The Government will prepare a tax reform that aims at simplifying the tax system, eliminating exemptions and preferential regimes, including and broadening bases, thus allowing a gradual reduction in tax rates as revenue performance improves. This reform relates to the personal income tax, corporate income tax and VAT, property taxes, as well as social contributions, and will maintain the relative tax burden from indirect taxes. The reform will be adopted by **June 2012**. In **March 2012**, the Government will announce the full schedule of intermediate steps until the reform is tabled. These intermediate steps will include public consultation and appropriate review by the European Commission, ECB and IMF staff.

By **June 2012**, the Government will revise the legal values of real estate to better align them with market prices.

2.4 Revenue administration reforms

Articles 3 and 21 of Law 4038/2012 are amended **prior to the disbursement**. The suspension of criminal prosecution and asset freezing is eliminated; the conditions to extend the instalment plans for overdue taxes and social contributions are revised so that the instalment plans will only apply to existing overdue amounts below EUR 10 000 for individuals and EUR 75 000 for corporations. Tax payers applying for an extended instalment plan should disclose all their financial statements to the tax authorities.

Moreover, during the years covered by the economic adjustment programme, the Government commits not to adopt new tax amnesties, or extend existing amnesties for the collection of taxes and social contributions.

The Government will define 'tax refunds in arrears,' set standards for their processing **[Q1-2012]** and publish on the web **[Q2-2012]** monthly data on these arrears with a lag of 20 days after the end of each month.

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 also accelerate the resolution of tax arrears, and better integrate anti-money laundering tools into the strategy. Progress will be monitored by quantitative indicators according to targets set under the anti-tax evasion plan (key performance indicators). These indicators concern completion of full scope and temporary audits of large taxpayers, of risk-based audits of self-employed and high wealth individuals and of non-filers. They also involve collection of assessed taxes and penalties from new audits of large taxpayers, of the existing stock of tax debt, and increase in the number of registered VAT taxpayers filing returns.

The achievement of the completion of 75 full-scope audits and 225 VAT audits of large taxpayers, as targets set in the memorandum of 31 October 2011 for end-December 2011, are **prior to the disbursement**.

To advance the reforms of revenue administration, the Government:

- increases the staff of the large-taxpayers unit by 40 auditors to step up the fulfilment of audits in progress **[end-March 2012]**
- steps up the hiring procedure in order to complete the first wave of auditor reassessment and hiring (1 000 staff), **[end-April 2012]** with the objective to achieve the target of 2 000 tax auditors fully operational by **end-2012** within the overall limits for public hiring;
- removes barriers to effective tax administration **[June 2012]**, including a formal performance review and replacing managers who do not meet performance targets;
- continues to centralise and merge tax offices; 200 local tax offices, identified as inefficient, will be closed, by **end-2012**;
- centralises the management of tax files related to the taxpayers in the list of big debtors; **[Q1-2012]**
- revises the procedures to write-off tax debts, so that the administrative efforts may focus on effectively collective debts, **by end-2012**;

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- discontinue payments in cash and cheque in tax offices which should be replaced by bank transfers, so that staff time is freed-up to focus on more value added work (audit, collection enforcement and taxpayer advice); **[Q2-2012]**
- starts to publish on the web key performance indicators for the tax department; **[Q2-2012]**
- 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:

- 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 strengthen the anti-corruption framework for the tax administration, the Government will:

- reform the financial inspections' unit, which should focus only on auditing tax collectors and revenue administration issues **[June 2012]**;
- activate an Internal Affairs Directorate **[June 2012]**;
- require the Financial Intelligence Unit to audit annually at least 200 asset statements of tax officials **[June 2012]**;
- establish procedures for the rotation of managers on a periodic basis **[June 2012]**;
- improve the system to protect whistle-blowers who report corruption **[June 2012]**;
- prepare a fully-fledged anti-corruption plan **[September 2012]**.

Moreover, the Government will define powers to be delegated from the political level to the tax administration. These powers will include control over core business activities and management of human resources. The Government will also tighten the control of local tax offices by central offices, and fill the position of Secretary General of Revenue Administration with an external appointee with appropriate professional experience. **[March 2012]**

The Government adopts secondary legislation to make arbitration operational and certifies arbitrators by **end-March 2012**. By the same date, legislation will make it compulsory to exhaust administrative dispute phase for large tax cases, before entering the judicial appeals.

The Code of Books and Records is repealed in its entirety and replaced by simpler legislation. **[not later than June 2012]**

2.5 Public financial management reforms

A plan for the clearance of arrears owed to suppliers by public entities is published by **June 2012** and the Government ensures that the stock of arrears steadily declines. Clearance of arrears of government entities by the state budget will be contingent on progress in relation to the commitment registry, and no additional accumulation of arrears by each public entity. 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:

- continues the process of establishing commitment registries, which should fully cover the central government by **March 2012**, and the investment budget and at least 70 percent of general government units [**June 2012**] and extended to other general government entities;
- 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; [**June 2012**]
- adopts legislation streamlining the procedure for submission and approval of supplementary budgets, [**October 2012**] and establishes an administrative calendar for the update of the medium-term fiscal strategy. [**Q1-2012**]

2.6 To modernise the public administration

At the central level

By December 2012, and in accordance with the roadmap established, the Government has to: i) set up a high-level transformation steering group, chaired by the PM, that will supervise, monitor and ensure the implementation of administrative reforms; [**February 2012**] ii) establish a stable structure for Inter-Ministerial Coordination; [**May 2012**] iii) create basic horizontal structures in each Ministry, implementing the relevant procedures with Budget/Finance [**February 2012**], Audit, Internal Control, Human Resource Management, acting under common rules. A framework legislation, to be drafted in line with the roadmap agreed and adopted, will provide the legal reference for implementing such a reform.

At the decentralized/regional/local level

A specific roadmap is created, translating all principles of coherence and efficiency at the central level into the decentralized regional/local level. [**March 2012**]

Social programmes

The ongoing functional review on social programmes is finalised by end-March 2012. The review report will include recommendations to the Government on the objectives, design and implementation of social policies, as well as on the need to keep a balance between achieving savings and protecting the most vulnerable.

Public sector wages and human resource management

The Government publishes and updates **on a quarterly basis** its medium-term staffing plans per department, for the period up to 2015, in line with the rule of 1 recruitment for 5 exits. The recruitment/exit rule applies to the general government as a whole. The staffing plans should be consistent with the target of reducing public employment by 150 thousand in end-2010–end-2015. If necessary, the Government will enact temporary hiring freezes.

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 reduced to a level consistent with hiring 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 March 2012]**

15 000 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. Staff in the labour reserve 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.

The Government commissions an expert assessment of the new wage grid. **[Q1-2012]** 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.

The Government sets up an electronic automated system linking the census data base with the Single Payment Authority (SPA)'s, which will allow for a more effective coverage, assessment and payment of employees. This system will be coordinated with other ministries. **[Q2-2012]**

*Public procurement*Single Public Procurement Authority (SPPA)

The Government issues decisions:

- to appoint the members of the SPPA. **[February 2012]**
- to provide for the institution and establishment of positions for the SPPA's personnel, as well as for the organization of human resources and services of the

Authority in accordance with the provisions of the law on the SPPA. **[March 2012]**

- to provide for the Implementing Regulation of the SPPA. **[April 2012]**

The SPPA starts its operations 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. **[April 2012]**

E-procurement

The Government presents a detailed plan for the development of the e-procurement platform, including its phased roll-out, communication and training programmes, its target usage levels, and planned revision of the current legislation (if needed). **[Q1-2012]**

The Government presents a pilot version of the e-procurement system. **[Q2-2012]**

The e-procurement platform is fully operational and ready for use and a common portal is created for the publication of all procurement procedures and outcomes. The e-procurement framework is placed under the responsibility of the SPPA, which supervises its operations. **[Q1-2013]**

The whole public sector uses the e-procurement platform **[Q4-2013]** and the government presents results of the monitoring activities covering year 2013 against the target usage levels. **[Q1-2014]**

Efficiency of procedures

The Government will move towards more centralised procurement, especially in the field of health procurement, services and supplies:

The Government identifies a number of potential sectoral Central Purchasing Bodies (CPB) at central government level. The first CPBs are fully operational and coordinated by the SPPA. **[Q2-2012]**

The Government establishes centralised purchasing/framework contracts for frequently purchased supplies or services at central government level with the obligation for ministries and central government bodies to source via these contracts and optional use for regional entities. **[Q3-2012]**

The Government proposes an Action Plan to establish CPB at regional/local level, at least one per administrative region. **[Q3-2012]** Regional/local CPBs are fully operational and coordinated by the SPPA.

The Government undertakes a reform of the public procurement system including works, supplies and services with a view to (a) simplifying, streamlining and consolidating the body of public procurement legislation, and (b) rationalising the administrative structures and processes in public procurement to desired procurement results in terms of efficiency and efficacy. The review starts from an analysis of the state of play (flowcharts, procedural phases, actors involved, timelines, statistics). A

first Action Plan for the reform is developed in agreement with the European Commission. [Q2-2012]

Government presents drafts of the necessary legislative and organisational measures to implement the above-mentioned Action Plan to the European Commission. [Q4-2012]

The Government undertakes a thorough review of the system of redress against award procedures with the objective of (1) reducing the significant and frequent delays triggered by excessive use and lengthy processing of redress in public procurement procedures and of (2) assessing the role to confer to the SPPA in this area. The Government proposes an Action Plan in agreement with the European Commission. [Q2-2012]

Quality of statistics

The ongoing strengthening of the European Statistical System includes the introduction of Commitments of Confidence in Statistics, to be signed by all Member States. The Government will sign such a Commitment, which will be endorsed by Parliament, **prior to the disbursement**. This Commitment includes the revision of the Statistical Law to reform the ELSTAT governance arrangements and establish the ELSTAT Board as an advisory body, and to clarify further the professional authority of the ELSTAT President as chief officer and coordinator of the national statistical system.

2.7 To complete the pension reform

Prior to the disbursement, the Government proceeds, through a framework law, with an in-depth revision of the functioning of secondary/supplementary public pension funds.

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:

- the elimination of imbalances in those funds with deficits;
- the unification of all existing funds;
- reduction of overall operational and payroll costs including an adequate reduction in staff headcount (by at least 30 percent) in the new single fund;
- the long-term sustainability of secondary schemes through a strict link between contributions and benefits.

The reform of the secondary/supplementary schemes is designed in consultation with the 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 National Actuarial Authority. [Q1-2012]

The individual pension benefit will be calculated on the basis of (i) a notional rate of return linked to the rate of growth of the wage bill of insured workers; (ii) a sustainability factor that adjust benefits to promptly eliminate any future imbalances should they occur. [Q1-2012]

The Government will reduce nominal supplementary pension benefits starting from January 2012 to eliminate deficits. The new single fund sets up in a cost effective way a computerised system of individual pension accounts. **[Q1-2012]**

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

The Health Committee set up by Law 3863/2010 will produce a first quarterly report of its activities aimed at revising the disability status and reduce the disability pensions to not more than 10 percent of the overall number of pensions. **[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.

The Government will ensure that social security's assets, including the liquidity that results from the ongoing debt exchange is invested in government bills, deposits in Treasury, or any other instrument that consolidates in government debt.

2.8 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 reducing the fragmented governance structure, reinforcing and integrating the primary healthcare network, streamlining the hospital network, strengthening central procurement and developing a strong monitoring and assessment capability and e-health capacity.

The Government continues the efforts undertaken in 2010-11 and intensifies measures to reach savings in the purchasing (accruals basis) of outpatient medicines of close to EUR 1 billion in **2012** compared to the 2011. This will contribute to the goal of bringing average public spending on outpatient pharmaceuticals to about 1 percent of GDP (in line with the EU average) by **end-2014**.

More specifically, the following measures are implemented:

Governance

To strengthen health system governance, improve health policy coherence, reduce fragmentation in the purchasing of health services and reduce administrative costs, the Government further concentrates all health-related decision making procedures and responsibilities (including payroll expenditures) under the Ministry of Health by at the latest **June 2012**. In order to do this, the Government prepares a plan and the necessary legislative changes by **end-February 2012**. As part of this concentration process, all health insurance funds are merged into EOPYY and come under the responsibility of the Ministry of Health. EOPYY buys services in a cost effective way from NHS facilities and private providers through contracts. All other welfare / social assistance schemes under the Ministry of Health are moved to the Ministry of Labour by at the latest **June 2012**.

From **January 2013** EOPYY will purchase hospital services on the basis of prospective budgets following the development of costing of procedures by treatment/ pathology categories (full absorption cost DRGs).

As a result of the concentration process, EOPYY rationalises the number of contracts with private doctors so as to bring down the doctor-to-patients ratio close to the much lower EU average. **[Q2-2012]**

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 will be completed in **2013**.

Controlling pharmaceutical spending

In order to achieve EUR 1 billion of reduction in outpatient pharmaceutical spending in 2012, the Government will simultaneously implement a set of consistent policies comprising changes in pricing, prescribing and reimbursement of medicines that enhance the use of less expensive medicines, control prescription and consumption and prosecute misbehaviour and fraud. The Government defines a consistent set of incentives and obligations for all participants along the medicines supply chain (including producers, wholesalers, pharmacies, doctors and patients) to promote the use of generic medicines.

The Government will revise the co-payment system in order to exempt from co-payment only a restricted number of medicines related to specific therapeutic treatments. **[Q1-2012]**

Pricing of medicines

The Government continues to update, on a quarterly basis, the complete price list for the medicines in the market, using the new pricing mechanism based on the three EU countries with the lowest prices. **[Q1-2012]**

The Government introduces an automatic claw-back mechanism (quarterly rebate) on the turnover of pharmaceutical producers which guarantees that the outpatient pharmaceutical expenditure does not exceed budget limits. **[Q1-2012]**

Starting from **Q1-2012**, the pharmacies' profit margins are readjusted and a regressive margin is introduced - *i.e.* a decreasing percentage combined with flat fee of EUR 30 on the most expensive medicines (above EUR 200) - with the aim of reducing the overall profit margin to below 15 percent.

Government produces an implementation report on the impact of the new profit margins by **Q1-2013**. If it is shown that this new model to calculate profit margins does not achieve the expected result, the regressive margin will be further revised.

Starting from **Q1-2012**, the wholesalers' profit margins are reduced to converge to 5 percent upper limit.

Prescribing and monitoring

The Government

- takes further measures to extend in a cost-effective way the current e-prescribing to all doctors, health centres and hospitals. E-prescribing is made compulsory and must include at least 90 percent of all medical acts covered by public funds (medicines, referrals, diagnostics, surgery) in both NHS facilities and providers contracted by EOPYY and the social security funds. **[Q1-2012]**
- introduces a temporary and cost-effective mechanism (until all doctors are able to use the e-prescription system) which allows for the immediate and continuous monitoring and tracking of all prescriptions not covered by e-prescription. This mechanism will make use of the web-based e-prescription application established by IDIKA, which allows the pharmacies to electronically register manual prescriptions from a specific doctor to a specific patient. For medicines to be reimbursed by EOPYY (and other funds), pharmacies must register in the web-based application all manual prescriptions. For this service, doctors who prescribe manually will be charged a monthly administrative fee by EOPYY to compensate the pharmacies. The introduction of this temporary mechanism would ensure that all prescriptions are electronically recorded, allowing for the full and continuous monitoring of doctors' prescription behaviour, their compliance with prescription guidelines. **[February 2012]**
- continues publishing prescription guidelines/protocols for physicians. Starting with the guidelines for the most expensive and/or mostly used medicines the government makes it compulsory for physicians to follow prescription guidelines. Prescription guidelines/protocols are defined by EOF on the basis of international prescription guidelines to ensure a cost-effective use of medicines and are made effectively binding. **[Q1-2012]**
- enforces the application of prescription guidelines also through the e-prescription system, therefore discouraging unjustified prescriptions of most expensive medicines and diagnostic procedures. **[Q1-2012]**
- produces (Ministry of Health and EOPYY together with the other social security funds until they merge) detailed monthly auditing reports on the use of e-prescription in NHS facilities and by providers contracted by EOPYY and other social security funds (until they merge). These reports are shared with the European Commission, ECB and IMF staff teams. **[Q1-2012]**
- implements (Ministry of Health and EOPYY together with the other social security funds until they merge) an effective monitoring system of prescription behaviour. They establish a process to regularly assess the information obtained through the e-prescribing system. **[Q2-2012]**
- produces regular reports, at least on a quarterly basis, on pharmaceutical prescription and expenditure which include information on the volume and value of medicines, on the use of generics and the use of off-patent medicines, and on the rebate received from pharmacies and from pharmaceutical companies. These reports are shared with the European Commission, ECB and IMF staff teams. **[Q1-2012]**
- provides feedback and warning on prescription behaviour to each physician when they prescribe above the average of comparable physicians (both in NHS facilities and contracted by EOPYY and other social security funds until they merge) and when they breach prescription guidelines. This feedback is provided at least every month and a yearly report is published covering: 1) the volume and value of the doctor's prescription in comparison to their peers and in comparison to prescription guidelines; 2) the doctor's prescription of generic medicines vis-à-

- vis branded and patent medicines and 3) the prescription of antibiotics. [Q2-2012]
- enforces sanctions and penalties as a follow-up to the assessment and reporting of misconduct and conflict of interest in prescription behaviour and non-compliance with the EOF prescription guidelines. Continuous or repeated non-compliance with the prescription rules will lead to the termination of the contract between the doctor and the EOPYY and the doctor's permanent loss of his/her capability/right to prescribe pharmaceuticals which are reimbursed by the government/EOPYY in the future. [Q1-2012]
 - continuously updates the positive list of reimbursed medicines using the reference price system developed by EOF. [Q1-2012]
 - selects a number of the most expensive medicines currently sold in pharmacies, to be sold in hospitals or EOPYY pharmacies, so as to reduce expenditure by eliminating the costs with outpatient distribution margins, and by allowing for a strict control of the patients who are being administered the medicines. [Q1-2012]

If the monthly monitoring of expenditure shows that the reduction in pharmaceutical spending is not producing expected results, additional measures will be promptly taken in order to keep pharmaceutical consumption under control. These include a prescription budget for each doctor and a target on the average cost of prescription per patient and, if necessary, across-the-board further cuts in prices and profit margins and increases of co-payments. [Q2-2012]

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*). [Q1-2012]

Increasing use of generic medicines

A comprehensive set of measures is adopted simultaneously to promote the use of generic and less expensive medicines. The aim of these measures is to gradually and substantially increase the share of the generic medicines to reach 35 percent of the overall volume of medicines sold by pharmacies by **end-2012**, and 60 percent by **end-2013**. This will be achieved by:

- reducing the maximum price of the generic to 40 percent of the price of the originator patented medicine with same active substance at the time its patent expired. This is set as a maximum price; producers can offer lower prices, thus allowing an increased competition in the market. [Q1-2012]
- automatically reducing the prices of originator medicines when their patent expires (off-patent branded medicines) to a maximum of 50 percent of its price at the time of the patent expiry. Producers can offer lower prices, thus allowing an increased competition in the market. [Q1-2012]
- creating dynamic competition in the market for generic medicines through price reductions of at least 10 percent of the maximum price of each generic follower. [Q4-2012]
- associating a lower cost-sharing rate to generic medicines that have a significantly lower price than the reference price for reimbursement (lower than 40 percent of the reference price) on the basis of the experience of other EU countries, while increasing substantially the co-payment of more expensive medicines in the reference category and of new molecules. [Q1-2012]

- deciding about the reimbursement of newly patented medicines (i.e. new molecules) on the basis of objective criteria and, until internal capacity is in place, by relying on best practice health technology assessment of their cost-effectiveness carried out in other member states, while complying with Council Directive 89/105/EEC. [Q1-2012]
- excluding from the list of reimbursed medicines those which are not effective or cost-effective, also on the basis of the experience of other countries. [Q1-2012]
- making it compulsory for physicians to prescribe by international non-proprietary name for an active substance, rather than the brand name. [Q1-2012]
- mandating the substitution of prescribed medicines by the lowest-priced product of the same active substance in the reference category by pharmacies (compulsory "generic substitution"). [Q1-2012]

The Government takes further measures to ensure that at least 40 percent of the volume of medicines used by public hospitals is made up of generics with a price below that of similar branded products and off-patent medicines. This should be achieved, in particular by making compulsory that all public hospitals procure pharmaceutical products by active substance, by using the centralised tenders procedures developed by EPY and by enforcing compliance with therapeutic protocols and prescription guidelines. [Q2-2012]

The Government, pharmaceutical companies and physicians adopt a code of good conduct (ethical rules and standards) regarding the interactions between pharmaceutical industry, doctors, patients, pharmacies and other stakeholders. This code will impose guidelines and restrictions on promotional activities of pharmaceutical industry representatives and forbids any direct (monetary and non-monetary) sponsorship of specific physicians (sponsorship should be attributed through a common and transparent allocation method), based on international best practice. [Q1-2012]

The Government simplifies administrative and legal procedures, in line with EU legal frameworks, to speed up the entry of cheaper generic medicines in the positive list. [Q2-2012]

Pricing and use of diagnostic services

Fees for diagnostic services contracted to private providers are reviewed with the aim of reducing related costs by EUR 45 million in 2012. [Q1-2012]

The government starts publishing a quarterly report on the prescription and expenditure of diagnostic tests. [Q1-2012]

NHS (ESY) service provision

The plan for the reorganisation and restructuring is implemented 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 further hospital operating costs by 8 percent in 2012. This is to be achieved through:

- increasing the mobility of healthcare staff (including doctors) within and across health facilities and health regions.

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- adjusting public hospital provision within and between hospitals within the same district and health region.
- revising the activity of small hospitals towards specialisation in areas such as rehabilitation, cancer treatment or terminal care where relevant.
- revising emergency and on-call structures.
- optimise and balance the resource allocation of heavy medical equipment (e.g. scanners, radiotherapy facilities, etc.) on the basis of need.

A first annual report comparing hospitals performance on the basis of the defined set of benchmarking indicators will be published by **end-March 2012**.

Wages and human resource management in the health care sector

The Government updates the existing report on human resources conducted by the Ministry of Health to present the staff structure according to specialty. This report will be updated annually and will be used as a human resource planning instrument. The 2012 report will also 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 and training system and it will specify a plan to reallocate qualified and support staff within the NHS with a focus in particular on training and retention of primary care healthcare professionals and hospital nurses. **[Q3-2012]**

The revised payment system used by EOPYY for contracting with physicians, and the efficiency gains in the use of staff (including reduction in overtime costs) will lead to savings of at least EUR 100 million in the overall social security costs associated with wages and fees of physicians in 2012. **[Q4-2012]**

Accounting and control

Internal controllers are assigned to all hospitals and all hospitals adopt commitment registers. **[Q1-2012]**

By **end-March 2012**, the Government publishes 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. This report will make it possible a detailed monitoring of the budget execution, by including both expenditure commitments/purchases (accruals basis) and actual payments (cash basis). The report will also (1) describe performance of entities on execution of budget and accumulation of arrears, (2) highlight any defaulters, and (3) recommend remedial actions to be taken. **[Q1-2012]**

EOPYY and other social security funds (until they merge) 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]**

Hospital computerisation and monitoring system

The necessary tendering procedures are carried out by HDIKA to develop the full and integrated system of hospitals' IT systems. **[Q1-2012]**

Throughout 2012, further measures are taken to improve the accounting, book-keeping of medical supplies and billing systems, through:

- the introduction of analytical cost accounting systems and the regular annual publication of balance sheets in all hospitals. **[Q2-2012]**
- 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. **[Q1-2012]**
- timely invoicing of full treatment costs (including staff payroll costs) - i.e. no later than 2 months to other EU countries and private health insurers for the treatment of non-nationals/non-residents. **[Q2-2012]**
- enforcing the collection of co-payments and implementing mechanisms that fight corruption and eliminate informal payments in hospitals. **[Q2-2012]**

ELSTAT starts providing expenditure data in line with Eurostat, OECD and WHO databases i.e. in line with the System of Health Accounts (joint questionnaire collection exercise). **[Q1-2012]**

The programme of hospital computerisation allows for a measurement of financial and activity data in hospital and health centres. Moreover, the Minister of Health defines a core set of non-expenditure data (e.g. activity indicators) in line with Eurostat, OECD and WHO health databases, which takes account of the future roll-out of DRG (diagnostic-related groups) schemes in hospitals. **[Q1-2012]** The programme of hospital computerisation will continue the development of a system of patient electronic medical records. **[Q3-2012]**

In all NHS hospitals, the Government pilots a set of DRGs, 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 and assesses existing international examples of DRG-base schemes, in particular considering observations on DRG costing and proportionality of DRG-based tariffs. DRGs include a detailed item on costs of personnel. **[Q3-2012]**

An analysis will be made of how hospital accounting schemes integrate DRGs at hospital level in view of future activity-based cost reporting and prospective budgets payment for hospitals **[Q3-2012]**

Centralised procurement

Government continues centralised procurement through EPY and regional procurement through the Regional Health Authorities, with the aim of increasing substantially the number of expenditure items and therefore the share of expenditure covered by centralised tender procedures. **[Q4-2012]**

EPY will undertake a major effort to utilise tender procedures for framework contracts for the most expensive medicines used in the outpatient context so as to substantially reduce the price paid by EOPYY. **[Q4-2012]**

Government puts in place the procurement monitoring mechanism. **[Q1-2012]**

Independent task force of health policy experts

The Independent Task Force of Health Policy Experts, established as an advisory group, produces an annual report on the implementation of reforms. **[Q4-2012]**

3 FINANCIAL SECTOR REGULATION AND SUPERVISION

Assessment of capital needs

All banks will be required to achieve a core tier 1 capital ratio set at 9 percent by **Q3-2012**, reaching 10 percent in **Q2-2013**. The Bank of Greece, with the support of external consultants, will undertake a comprehensive assessment of banks' capital needs **prior to disbursement**. This assessment will be based on, *inter alia*, the results from the BlackRock loan diagnostic exercise, the PSI impact, and the business plans banks have submitted. In addition, banks' capital needs will be determined on the basis of a requirement to maintain a 7 percent core tier 1 capital ratio under a three-year adverse stress scenario (pillar II requirements). Based on these capital needs identified by the Bank of Greece, banks will revise their business plans and submit capital raising plans by **Q1-2012**.

A strategic assessment of the banking sector will be carried out. In consultation with the Commission, ECB and IMF staff, the Bank of Greece will conduct a thorough and rigorous assessment of each bank, using a set of quantitative and qualitative criteria. The criteria will include in non-exhaustive terms: shareholders' soundness and willingness to inject new capital; quality of management and risk management systems; capital, liquidity, and profitability metrics (both forward and backward looking); quality of Bank of Greece's assigned ratings to bank risks; and a sustainable business model. The assessment will be completed by **Q1-2012**.

Based on the ongoing work by the commissioned external audit firm, a study will be completed **prior to disbursement** on how to address ATE. The study will illustrate the legal, operational and financial aspects of the different solutions and lay out associated costs.

Recapitalization and resolution actions.

Banks will be given time to raise capital in the market. Based on an assessment of their viability and capital raising plans, by **end-April 2012**, the Bank of Greece will communicate to banks specific deadlines to raise capital in the market. The deadlines to raise capital will be set for each bank on a case by case basis, with a maximum duration by to **Q3-2012**, taking into account the regulatory framework and the requirements set by the Hellenic Capital Market Commission.

Banks submitting viable capital raising plans will be given the opportunity to apply for and receive public support in a manner that preserves private sector incentives to inject capital and thus minimizes the burden for taxpayers. Specifically, banks will be able to access capital from the Hellenic Financial Stability Fund (HFSF) through common shares and contingent convertible bonds.

The Government will ensure that Greek banks have business autonomy both *de jure* and *de facto*. The voting rights of the HFSF for the common shares it holds will be strictly limited to specific strategic decisions (unless the private

participation in the form of common shares is less than a given minimum percentage of the bank's total capital needs). This percentage will be defined in the amended HFSF law. The shares and/or the voting rights acquired by the HFSF shall not be transferred or sold to any other state-related entity in any form. Private shareholders will be given incentives to purchase HFSF-held shares. A ministerial decree agreed in consultation with the European Commission, ECB and IMF staff shall provide the technical details of the banks' recapitalisation framework, embodying these principles, by **Q1-2012**.

Banks that do not submit viable capital raising plans and do not raise the capital needed to meet the regulatory requirements within the deadline set by the Bank of Greece will be resolved in an orderly manner and at the lowest cost to the State, in a way that ensures financial stability and which follows the overall strategic plan for resolved banking system assets. Resolution options will include the tools available under the law such as, inter alia, purchase and assumption (transfer order), interim credit institution (bridge banks), and orderly wind down.

To ensure that the system remains well-capitalized, by **Q2-2013**, the Bank of Greece will conduct a new stress-test exercise, based on end-2012 data, using a methodology determined in consultation with the Commission, ECB and IMF staff.

Legislation will be enacted **prior to disbursement** to support the strategy for bank recapitalisation and resolution:

- *Capital adequacy requirements.* The banking law (3601) will be amended to enable the Bank of Greece to set new bank capital standards through regulation, and the Bank of Greece will introduce regulation to phase in the foreseen increases in Core Tier 1 requirements.
- *Technical aspects of bank resolution.* Building on the recent changes in the bank resolution framework and the experiences gained so far, the authorities will clarify the procedures and responsibilities for the valuation of assets and liabilities and thus for the opening balance sheet of the interim credit institutions. The authorities will also strengthen the framework to ensure that future resolutions initially use conservative asset valuations of failed banks' assets, based on fair value, and subsequently allowing for a proper due diligence and revaluation followed by complementary asset transfers within a specified time period. The authorities will also identify the legislative impediments to a flexible management of employment contracts in the context of bank resolutions and adopt the needed legislative changes to remove them.
- *Recapitalisation framework.* The HFSF law will be amended to allow the use of contingent convertible bonds and to provide for restrictions on HFSF voting rights for a 5-year period. The voting rights of the HFSF for the common shares it holds will depend on the size of the capital injection by private investors via common shares. If this injection is below a given minimum percentage of a bank's total capital needs (to be defined in the HFSF law), the HFSF will have full voting rights. The HFSF shall hold its shares for a period of two years, with the possibility to extend for an additional two years for financial and market stability reasons. If instead

this private injection is larger than this percentage, the HFSF voting rights will be strictly limited to specific strategic decisions. In this case, the legal framework will be revised to allow the HFSF to hold bank shares for 5 years.

- *Resolution framework.* The Government and the Bank of Greece will introduce a clear separation of the supervisory, resolution and restructuring functions. In particular, the legal framework shall vest resolution responsibilities in a separate department in the Bank of Greece and restructuring responsibilities (pertaining to management of all temporary credit institutions) in the HFSF. As regards interim credit institutions, the Bank of Greece will continue pursuing its financial stability role, notably via its supervisory authority, while the HFSF will continue aiming at safeguarding its investments.

The Government will ensure that enough financing is available to provide for recapitalization and resolution needs. Total bank recapitalization needs and resolution costs are estimated to amount to EUR xx billion. The phasing will be determined taking into account the expected timeline for bank resolution and recapitalization, and requirements for continued ECB liquidity support.

The Bank of Greece is committed to preserve continued access to central bank liquidity support. The Bank of Greece, as a member of the Eurosystem, stands ready to disburse adequate liquidity support in a timely manner. 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. To this end, medium-term funding plans will be updated after completion of the recapitalization and restructuring exercise to ensure that the gradual unwinding of exceptional liquidity support proceeds at a pace consistent with the program's macroeconomic, fiscal, and financial framework.

Prior to the disbursement, the Government will enact legislation to strengthen governance arrangements in financial oversight agencies:

- *Hellenic Financial Stability Fund:*

The Government will revise the legal framework to clarify that the HFSF shall have two departments, responsible for separate functions:

- A department responsible for managing its ownership interest in banks on behalf of the Government. In this capacity, its mandate shall be to ensure that the banks under its stewardship operate on a commercial basis and are restored to a well-functioning and profitable part of the Greek financial sector, which can eventually be returned to private ownership in an open and transparent manner.
- A department for management of interim credit institutions (*bridge banks*), established following the resolution of non-viable banks. It will undertake this role in a cost-effective manner, based on a comprehensive strategy agreed by the Bank of Greece, Ministry of Finance and HFSF, and in compliance with EU state

aid rules. From time-to-time, this function may require funding to accomplish its restructuring role. Such funding will be reduced, either partly or entirely, by a contribution from the HDIGF Depositor Branch to the extent of its obligations for deposit insurance.

The Government will revise the HFSF's governance structure to include a General Council and an Executive Board:

- The General Council shall have five members: two members, including the Chair, with relevant international experience in banking, one other member, one representative from the Ministry of Finance, and one member nominated by the Bank of Greece. All members shall be appointed by the Minister of Finance with the approval of the Euro Working Group (EWG); other than the representative from the Ministry of Finance and the nominee from the Bank of Greece. European Commission and ECB observers on the Council will be maintained.
- The Executive Board shall have three members: two members—one of which shall be the CEO—with international experience in banking and bank resolution, and one member nominated by the Bank of Greece. All members shall be appointed by the Minister of Finance with the approval of the EWG. Staff and officials of the Bank of Greece shall not sit on the Board of the HFSF.

The Government, in consultation with the HFSF, will adopt regulations to help the HFSF execute its mandate with full autonomy and at the same time coordinate effectively with the Ministry of Finance. It will cover reporting lines and frequencies, strategic decision-making (and the involvement of the Ministry of Finance therein), investment mandate and business plan, relationship with the Ministry of Finance (in its role as shareholder in the HFSF), and remuneration policy.

- *Hellenic Deposit and Investment Guarantee Fund.*

The Government will strengthen the funding of the HDIGF Depositor Branch by revising the HDIGF Law to: (i) prescribe that fees shall be increased if its funds fall below a certain level of coverage of insured deposits, which should be set taking due account of developments in the financial system; (ii) ensure adequate diversification of re-deposits of HDIGF funds and to gradually eliminate re-deposits in covered banks, as developments with the restructuring of the Greek banking sector permit; and (iii) clarify that the HDIGF's status as privileged creditor does not impinge on claims secured with financial collateral in the sense of the financial collateral directive and follows best practice with respect to secured creditors in general. With a view to limiting any real or perceived conflicts of interest, HDIGF board membership will be prohibited for individuals who are actively involved in credit institutions and introduce in the law strong conflict of interest rules for Board members.

The Bank of Greece will carry out a new insurance sector analysis to evaluate insurers' solvency under Solvency I and Solvency II risks of defaults based on the **Q3-2012** results. Clear obligations will be established in law concerning the governance, role and tasks of the Greek Motor Auxiliary Insurance guarantee funds in Greece to ensure that they it can comply with their its obligations related to compensation of car accidents' victims, by **Q2-2012** .

The Bank of Greece will evaluate, by **Q1-2013**, the capacity of the insurance sector to assume social security/pension schemes. taking into consideration the under development Solvency II regime for institutions for occupational pensions (IORP Directive). In this regard, the Bank of Greece will establish a list of additional changes in legislation/structure of Greek insurance industry and the relevant legislation will be adopted by **Q2-2014**.

4 GROWTH-ENHANCING STRUCTURAL REFORMS***4.1 To ensure a rapid adjustment of the labour market and strengthen labour market institutions***

Given that the outcome of the social dialogue to promote employment and competitiveness fell short of expectations, the Government will take measures to foster a rapid adjustment of labour costs, fight unemployment and restore cost-competitiveness, ensure the effectiveness of recent labour market reforms, align labour conditions in former state-owned enterprises to those in the rest of the private sector and make working hours arrangements more flexible. This strategy should aim at reducing nominal unit labour costs in the business economy by 15 percent in 2012-14. At the same time, the Government will promote smooth wage bargaining at the various levels and fight undeclared work.

Exceptional legislative measures on wage setting

Prior to the disbursement, the following measures are adopted:

- The minimum wages established by the national general collective agreement (NGCA) will be reduced by 22 percent compared to the level of 1 January 2012; for youth (for ages below 25), the wages established by the national collective agreement will be reduced by 32 percent without restrictive conditions.
- Clauses in the law and in collective agreements which provide for automatic wage increases, including those based on seniority, are suspended.

Reforms in the wage-setting system

The Government will engage with social partners in a reform of the wage-setting system at national level. A timetable for an overhaul of the national general collective agreement will be prepared by **end-July 2012**. The proposal shall aim at replacing the wage rates set in the NGCA with a statutory minimum wage rate legislated by the government in consultation with social partners.

Measures to foster the re-negotiation of collective contracts

Prior to the disbursement, legislation on collective agreements is amended with a view to promoting the adaptation of collectively bargained wage and non-wage conditions to changing economic conditions on a regular and frequent basis. Law 1876/1990 will be amended as follows:

- Collective agreements regarding wage and non-wage conditions can only be concluded for a maximum duration of 3 years. Agreements that have been already in place for 24 months or more shall have a residual duration of 1 year.
- Collective agreements which have expired will remain in force for a period of maximum 3 months. If a new agreement is not reached, after this period, remuneration will revert to the base wage and allowances for seniority, child, education, and hazardous professions will continue to apply, until replaced by those in a new collective agreement or in new or amended individual contracts.

Raising the potential of recent labour market reforms

- **Prior to the next disbursement**, legislation is revised so that arbitration takes place when agreed by both employees and employers. The government will clarify that arbitration only applies to the base wage and not on other

remuneration, and that economic and financial considerations are taken into account alongside legal considerations.

- Moreover, by **October 2012**, an independent assessment of the working of arbitration and mediation shall be prepared, with a view to improve the arbitration and mediation services in order to guarantee that arbitration awards adequately reflect the needs of wage adjustment.

Legacy issues and special labour conditions

- **Prior to the disbursement**, clauses on tenure (contracts with definite duration defined as expiring upon age limit or retirement) contained in law or in labour contracts are abolished.
- The Government carries out an actuarial study of first-pillar pension schemes in companies where the contributions for such schemes exceed social contribution rates for private sector employees in comparable firms/industries covered in IKA. Based on this study, the Government reduces social contributions for these companies in a fiscally-neutral manner [**Q3-2012**].

Non-wage labour costs, fighting undeclared work and social contribution evasion

The Government will enact legislation to reduce social contributions to IKA by 5 percentage points and implement measures to ensure that this is budget neutral. Rates will be reduced only once sufficient measures are in place to cover revenue losses. The measures to finance rate reductions will be legislated in two steps. First, as a **prior action**, legislation will be enacted to close small earmarked funds engaged in non-priority social expenditures (OEK, OEE), with a transition period not to exceed 6 months. Second, by **end-September 2012**, the government will adjust pensions (with protections for low-income pensioners), and adjust the base for contribution collections.

An independent assessment on the effectiveness of the Labour Inspectorate structure and activities will be carried out. Corrective actions to tackle the ineffectiveness found in that assessment will be presented. These may include changes in the organisation and work of the Labour Inspectorate, reinforced anti-fraud and anti-corruption mechanisms and reinforced monetary and legal penalties for infringement of law and labour regulations and for social contribution evasion. Quantitative targets on the number of controls of undeclared work to be executed will be set for the Labour Inspectorate [**Q2-2012**].

A fully articulated plan for the collection of social contribution will be developed by **end-September 2012**. Already by **end-March 2012**, the collection of taxes and social contributions of the largest tax debtors is unified, and there will be common audits of tax and social contributions for large payers.

The Labour Card is progressively introduced as of **March 2012** and every firm in specific sectors will be obliged to use it by end-2012. For those firms using the labour card, the simultaneous payment by electronic means of wages, withheld payroll taxes and social contributions will be made compulsory. [**Q2-2012**]

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

Regulated professions

Implementation of Chapter A of Law 3919/2011

Prior to the disbursement, the Government screens and makes the necessary changes to ensure that the regulatory framework (e.g., laws, presidential decrees, ministerial decisions, circulars) of the following professions and economic activities is fully in line with chapter A of law 3919/2011:

- private providers of primary care services *i.e.*, i) private providers of primary health care (private doctors and dentists' practices; private group doctors' and dentists' practices; private diagnostic centres; private centres for physical medicine and rehabilitation); ii) chronic dialysis units other than in hospitals and clinics; iii) dental laboratories; iv) shops for optical use and contact lenses; v) physiotherapy centres; vi) beauty salons; vii) slimming/dietary businesses;
- stevedores (loaders for land operations at central markets);
- sworn-in valuers;
- accountants and tax consultants;
- actuaries;
- temporary employment companies;
- private labour consultancy offices;
- tourist guides;
- real-estate brokers.

The Government publishes on its website a report [**Q1-2012**] on the implementation of Law 3919/2011, including:

- the list of all professions/economic activities falling under the scope of that law.
- a timetable to screen and eliminate inconsistencies between Chapter A of Law 3919/2011 and the regulations (*i.e.*, laws, presidential decrees, ministerial decisions and circulars) of professions and economic activities falling under that chapter. The timetable specifies the list of professions and economic activities prioritised by economic importance that will be assessed every quarter with a view to finalizing this exercise by **end-2012**.

For professions where reinstatement of restrictions is required in line with the principles of necessity, proportionality and public interest, the Government will pass the required legislation no later than **end-June 2012** upon consultation with the HCC and the Commission, IMF and ECB staff teams.

Measures for regulated professions falling under chapter B of law 3919/2011

The Government also adopts legislation [**Q2-2012**] to:

- reinforce transparency in the functioning of professional bodies by publishing on the webpage of each professional association the following information:
 - the annual accounts of the professional association.
 - the remuneration of the members of the Governing Board broken down by function.
 - the amounts of the applicable fees broken down by type and type of service provided by the professional association as well as the rules for their calculation and application.

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- statistical and aggregate data relating to sanctions imposed, always in accordance with the legislation on personal data protection.
- statistical and aggregate data relating to claims or complaints submitted by consumers or organisations and the reasons for accepting or rejecting the claim or the complaint, always in accordance with the legislation on personal data protection.
- any change in the professional codes of conduct, if available.
- the rules regarding incompatibility and any situation characterised by a conflict of interests involving the members of the Governing Boards.

Additional measures on regulated professions

On fixed fees applied by the main regulated professions:

- The Government amends Art. 10 of Presidential Decree 100/2010 on the authorization process and applicable fees for energy inspectors, to repeal the minimum fees for energy inspection services provided for thereof and to replace the fixed fees per square meter by maximum fees. **[Q2-2012]**
- For the legal profession, the Government issues a Presidential Decree, 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'). **[Q1-2012]**
- The Government carries out an assessment regarding the extent to which the contributions of lawyers and architects to cover the operating costs of their professional associations are reasonable, proportionate and justified. **[Q1-2012]**
- The Government identifies ways of decoupling taxation, social contributions, distribute funds (if applicable) and payments to the professional associations from legal fees. **[April 2012]**
- The Government defines 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 charged by professions. **[Q3-2012]**

Revision of the areas of reserve of activities of regulated professions:

- The Government presents the results of screening of the regulations of the professions to assess the justification and the proportionality of the requirements reserving certain activities to providers with specific professional qualifications. **[Q2-2012]**
- The Government modifies the unjustified or disproportionate requirements reserving certain activities to providers with specific professional qualifications, starting from the main regulated professions. **[Q3-2012]**

Reform of the Code of Lawyers

In the context of the Government's initiative to revise the Code of Lawyers, the Government amends the terms of entry and re-entry as well as the conditions for the exercise of the profession. Draft legislation is presented to the European Commission by **end-February 2012** and is adopted by **end-June 2012**.

Before end-June 2012, legislation is adopted to:

- amend or repeal provisions on pricing and on access to, and exercise of, professional or economic activities that are against Law 3919/2011, EU law and competition principles. In particular, legislation:
 - repeals Art. 42.1 of Legislative Decree 3026/1954, regarding the mandatory presence of a lawyer for the drawing up of documents before a notary for a series of legal transactions;

- repeals Arts. 92.2 and 92A of Legislative Decree 3026/1954 providing for the minimum amounts and for the scale of minimum monthly amounts that are due to lawyers that are only remunerated for services rendered with a fixed periodic fee. This is without prejudice to having fee regulations for trainee lawyers.

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).

In particular, the Government:

- keeps updating the information on the number of pending applications for the recognition of professional qualifications, and sends it to the European Commission.
- presents draft legislation by **end-March 2012**, to be adopted by **Q2-2012**, 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), agriculture (e.g. slaughter houses), employment (employment agencies), real estate services and technical services (*cfr.* the section on business environment). 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.

In particular, the following pending regulations are adopted by **Q1-2012**:

- Law providing for the possibility of having secondary establishment for private employment agencies, eliminating fixed maximum rates, abolishing the requirement of having a minimum number of employees and allowing for the cross border provision of services of private employment agencies.
- Law on real estate agents.
- Presidential Decree abolishing the economic test for the opening of slaughter houses.

The Government carries out a proportionality analysis of the restrictions applied on outdoor / ambulant trade for social policy criteria. [Q1-2012]

The Government also 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). [Q1-2012]

Studies on price flexibility

The Government screens the main service sectors (including retail and wholesale distribution) and prepares an action plan to promote competition and facilitate price flexibility in product markets. [April 2012]

Business environment

Package of reform measures to improve the business environment

The Government adopts a package of measures to improve the business environment to:

- review and codify the legislative framework of exports (i.e., Law 936/79 and Law Order 3999/59), abolish the obligation of registration with the exporters' registry of the Chamber of Commerce and set the framework for the introduction of a single electronic export window. [Q1-2012]
- amend Arts. 26.2, 43B, 49.1, 49.5, 69.3 and 70.1 of Law 2190/1920, the corresponding articles in Law 3190/1955 and any other legal provisions to lift the requirement to publish company information in any kind of newspapers for companies with a website. This is without prejudice to the publication of company information in the Official Gazette / GEMI. [Q1-2012]
- repeal Art. 24 of Law 2941/2001, prohibiting the sale of merchandise at prices below the cost of purchase. This is without prejudice to Art. 2 of Law 3959/2001 on abuse of dominance in the form of predatory pricing and to Law 149/14 on unfair competition. [Q1-2012]
- lift constraints for retailers to sell restricted product categories such as baby food provided for in Law 3526/2007 and its implementing legislation. [Q1-2012]
- repeal Art. 9 and 12 of Ministerial Decision A2-3391 concerning the submission of wholesale price lists, cost elements and contracts to the Ministry of Development, Competitiveness and Shipping. [Q1-2012]
- amend Art. 22 law 3054/2002 regulating the market of oil products and other clauses as well as its implementing ministerial decision to fully liberalize petrol station opening hours, with parallel application of the current system of compulsory night opening, on a rotating basis, on a certain number of petrol stations per prefecture outside the normal opening hours. [Q1-2012]
- amend Art. 11(1) of law 3897/2010 to i) reduce the minimum distance provided for thereof between a petrol station and a place where more than 50 people may gather; ii) repeal the requirement to have an independent traffic connection for petrol stations within the area of a hypermarket provided for in Article 11(1) of Law 3897/2010 and iii) amend Art. 11(6) of the same law to allow EEA citizens to open a petrol station in Greece. [Q2-2012]

- repeal Art. 12.2 of Law 3853/2010, providing that draft model company statutes will be first proposed by the chambers of notaries and lawyers before the Ministry of Development, Competitiveness and Shipping can issue the relevant common ministerial decision provided thereof. **[Q1-2012]**
- cease to earmark the 0.15 percent surcharge (provided for in the Joint Ministerial Decision 25323/1960 and in Art. 64 of law 1249/1982) levied on the CIF value of imported goods from non-EU countries in favour of the Assistance Account of Foreign Trade. Government allocates the aforementioned amounts to the 2013 State budget. **[Q2-2012]**
- cease to earmark the 0.5 percent charge provided for in the Emergency Statute 788/48 and in Law 3883/1958 on the value of all imported merchandise in favour of the National Technical University of Athens, the University of Thessaloniki, the Athens Academy and for the promotion of exports. Government allocates the aforementioned amounts to the 2013 State budget. **[Q2-2012]**
- cease to earmark the non-reciprocating charge paid via the power public corporation bill in favour of the executive work provided for in No. T. 4363/1236. Government allocates the aforementioned amounts to the 2013 State budget. **[Q2-2012]**
- cease to earmark the non-reciprocating charge calculated on the fuel price in favour of Mutual Distribution Fund of the Oil-Pump Operators of Liquid Fuel. Government allocates the aforementioned amounts to the 2013 State budget. **[Q2-2012]**

Implementation of law 3982/2011 on the fast track licensing procedure for technical professions, manufacturing activities and business parks and other provisions

The Government:

- Issues the Joint Ministerial Decision of degrees of nuisance provided for in Art. 20.9 of 3982/2011. **[March 2012]**
- Issues the Joint Ministerial Decision on standardised environmental terms for industrial activities provided for in Art. 36.1 of Law 3982/2011. **[March 2012]**
- Issues the Presidential Decrees on preconditions for obtaining a licence for industry technicians, plumbers, liquid and gaseous fuel technicians, cooling technicians and machine operators in constructions provided for in Art. 4.4 of Law 3982/2011. **[March 2012]**
- Issues the Presidential Decrees on preconditions for obtaining a licence for electricians provided for in Art. 4.4 of Law 3982/2011. **[May 2012]**
- Issues the Presidential Decree on Certified Inspectors provided for in Art. 27.4 of law 3982/2011. **[Q2-2012]**
- Issues the Joint Ministerial Decision on the process of licencing business parks provided for in Art. 46.6 of law 3982/2011. **[March 2012]**

Implementation of Law 4014/2011 on environmental licensing of projects and activities

The Government:

- Issues the Ministerial Decision provided for in Art. 2.7 of Law 4014/2011 on environmental licensing of projects and activities, laying down requirements for the content of the decision approving the environmental conditions according to the type of project or activity. **[Q2-2012]**

- Issues the Ministerial Decisions provided for i) in Art. 8.3 of Law 4014/2011 on environmental licensing of projects and activities (other than industrial activities), laying down the standard environmental commitments of projects and activities in category B; and ii) in Art. 2.13 of Law 4014/2011 to further specify the procedure and specific criteria for environmental licencing. [Q2-2012]

Business-Friendly Greece

The Government publishes on its website a plan for a Business-Friendly Greece, tackling remaining restrictions to business activities, investment and innovation not covered elsewhere in this memorandum. [end-February 2012]

The Government implements the Business-Friendly Greece Action plan. [Q1-2012]
The plan includes measures, among others, in order to:

- complete the setting-up of the General Commercial Registry (GEMI) by promptly taking measures for 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. By **July 2012**, all companies established in Greece should be able to publish all relevant company data through GEMI.
- simplify environmental, building and operating permits.
- 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.

Land registry and spatial planning

The Government accelerates the completion of the land registry, with a view to:

- tendering out all remaining rights (ca. 15 million) and awarding cadastral projects for 7 million rights. [Q4-2012]
- 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.

The Government completes the revision of the 12 regional spatial plans to make them compatible with the sectoral plans on industry, tourism, aquaculture and renewable energy. [Q4-2012]

The Government adopts legislation to (i) simplify and reduce time needed for town planning processes; (ii) update and codify legislation on forests, forest lands and parks. [Q3-2012] It also adopts legislative measures for the management of industrial hazardous waste [Q2-2012] and licenses at least two disposal sites for hazardous waste by [Q4-2012].

Other measures to improve the business environment

- *Quasi fiscal charges*: the list of non-reciprocating charges in favour of third parties presented to the Commission services in November 2011 is further refined by i) identifying beneficiaries, ii) specifying the legal base of each

contribution and by iii) quantifying contributions paid by consumers in favour of those beneficiaries, with a view to rationalize these contributions and/or channel those through the State budget. **[Q2-2012]**

- *Market regulations:* the revision of Ministerial Decision A2-3391/2009 on market regulations, as well as any other related legislation, is completed **[March 2012]**. This exercise is carried out in cooperation with the Hellenic Competition Commission, with a view to identifying administrative burdens and unnecessary barriers to competition and developing alternative, less restrictive, policies to achieve government objectives. The revised Ministerial Decision on market regulations is adopted in **April 2012**.
- *Screening of business restricting regulations:* The Government completes a structured analysis of how regulation in areas such as permits and licences, health and safety rules, urban planning and zoning, can unnecessarily restrict business and competition in important sectors such as food processing, retail trade, building materials, manufacturing or tourism. Similarly, the government seeks to simplify business regulations in areas such as new business registration and regulation of accounting. **[Q3-2012]** Within 6 months of the completion of the analysis, the Government will take the necessary legislative or other actions to remove disproportionate regulatory burdens.
- *Planning reform:* The Government reviews and amends general planning and land-use legislation ensuring more flexibility in land development for private investment and the simplification and acceleration of land-use plans. **[Q3-2012]**
- *Development of an integrated and simplified process for export and customs formalities.* By **end-March 2012**, the e-customs system supports the electronic submission of export declarations. By **end-December 2012**, (i) the e-customs system supports the electronic submission of import declarations; (ii) pre-customs procedures (i.e., certificates, licenses as well as steps and actors involved in the processes) are streamlined according to EU regulations and best practices; (iii) legislation is aligned with EU regulations and the common rules for customs procedures at export and import, including the local clearance procedure; (iv) the level (number) of customs' controls (both physical and documentary) are also aligned with best practices; (v) the electronic single-window of exports is launched after the simplification of the pre-customs procedures and it is interlinked with e-customs to provide a single entry point for the exporters.
- *Security stocks of crude oil and petroleum products:* The Government transposes Directive 2009/119 imposing an obligation on Member States to maintain minimum stocks of crude oil and /or petroleum products. **[Q4-2012]**
- 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. **[Q3-2012]**

Transport

Road

A report is submitted on the functioning of the regular passenger transport services (KTEL), presenting options for liberalisation. **[Q1-2012]**

The transitional period established in Law 3887/2010 for the reduction in costs for issuing new road transport operator licences has been brought to an end in January 2012. **Prior to**

the disbursement, the necessary secondary legislation as foreseen in that law (Article 14(11)) is published, 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.

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. **[Q1-2012]**

Ports

The Government defines a strategy to integrate ports into the overall logistics and transport system, specifying the objectives, scope, priorities and financial allocation of resources. The strategy will ensure the implementation of the TEN-T priorities and the establishment of the foreseen corridors. It will also ensure the efficient use of the assigned Structural and Cohesion Funds **[Q2-2012]**

Aviation

The Government submits a policy paper, indicating how 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. **[Q2-2012]** After ensuring that regional airports are economically viable, the Government launches an effective transaction strategy leading to their privatisation. **[Q4-2012]**

Railways

The rail regulatory authority establishes the procedures for issuing licenses and decisions affecting non-discriminatory access of EU railway undertakings to Greek rail infrastructure. It identifies the benchmarking data on the cost effectiveness of the infrastructure manager. The authority conducts on its own initiative procedures and respects the legal time lines for such decisions set out in the EU railway Directives, including cases on international traffic. All operators are awarded licenses and safety certificates. **[Q2-2012]**

The Government establishes independent award authorities for passenger services by rail that can organise competitive tenders. Contracts concluded in 2014 or later will generally be awarded by means of competitive tender. The rolling stock that is not used/needed by Trainose should be transferred to a body which leases it on market conditions, including to winners of such tenders. The documentation for calls for a first bundle of services is ready, general rules on the ticket prices are established and a decision on the provision of rolling stock is taken. **[Q4-2012]**

Energy

Unbundling of network activities

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, its supervisory body and the

compliance officer are appointed in accordance with the Electricity Directive 2009/72/EC. **[February 2012]**

- 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:

- unbundling is implemented as provided for in Art. 9 of Directive 2009/73/EC on common rules for the internal market in natural gas. **[Q1-2012]**
- the unbundled TSO is certified by the Greek energy regulator. **[Q3-2012]**

The Government commits to launch the privatisation of PPC and DEPA following the unbundling of the TSOs in line with the commitments of this memorandum and monitors the process to ensure competition in the market.

The Government undertakes that whichever the outcome of the privatisation process the gas industry structure will be fully compliant with Directive 2009/73/EC.

Measures to increase competition on the generation of electricity

The Government finalises the remedies to ensure the access of third-parties to lignite-fired electricity generation. **[Q1-2012]**

The Government starts implementing the measures ensuring the access by third parties to lignite-fired electricity generation. **[Q3-2012]**

The implementation of the measures to ensure access by competitors of PPC to lignite-fired electricity generation is completed. Third parties can effectively use lignite-fired generation in the Greek market. **[November 2013]**

In the context of the privatization of PPC, the Government takes the necessary steps to be able to sell hydro capacity and other generation assets to investors. That sale is separate from the divestiture of lignite capacity provided for in the Commission's decision on the Greek lignite case. Nevertheless, investors may be given the possibility to buy hydro capacity / other generation assets jointly with the lignite capacity provided for in that decision. The sale of hydro capacity will i) not delay the sale of lignite assets beyond the time frame provided for in the relevant Commission Decision and ii) not prevent the sale of lignite assets without a minimum price.

Regulated tariffs

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. **[Q2-2012]**

The Government removes regulated tariffs for all but vulnerable consumers **[Q2-2013]**

Renewables

The Government completes the transposition and the implementation of the renewable energy Directive (2009/28/EC) and submits the progress report required by the Directive. **[Q1-2012]**

The Government prepares a plan for the reform of the renewable energy support schemes such that they are more compatible with market developments and reduce pressures on public finances. The plan should contain:

- a timetable scheduling meetings and stakeholder discussions on the reform of the support scheme.
- options for reform of the support scheme, including a feed in premium model, and specifying in each option the method of tariff calculation and the means of avoiding possible over compensation.
- current and expected trends in costs for all relevant technologies.
- consideration of the option of automatic tariff digression.
- measures for the development of wind and solar energy resources. [Q1-2012]

The Government pursues implementation of the renewable energy project 'Helios,' through legislation [Q1-2012], facilitation of licencing process [Q2-2012] and cooperation with other EU countries for the export of solar energy.

Other measures

The Government ensures that its regulatory framework for the energy sector fully complies with the provisions in the Electricity and Gas Regulation, in particular concerning transparency, congestion management and non-discriminatory and efficient allocation of capacity on gas and electricity networks. In particular, the Government commits to resolve all open issues regarding the infringement case 2009/2168 for non-compliance with the Electricity Regulation. This resolution will include the adoption by the Independent Regulatory Authority (RAE) of a modified electricity market code and establishing cross-border electricity trading procedures for the interconnectors with Bulgaria in line with the provisions of Regulation (EC) 714/2009 and its annexes. [Q1 2012]

The Government undertakes to:

- Establish a One-Stop Shop for the licensing and permitting of the following classes of infrastructure projects [Q4-2012]: LNG installations, natural gas storage and transmission pipeline projects and electricity transmission lines.
- Establish an LNG code, approved by RAE, which ensures transparency and non-discriminatory access to the Revithoussa LNG plant and the efficient allocation of unused capacities. [Q3 2012]

Electronic communications

The Government adopts the Common Ministerial Decision on "Base stations and antennae constructions that are exempted from authorisation" provided for in Art. 31.8 of Law 3431/2006 and in Art. 29.9 of the draft law on the Regulation of the functioning of the postal market, matters of electronic communications and other provisions. [end-February 2012]

The Government adopts the provisions instituting EETT as a One-Stop Shop for the licensing of antennae and base stations. [end-February 2012]

The Law transposing the 2009 Reform Package (*i.e.*, Directive 2009/140/EC and Directive 2009/136) is adopted by Parliament. [Q1-2012]

Regarding the Digital Dividend, the Government (and/or EETT):

- defines a legal framework in primary law that envisages a mandatory date for switch-off of analogue broadcasting for 30/06/2013 and a technologically neutral utilisation of the 800MHz band after the switch off, taking also into account the provisions of the draft Radio Spectrum Policy Programme (RSPP). [Q1-2012]

- completes the studies on the evaluation of the value of the Digital Dividend and on the strategy for the granting of the Digital Dividend (800 MHz band). [Q1-2012].
- resolves cross-border coordination issues with neighbouring countries. If difficulties on international coordination make this date unfeasible, the frequency and broadcasting plans might indicate alternative channels for re-location of broadcasters, while continuing negotiations with third countries in view of the final assignment of frequencies to broadcasters and mobile operators. [Q2-2012]
- launches the consultation for the amendment of the frequency and broadcasting plans. [Q2-2012]
- amends the frequency and the broadcasting plans, depending on the outcome/actual state of play of international coordination. [Q3-2012]
- adopts necessary secondary legislation for the assignment of licenses for broadcasting and for the establishment of licensing procedures, antennae specifications, etc. [Q3-2012]
- launch the public consultation on the tender procedure for the assignment of the digital dividend to broadband. [Q4-2012]
- proceed to the tender for the assignment of definitive rights of use for broadcasting transmission. [Q1-2013]
- proceed to the tender procedure for the assignment of frequencies of the digital dividend, allocating and authorising the use of the digital dividend (800 MHz band) to Electronic Communications Services in line with EC Decision 2010/267/EU and in respect of the deadlines and procedures of the RSPP. [Q2-2013]

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 and existing tax/subsidy incentives 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. [Q1-2012]

Better regulation

Legislation is adopted to improve regulatory governance [Q1-2012], 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.
- the requirement that the government produces an annual plan with measurable targets for administrative burden reduction, deregulation and other policies for the simplification of legislation.

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 assessments.
- an independent authority and the Central Better Regulation Unit carry out quality checks of impact assessments; the independent authority also gives an opinion on progress made on the governments' better regulation agenda.
- the Central Better Regulation Unit delivers its opinion on the quality of impact assessments before draft legislation is sent to the Cabinet.
- 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.

Under no circumstances will this law impede the passing of urgent legislation during the duration of the programme.

The Government will set a deadline for the completion of measurements in each of the priority areas, 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. **[February 2012]**

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 and in 2011. **[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
(EUR million)

	2012	2013
European Regional Development Fund (ERDF) and Cohesion Fund	2,850	3,000
European Social Fund (ESF)	880	890
Target of first half of the year	1,231 (*)	1,284
Total annual target	3,730 (**)	3,890
(*) of which, 5 major project applications		
(**) of which, 15 major projects applications		

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. [Q1 2012]

The Government earmarks amounts to:

- complete unfinished projects included in the 2000-06 operational programme closure documentation (ca. EUR 260 million). [Q2 2012]
- complete the implementation and closure of the 2000-06 cohesion-fund projects. [Q2 2012]
- cover the required national contribution, including non-eligible expenditure (i.e. land acquisitions) in the framework of the 2007-13 operational programmes. [Q2 2012]

The Government identifies the necessary amounts from ERDF within the 2007-13 operational programmes for the first allocation to the guarantee mechanism for small and medium-sized enterprises. [Q1 2012]

The Government ensures that the web-based monitoring tool of procedures for the approval of project proposals and for the implementation of public projects is available to the public by **February-2012**.

Based on the assessment of the measures adopted since May 2010 to accelerate the absorption of structural and cohesion funds, the Government takes measures to speed up absorption and to simplify project implementation by i) mapping responsibilities and removing unnecessary steps; ii) consolidating management capacities where appropriate (e.g. waste treatment) in accordance with existing management and control systems. [Q2-2012]

To accelerate the absorption of EU financing and following the increase in the EU co-financing rates, Government will, by **Q1-2012**:

- establish appropriate monitoring tools for priority projects. These projects should be operational by 2015 at the latest.
- report to the Commission the final results of the activation or elimination of sleeping projects (i.e. projects already approved in the operational programmes but not yet contracted within the timeframes defined at the national level). For retained projects, the Government indicates the conditions that must be met to keep the co-financing.
- 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.

4.4 To upgrade the education system

The Government implements the Action Plan for the improvement of the effectiveness and efficiency of the education system and regularly reports (twice a year) on the progress of its implementation, including an indicative planning of self-evaluations and external evaluations of Higher Education institutions in compliance with the new Law 4009/2011 on Higher Education. [Q2-2012]

4.5 To reform the judicial system

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, Government:

- (a) ensures effective and timely enforcement of contracts, competition rules and judicial decisions;
- (b) increases efficiency by adopting organisational changes to courts;
- (c) speeds up the administration of justice by eliminating backlog of court cases and by facilitating out-of-court settlement mechanisms.

Specifically, the Government submits the draft law addressing issues of fair trial and denial of justice to the Greek Parliament, which *i.a.* encompasses an amendment of Law 1756/1988 on the organisation of courts and the situation of court officials, and dissuasive measures against non-cooperative debtors in enforcement cases, with a view to having it adopted during the current parliamentary term. [Q1-2012]

The Government establishes a task force, which is broadly representative of the legal community, including but not limited to academia, practising lawyers, in-house lawyers, and lawyers from other EU Member States established or offering their services in Greece. This taskforce reviews the Code of Civil Procedure to bring it in line with international best practice 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 means 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. [Q1-2012]

In order to facilitate the work of the existing task force mandated to design a performance and accountability framework for courts, the Government will compile and publish the information indicated in Annex 2.

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. [Q2-2012]

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

Following on the submission of the work plan for the reduction of the backlog of tax cases in all administrative tribunals and administrative courts of appeal in January 2012, which provides for intermediate targets for reducing the backlog by at least 50 per cent by end-June 2012, by at least 80 per cent by end-December 2012 and for the full clearance of the backlog by end-July 2013, the Government presents by **end-May 2012** and thereafter once a quarter, updated and further refined work plans (ensuring that priority is placed on high value tax cases –i.e., exceeding €1 million-) and takes remedial action in case of anticipated or actual deviations.

The task force mandated to review the Code of Civil Procedure to bring it in line with international best practice will prepare a concise concept paper which will identify the core issues and bottlenecks at the pre-trial, trial and enforcement stages of civil cases, examples of which are outlined above, and set out proposed solutions in general terms. **[Q2 2012]**

As publicly announced, the Government adopts a Presidential Decree providing for the rationalisation and reorganisation of the magistrates' courts and the allocation of appropriate human resources and infrastructure for the new structure of magistrates' courts resulting from this reform. **[Q2 2012]**

The Government prepares a strategy on the active promotion of pre-trial conciliation, mediation, and arbitration, with a view to ensuring that a significant amount of citizens and businesses make use of these modes of alternative dispute resolution. **[Q2-2012]**

Starting from **end-June 2012**, Government updates and further refines every quarter the e-justice work plan of December 2011 for the use of e-registration and e-tracking of the status of individual cases in all courts of the country and for e-filing. The updates will contain deadlines for the evaluation and completion of pilot projects and information regarding the extension of e-registration and e-tracking to all courts by **end-2013**.

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

The Government holds a series of workshops to discuss the findings and recommendations in the concept paper prepared by the task force on the review of the Code of Civil Procedure. These workshops will allow for broad consultation of domestic stakeholders and participation from recognised international experts in the field of civil procedure. **[Q3-2012]**

The Government conducts an assessment of whether the enactment of Law 3898/2010 on mediation in 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 task force on the review of the Code of Civil Procedure prepares a detailed paper outlining the main proposals for amendments to the Code of Civil Procedure. **[Q4-2012]**

The Government implements the Presidential Decree on the reform of the magistrates' court by creating their new structure, filling vacant positions with graduates from the National School of Judges and redeploying judges and administrative staff on the basis of existing resources available within Greece's judiciary and public administration. **[Q4-2012]**

The Government launches, jointly with an external body of experts, a study on the costs of civil litigation, its recent increase and its effects on workload of civil courts, with recommendations due by end-December 2013. **[Q2-2013]**

5 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. By **end-March 2012**, it starts publishing quarterly monitoring indicators for each of the key structural reform initiatives.

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 Task Force for Greece according to its mandate. The Greek administration will ensure continuity of technical assistance launched.

In line with the conclusions of the euro-area summit of 26 October 2011, and the Eurogroup Conclusions of 21 February 2012, the Government will fully cooperate with the Commission, the ECB and the IMF staff teams to strengthen the monitoring of programme implementation, and will provide the staff teams with access to all relevant data and other information in the Greek administration.

The Government will **promptly** put in place a mechanism that allows better tracing and monitoring of the official borrowing and internally-generated funds destined to service Greece's debt, by paying an amount corresponding to the coming quarter's debt service directly to a segregated account of Greece's paying agent. By **end-April 2012**, the Government will introduce in the Greek legal framework a provision ensuring that priority is granted to debt servicing payments. This provision will be introduced in the Greek Constitution **as soon as possible**.

ANNEXES

Annex 1: 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

<p>Preliminary monthly data on the state budget execution (including breakdown by main categories of revenue and expenditure and by line ministry).</p> <p><i>(Data compiled by the Ministry of Finance)</i></p>	<p>Monthly, 15 days after the end of each month; these data should also be included in subsequent transmissions in case of revision.</p>
<p>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.</p> <p><i>(Data compiled by the Ministry of Finance)</i></p>	<p>Monthly, 30 days after the end of each month.</p>
<p>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).</p> <p><i>(Data compiled by the Ministries of Interior and Finance)</i></p>	<p>Monthly, 30 days after the end of each month (starting in June 2010).</p>
<p>Preliminary monthly cash data on general government entities other than the state.</p> <p><i>(Data compiled by the Ministry of Finance)</i></p>	<p>Monthly, 30 days after the end of each month, these data should also be included in subsequent transmissions in case of revision.</p>

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<p>Monthly data on staff: number of employees, entries, exits, transfers among government entities; and from and into the labour reserve, per entity.</p> <p><i>(Data compiled by the Ministries of Interior and Finance)</i></p>	<p>Monthly, 30 days after the end of each month.</p>
<p>Weekly information on the Government's cash position with indication of sources and uses as well of number of days covered.</p> <p><i>(Data compiled by the Ministry of Finance)</i></p>	<p>Weekly on Friday, reporting on the previous Thursday.</p>
<p>Data on below-the-line financing for the general government.</p> <p><i>(Data compiled by the Ministry of Finance)</i></p>	<p>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.</p>
<p>Data on expenditure pending payment (including arrears) of the general government, including the State, local government, social security, hospitals and legal entities.</p> <p><i>(Data compiled by the Ministry of Finance on the basis of basic data from the several line ministries)</i></p>	<p>Quarterly, within 55 days after the end of each quarter.</p>
<p>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</p>	<p>Quarterly, by the end of each quarter.</p>
<p>Data on public debt and new guarantees issued by the general government to public enterprises and the private sector.</p> <p>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).</p> <p>Data on planned monthly interest outflows.</p> <p><i>(Data compiled by the Ministry of Finance)</i></p>	<p>Monthly, within one month.</p>

ANNEXES

Data on assets privatised and proceeds collected. <i>(Data compiled by the Ministry of Finance)</i>	Monthly.
Data on state-owned enterprises: revenue, costs, payroll, number of employees and liabilities (including maturities of public enterprises' debts) <i>(Data compiled by the Ministry of Finance)</i>	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. <i>(Data compiled by the Ministries of Finance and Education)</i>	Monthly, at the end of each month.
Monthly statement of the operations on the special accounts. <i>(Data compiled by the Ministry of Finance)</i>	Monthly, at the end of each month.
Report on progress with fulfilment of policy conditionality. <i>(Report prepared by the Ministry of Finance)</i>	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. <i>(Data compiled by the Ministries of Labour and Health)</i>	Monthly, within three weeks of the end of each month. Starting with data for January 2011 for EOPPY, 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.
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Annex 2: Statistics to be published by the Ministry of Justice or Ministry of Finance

- (a) *by end-March 2012*, for each administrative tribunal, court of appeal and the supreme administrative court:
 - (i) the number of judges and administrative staff, with a breakdown for judges working in tax chambers or dealing primarily with tax cases;
 - (ii) the number of all cases;
 - (iii) the number of cases carried over from 2011;
 - (iv) the number of cases filed in the first quarter of 2012;
 - (v) the number of tax cases, with a breakdown according to case value (up to EUR 10 000, EUR 10 001 to EUR 50 000, EUR 50 001 to EUR 100 000, EUR 100 001 to EUR 500,000, and above EUR 500 000);
 - (v) the number of tax cases carried over from 2011;
 - (vi) the number of tax cases filed in the first quarter of 2012;
 - (vii) the recovery rate for all tax cases, which for the purposes of the MoU, shall mean 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.
- (b) *by end-June 2012*, in addition to the information in (a) above, updated as necessary, for each civil court, court of appeal and the supreme civil court:
 - (i) the number of judges and administrative staff;
 - (ii) the number of all cases;
 - (iii) the number of cases carried over from 2011;
 - (iv) the number of cases filed in the first two quarters of 2012;
 - (v) the number of 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.
- (c) *by end-September 2012*, in addition to the information in (a) and (b) above, updated as necessary, at the first instance and the appeal level:
 - (i) the number of corporate insolvency cases;
 - (ii) the average duration of corporate insolvency cases;
 - (iii) the average cost of corporate insolvency cases;
- (d) *by end-December 2012*, quarterly updates of the information in (a) to (c) above.

Abbreviations

ASEP	Supreme Council for Staff Selection
CPB	Central Purchasing Bodies
DEPA	Public Gas Corporation
DRG	Diagnostic-Related Group
DSO	Distribution System Operator
ECB	European Central Bank
EEA	European Economic Area
EETT	Hellenic Telecommunications and Post Commission
EFSF	European Financial Stability Facility
EKEVYL	National Centre for Medical Technology
ELSTAT	Hellenic Statistical Authority
EOF	National Organisation for Medicines
EOPYY	National Organisation for the provision of Health services
EPY	Health Procurement Commission
ERDF	European Regional Development Fund
ESA	European System of Accounts
ESF	European Social Fund
ESY	National Health System
EU	European Union
GDP	Gross Domestic Product
GEMI	General Commercial Registry
HRADF	Hellenic Republic Asset Development Fund
IDIKA	E-governance of social insurance
IMF	International Monetary Fund
KTEL	Joint Fund for Bus Receipts
LNG	Liquefied Natural Gas
LTV	Loan-to-value
MEFP	Memorandum of Economic and Financial Policies
MTFS	Medium-Term Fiscal Strategy
NHS	National Health System
OASA	Athens Urban Transport Organisation
OECD	Organisation for Economic Cooperation and Development
OGA	Agricultural Insurance Organisation
OSE	Railway Organisation of Greece
OTE	Hellenic Telecommunication Company
PPC	Public Power Corporation
PSC	Point of Single Contact
RAE	Regulatory Authority for Energy
RSPP	Radio Spectrum Policy Programme
SPA	Single Payment Authority
SPPA	Single Public Procurement Authority
TAP	trans-Adriatic pipeline
TEN-T	Trans European Transport network
TSO	Transmission System Operator
WHO	World Health Organisation

INTERNATIONAL MONETARY FUND

Greece—Assessment of the Risks to the Fund and the Fund's Liquidity Position

Prepared by the Finance and Strategy, Policy, and Review Departments

(In consultation with other Departments)

Approved by Andrew Tweedie and Lorenzo Giorgianni

March 9, 2012

1. This note assesses the risks to the Fund arising from the proposed arrangement under the Extended Fund Facility (EFF) for Greece and its effects on the Fund's liquidity, in accordance with the policy on exceptional access.¹ The authorities are requesting a 48-month Extended Arrangement with access of SDR 23.8 billion (2,159 percent of quota) and have notified the Fund of their intention to cancel the existing SBA. Access would be evenly phased over seventeen purchases of SDR 1.4 billion (or 127 percent of quota) as shown in Table 1. The last purchase under the arrangement would be available in February 2016.

Table 1. Greece: Proposed EFF—Access and Phasing

Availability	Date 1/	SDR mn	Percent of quota	
			Purchase	Cumulative
2012	March (approval)	1,399.1	127.0	127.0
	May	1,399.1	127.0	254.0
	August	1,399.1	127.0	380.9
	November	1,399.1	127.0	507.9
2013	February	1,399.1	127.0	634.9
	May	1,399.1	127.0	761.9
	August	1,399.1	127.0	888.9
	November	1,399.1	127.0	1,015.9
2014	February	1,399.1	127.0	1,142.8
	May	1,399.1	127.0	1,269.8
	August	1,399.1	127.0	1,396.8
	November	1,399.1	127.0	1,523.8
2015	February	1,399.1	127.0	1,650.8
	May	1,399.1	127.0	1,777.8
	August	1,399.1	127.0	1,904.7
	November	1,399.1	127.0	2,031.7
2016	February	1,399.7	127.0	2,158.8
	Total	23,785.3	2,158.8	

Source: Finance Department.

1/ Starting May 2012, purchases will be conditioned on the completion of a review.

¹ See *IMF Concludes Discussion on Access Policy in the Context of Capital Account Crises; and Review of Access Policies in the Credit Tranches and the Extended Fund Facility*. Public Information Notice (PIN) No. 03/37; available via the internet: <http://www.imf.org/external/np/sec/pn/2003/pn0337.htm>.

I. BACKGROUND

2. **Greece purchased about two-thirds of credit committed under the current SBA.**

A three-year SBA with access in an amount equivalent to SDR 26.43 billion (3,212 percent of pre-second round quota or 2,399 of current quota) was approved in May 2010 to support the authorities' economic program, focused on restoring market confidence and competitiveness through strong and sustained fiscal adjustment while safeguarding the stability of the financial sector. Greece has purchased SDR 17.5 billion under this SBA, completing five reviews. Performance under the SBA was mixed as economic activity weakened substantially more than projected, and political instability and administrative capacity constraints hampered policy implementation.²

3. **Greece's external debt, dominated by public debt, is the highest of recent exceptional access cases.** At end-2011, Greece's total external debt is estimated to have stood at 192 percent of GDP, of which almost 73 percent was public sector debt (Table 2), although against considerable gross external assets, held in particular by the banking sector. Private sector external debt has fallen since 2010 as average maturity shortened considerably, consistent with deleveraging and increased reliance on Eurosystem liquidity support of the banking sector during the crisis. At end-2011, Greece's total stock of short-term external debt stood at approximately 86 percent of GDP, of which more than half is associated with ELA and ECB refinancing operations. By end-2012, sixty percent of Greece's public external debt is projected to be to the EU and IMF. Greece's total external and public external debts as ratios of GDP have risen significantly since 2010 and are among the highest of recent exceptional access cases (Figure 1, Panels A and B).³

4. **In the context of deep reduction in debt to private creditors as a result of private sector involvement (PSI), official support on favorable terms (OSI), and sizeable adjustment under the program, Greece's public debt is projected to decline to more manageable levels under the program baseline.** Under this baseline, public debt would fall to below 120 percent of GDP by 2020 despite a spike in 2013. The nature of the PSI operation (which involves the exchange of existing Greek law bonds for new English law bonds whose repayments are linked to EFSF repayments) with the scaling up of official support, however, greatly increases the rigidity of Greece debt, which may have a bearing on Greece's ability to mobilize new private financing in large volumes and on adequate terms

² Greece also made purchases between 1974 and 1976 under different facilities. At that time, Fund credit (for a total of SDR 386 million) was used to finance short-term balance of payments financing gaps due to rising energy prices and falling Greek exports, and to facilitate counter-cyclical fiscal and monetary policies as the authorities' pursued a more flexible exchange rate regime and implemented wage restraint to improve external competitiveness. All obligations to the Fund have been met in a timely manner.

³ Throughout the paper recent exceptional access cases refer to arrangements since September 2008.

even after the economy stabilizes and economic growth has resumed (see Staff Report, paragraph 52).

Table 2. Greece: Total External Debt, 2007–2012 1/

	2007	2008	2009	2010	2011 2/	2012 3/
(In Billions of Euros)						
Total External Debt	309	363	413	407	414	394
Public	188	227	274	269	300	301
<i>of which to EFSF & IMF</i>	0	0	0	35	77	187
Short-term 4/	12	41	57	88	101	79
Long-term	176	186	217	181	200	223
Private	121	135	139	138	113	93
Short-term	56	100	114	95	84	73
Long-term	64	36	25	44	29	20
(In Percent of GDP)						
Total External Debt	138.5	155.7	178.4	179.1	192.2	193.5
Public	84.3	97.6	118.3	118.3	139.6	147.9
<i>of which to EFSF & IMF</i>	0.0	0.0	0.0	15.5	36.0	91.6
Short-term 4/	5.4	17.5	24.7	38.8	46.7	38.6
Long-term	79.0	80.1	93.6	79.5	92.8	109.3
Private	54.2	58.1	60.1	60.8	52.6	45.6
Short-term	25.2	42.7	49.1	41.6	39.3	35.7
Long-term	28.9	15.3	11.0	19.2	13.4	9.9
<i>Memorandum items:</i>						
Short-term external debt (billions of euros)	68.2	140.3	171.1	182.9	185.1	151.3
Short-term external debt (% of GDP)	30.6	60.3	73.8	80.4	86.0	74.3
Excluding ECB repos (% of GDP)	25.8	45.1	52.7	42.1	39.4	35.8

Source: Greek authorities and IMF staff estimates.

1/ End of year unless otherwise indicated.

2/ Preliminary staff estimates.

3/ Staff projections.

4/ Includes short-term liabilities of the Bank of Greece to the Eurosystem.

5. **Greece's external debt service burden, particularly on short-term maturities, has increased and remains heavy.** Reflecting the country's high debt stock and low export earnings, Greece's external debt service is higher than all but one other exceptional access case (Figure 1, Panel C). For comparability with other recent access cases, public debt in Figure 1 is defined excluding interest and amortization of short-term obligations. However, this needs to be interpreted with caution as the lower ratios reflect a shortening of maturities rather than a reduction of risk. If the amortization of short-term obligations is also included, the external debt service peaks at over four times exports of goods and services.

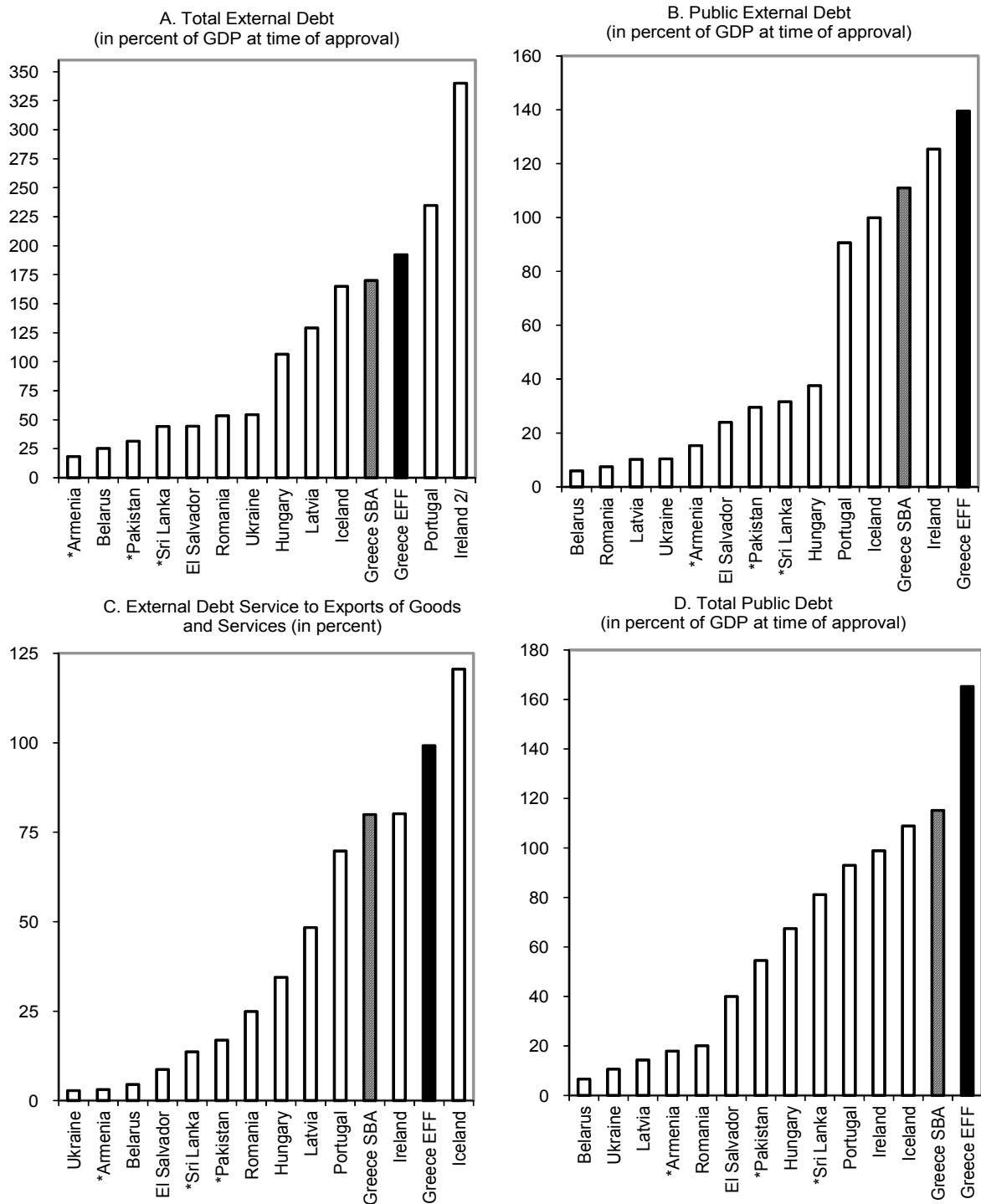
6. **Despite PSI and OSI, Greek public debt will remain very large.** The nominal reduction in debt due to PSI is substantial, but that effect is in part offset by PSI costs and the

necessary bank support measures (see Figure 2). The debt relief stemming from low official sector interest rates and channeling part of profits from ECB holdings of Greek GGBs is also substantial, reducing debt by around 4½ percent of GDP by 2020. As nominal GDP is projected to fall in the near term, the stock of total public debt in terms of GDP falls only slightly in 2012 to about 160 percent from over 165 percent in 2011—the highest ratio among recent exceptional access cases by a significant margin (Figure 1, Panel D). Public external debt has increased rapidly since 2004 from 71 percent of GDP to 140 percent of GDP in 2011 (Table 2).⁴ In 2011, about 85 percent of public debt was owed to external creditors, up from about 70 percent in 2004. A large part of the public debt (estimated at €100 billion in Q3 2011 at face value) is currently held by foreign banks, mostly European, despite significant deleveraging since the SBA was approved, although its share will diminish after the PSI operation (Figure 3).

7. Notwithstanding considerable efforts, Greece’s structural challenges remain formidable posing severe risks to the program. Greece remains at a significant distance from attaining its objectives of restoring competitiveness and growth, fiscal sustainability and financial stability. Upcoming elections, which are likely to lead to a change in government, could complicate efforts to address these challenges. Indicators of performance in key areas show both the magnitude of Greece’s challenges and its unfavorable starting point relative to its economic partners. Greek tax revenues are low compared with euro area partners, even after almost two years of reforms, reflecting limited institutional capacity, while expenditure is around the EU average.⁵ Continued fiscal adjustment will likely continue to weigh on economic activity. Compounding the problem, Greece faces a major challenge of engineering a substantial internal devaluation, and it must be recognized that there are a few examples of successful large internal devaluations under hard currency pegs even under favorable conditions. The length of the adjustment and its possible negative growth implications increase the risks to the Fund (see Figure 4).

⁴ Total public sector debt, as defined by Eurostat, does not include external liabilities of the Bank of Greece (estimated at about 47 percent of GDP at end-2011), which, however, are included in total external public sector debt.

⁵ See paragraph 7 of the Staff Report.

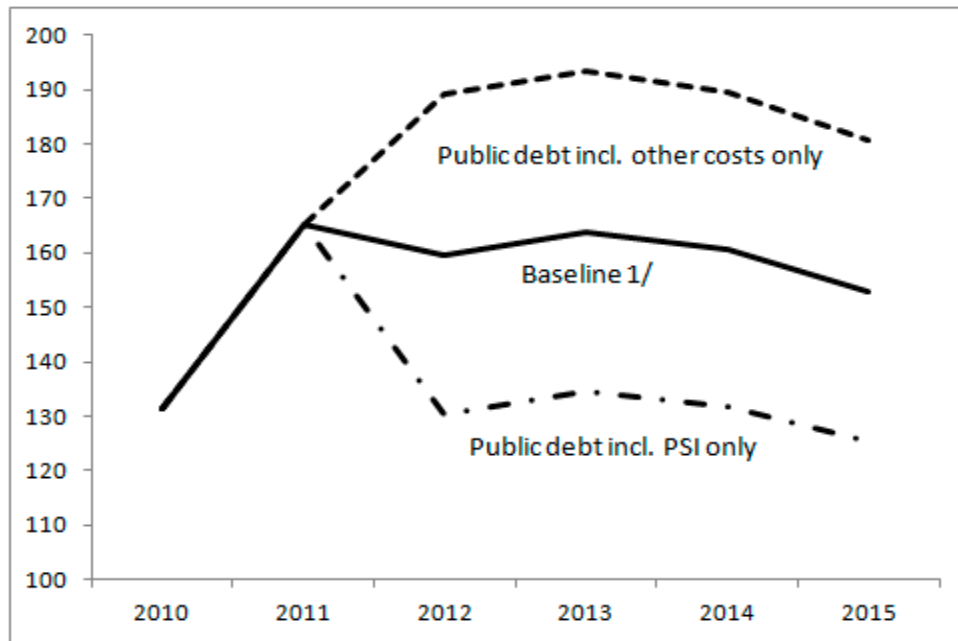
Figure 1. Debt Ratios for Recent Exceptional Access Arrangements 1/

Source: Greek authorities and IMF staff estimates, and World Economic Outlook.

1/ For arrangements approved since September 2008, estimates as reported in each staff report on the request of the arrangement. For Greece, ratios reflect end-2011 data. Asterisks indicate PRGF eligible countries.

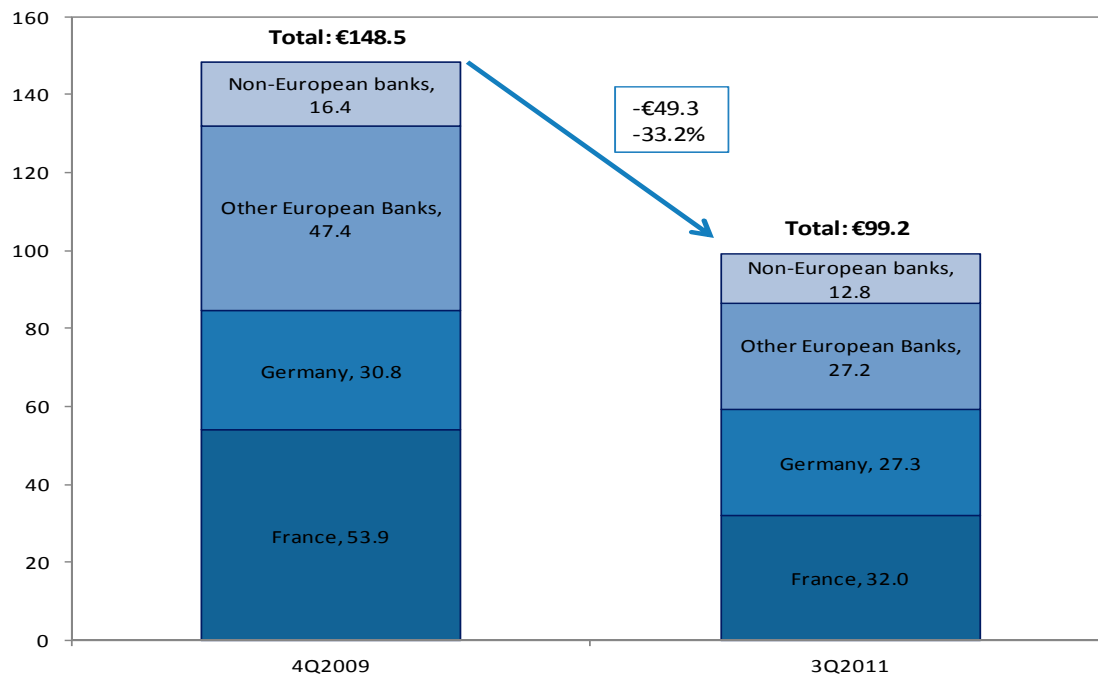
2/ End-2010 excluding external liabilities of the the International Financial Service Centers.

Figure 2. Impact of PSI on Greece's Public Debt
(In percent of GDP)



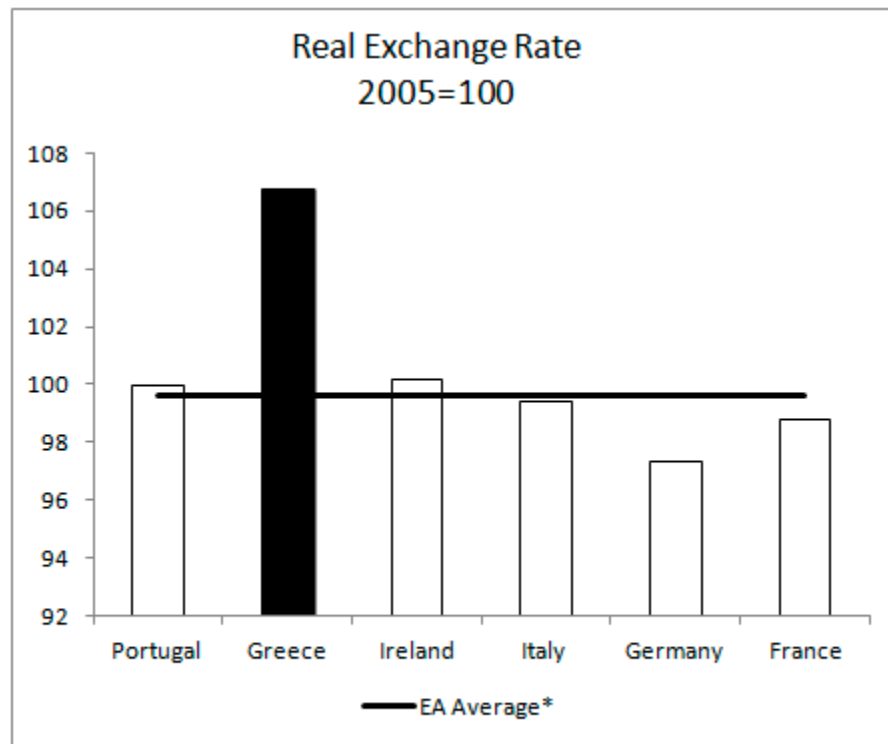
1/ Projected PSI in March 2012 consisting of an approximate €57 billion nominal haircut, about 28% of GDP. Upfront bank recapitalization and PSI costs are about €48.5 billion.

Figure 3. Consolidated BIS-reporting Banks Claims on Greece
(In billions of euros)



Source: BIS Consolidated Bank Statistics and IMF staff estimates.

Figure 4. Real Exchange Rate



Source: IFS, CPI-based. Excludes Estonia and Slovakia.

*End of year prior to IMF programs except for EA average which is end-2010.

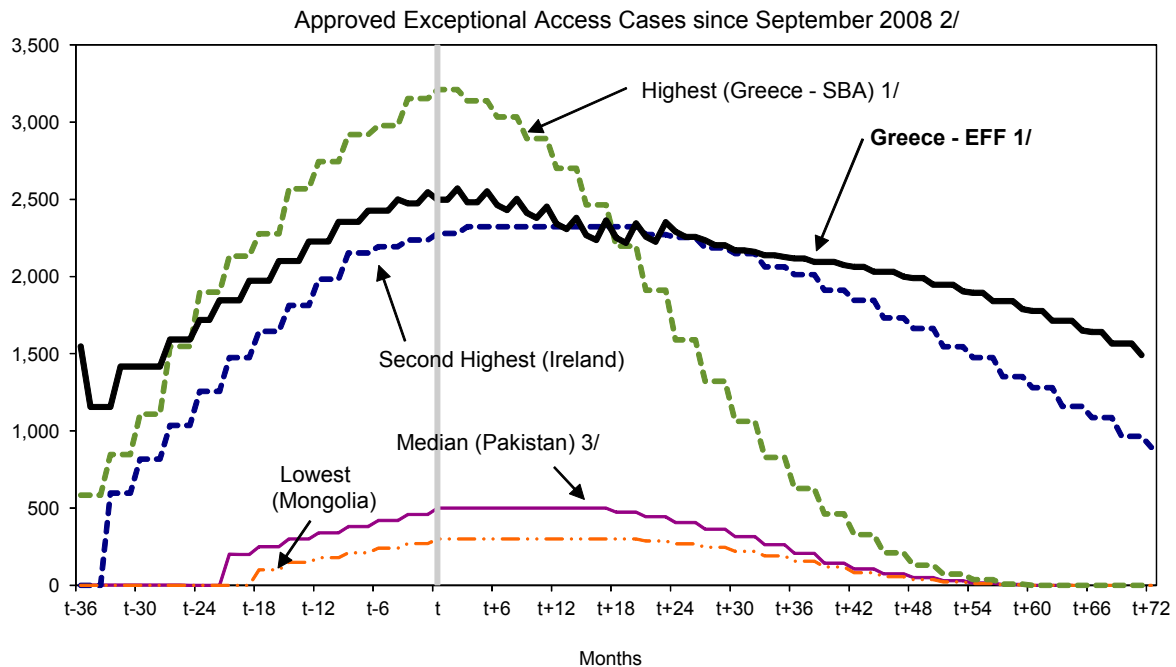
II. THE NEW EXTENDED ARRANGEMENT—RISKS AND IMPACT ON FUND'S FINANCES

8. Access under the proposed arrangement would surpass both annual and cumulative access limits and be among the highest in terms of various indicators:

- If all purchases were to be made as scheduled, Greece's outstanding use of GRA resources would rise to 1,719 percent of quota upon approval, to about 2,227 percent of quota during the first year of the arrangement, and then peak at 2,570 percent of quota in May 2014. In terms of quota, this projected peak exposure would be the highest in Fund history (Figure 5).⁶

⁶ The previous arrangements with the highest approved access as percentage of quota were Korea (1,938 percent) in 1997 followed by Turkey (1,560 percent) in 2001.

Figure 5. Fund Credit Outstanding in the GRA around Peak Borrowing 1/
(in percent of quota)



Source: IFS, Finance Department, and IMF staff estimates.

1/ Peak borrowing 't' is defined as the highest level of credit outstanding for a member. Repurchases are assumed to be on an obligations basis. All profiles in pre-2008 reform quota except "Greece - EFF".

2/ Including precautionary arrangements.

3/ Median credit outstanding at peak is 500 percent of quota; average is 960 percent of quota.

- If all purchases under the proposed Extended Arrangement are made, GRA credit outstanding to Greece would be equivalent to 15.8 percent of GDP and about 10.8 percent of total external public debt by end-2013 (Table 3). (The projections of Fund credit in relation to GDP need to be interpreted against the backdrop of Greece's need to engineer an internal devaluation that tends to push nominal GDP down and the debt ratio up.) The peak exposure ratio in terms of GDP would be among the highest of recent exceptional access cases, below only Iceland, whose level in part reflects a sharp depreciation of the kronor (Figure 6, Panel A).
- In terms of SDRs, the projected peak GRA exposure of SDR 27.3 billion would be the highest among recent exceptional access cases (Figure 7, Panel A).⁷

⁷ This assumes no drawings under the FCL arrangement with Mexico.

Table 3. Greece—Capacity to Repay Indicators 1/

	Mar-12	2012	2013	2014	2015	2016	2017	2018	2019	2020
Exposure and Repayments (In SDR millions)										
GRA credit to Greece 2/	18,940.9	23,138.2	27,262.8	26,581.4	24,878.7	23,552.1	22,386.2	20,287.6	17,256.2	13,408.6
(In percent of quota)	1,719.1	2,100.0	2,474.4	2,412.5	2,258.0	2,137.6	2,031.8	1,841.3	1,566.2	1,217.0
Charges due on GRA credit 3/	-	446.2	846.5	1,060.7	993.0	931.2	866.9	806.5	707.9	571.0
Debt service due on GRA credit 4/	-	446.2	2,318.3	7,338.5	8,292.1	3,657.5	2,032.8	2,905.1	3,739.3	4,418.6
Debt and Debt Service Ratios 5/										
In percent of GDP										
Total external debt	192.2	193.5	199.7	200.5	193.0	184.3	174.2	163.4	152.8	141.1
External debt, public	139.6	147.9	146.9	139.4	129.7	120.8	110.9	104.4	98.3	91.7
Total public debt	165.3	159.7	164.0	160.7	153.0	145.2	137.4	130.3	123.3	116.5
GRA credit to Greece	10.0	13.4	15.8	15.0	13.5	12.3	11.2	9.8	7.9	5.9
Total external debt service 6/	22.5	24.2	15.1	19.5	14.9	10.2	10.6	9.0	10.7	10.7
Public external debt service 6/	16.5	19.1	11.3	17.4	12.9	9.1	9.1	7.8	9.3	9.4
Debt service due on GRA credit	-	0.3	1.3	4.2	4.5	1.9	1.0	1.4	1.7	2.0
In percent of General Government Revenues										
Public external debt service 6/	40.2	45.2	26.7	41.4	32.2	22.7	22.8	19.4	23.2	23.4
Debt service due on GRA credit	-	0.6	3.2	9.9	11.3	4.8	2.5	3.5	4.3	4.9
Debt service due on EU credit 7/	-	1.6	6.4	7.2	8.6	9.2	9.2	9.0	8.9	11.4
In percent of Exports of Goods and Services										
Total external debt service 6/	99.2	97.3	58.2	72.6	53.8	35.7	35.7	29.6	34.1	33.6
Public external debt service 6/	72.6	76.8	43.5	64.9	46.5	31.7	30.9	25.5	29.7	29.5
Debt service due on GRA credit	-	1.0	5.2	15.5	16.3	6.7	3.4	4.6	5.5	6.1
In percent of Total Public External Debt										
GRA credit to Greece	7.2	9.0	10.8	10.8	10.4	10.2	10.1	9.3	8.1	6.5
In percent of Total Public External Debt Service										
Debt service due on GRA credit	-	1.4	11.9	23.9	35.0	21.0	11.2	18.0	18.6	20.8
Other Indicators										
REER (2005 = 100) 8/	106.1	103.2	100.5	98.2	96.6	95.4	94.5	93.8	93.3	92.7

Sources: Greek authorities, Finance Department, World Economic Outlook, and IMF staff estimates.

1/ Assumes full drawings.

2/ Repurchases are assumed to be made as scheduled.

3/ Includes GRA basic rate of charge, surcharges and service fees.

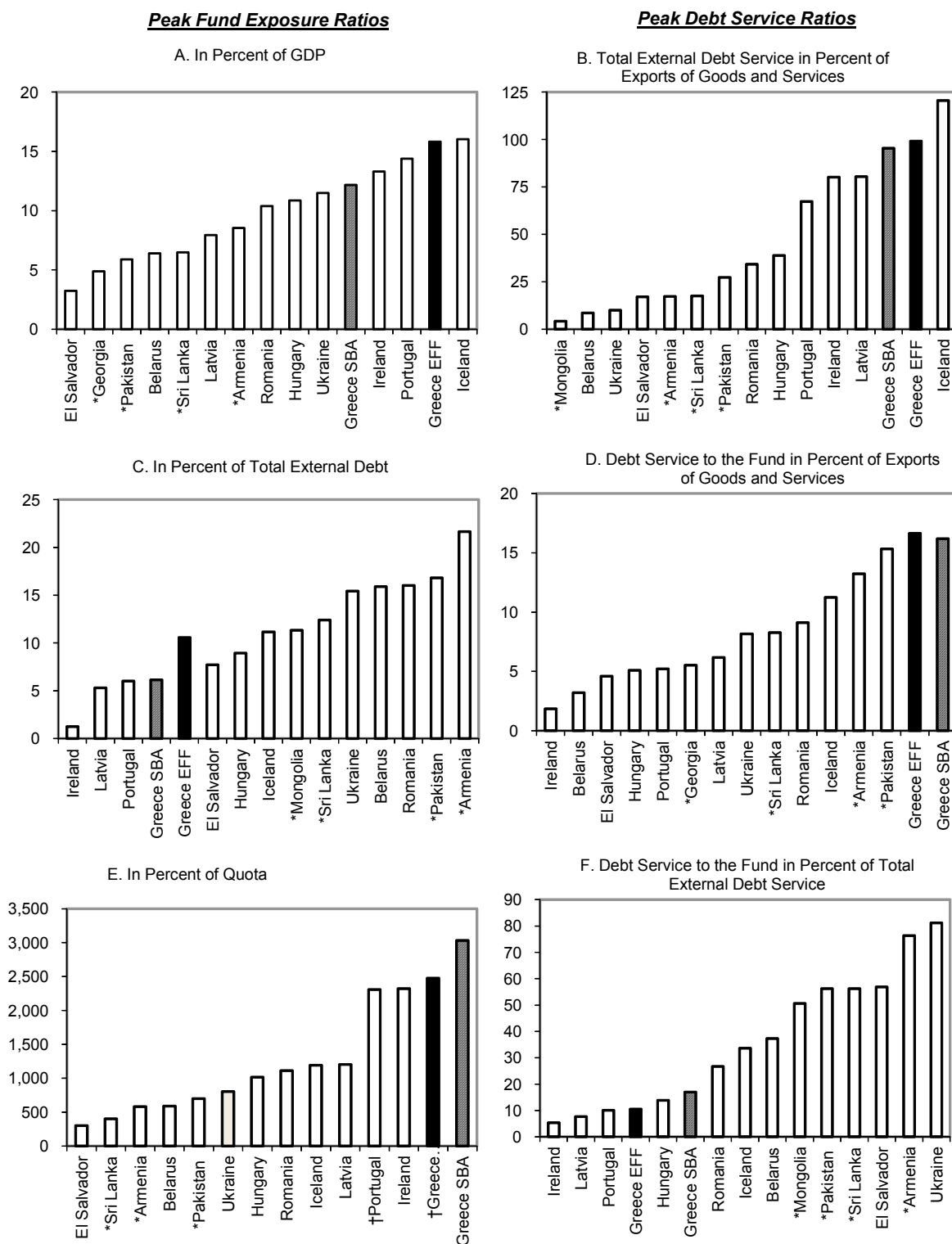
4/ Includes charges due on GRA credit and payments on principal.

5/ Staff projections for external debt, GDP, gross international reserves, and exports of goods and services, as used in the staff report that requests the proposed SBA. For Mar 2012, the figures use stock values as of end-December 2011.

6/ Interest on and amortization of medium and long-term debt.

7/ EU maturities are 30 years so service figures show only interest through 2020.

8/ IFS. Based on 2010 index rebased for euro area average and consistent with projected changes in the program from 2011 onwards.

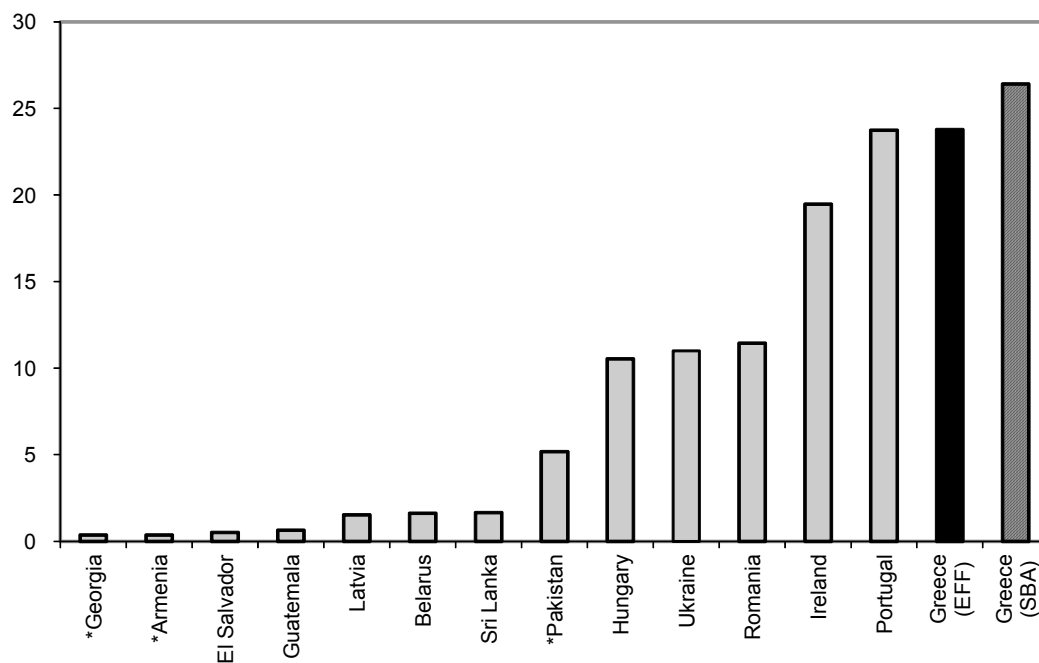
Figure 6. Peak Fund Exposure and Debt Service Ratios for Recent Exceptional Access Cases 1/

Source: Greek authorities and IMF staff estimates, and World Economic Outlook.

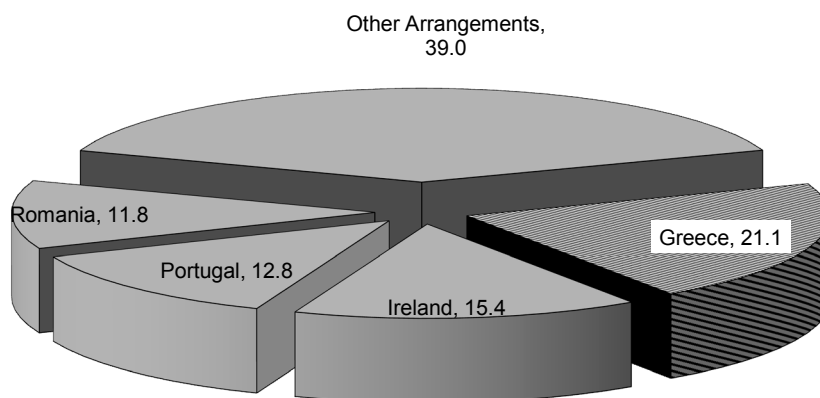
1/ Asterisks indicate PRGF eligible countries. † indicate post 2008 reform quota.

Figure 7. Exceptional Access Levels and Credit Concentration

A. Total Access of Recent Exceptional Access Arrangements 1/
(In billions of SDRs)



B. Credit Concentration of Fund GRA Exposure 2/
(As a percentage of total credit outstanding)



Source: Finance Department.

1/ Does not include FCL arrangements. Asterisks indicate PRGT eligible countries.

2/ Credit outstanding as of March 8, 2012 plus expected first purchase under the proposed arrangement with Greece.

9. **If all purchases under the proposed Extended Arrangement take place as scheduled, debt service ratios to the Fund would be high in terms of a range of standard indicators, in the context of a heavy overall debt service burden.**⁸ For comparability with risk assessments in other exceptional access cases, Table 3 shows debt service to the Fund projected under the assumption that the SDR interest rate remains at its current level. Greece's projected debt service to the Fund would peak at almost SDR 8.3 billion in 2015 (Table 3). This would be (i) about 4.5 percent of GDP, (ii) about 11.3 percent of general government revenues, and (iii) about 16.3 percent of exports of goods and services (Figure 6, Panel D), the highest in recent exceptional access cases, and in the context of an overall external debt service burden peaking at over 99 percent of exports of goods and services, second only to Iceland (Figure 6, Panel B). Allowing for an SDR interest rate path rising to over 3 percent by 2017, consistent with current forward interest rates, debt service would be over 6 percent higher on average (see Table A1 in the Annex.). These ratios underscore the very substantial financial risks to the Fund.

10. **The impact of the proposed arrangement on the Fund's credit risk exposure is substantial, while the liquidity effect is less pronounced as a result of the authorities' cancellation of the SBA that has undrawn commitments of about SDR 8.9 billion:**

- **The proposed arrangement would reduce Fund liquidity.** Commitments under the proposed arrangement would reduce the forward commitment capacity (FCC), which currently stands at about SDR 255 billion, by about 9 percent, once undrawn balances under the current SBA are taken into account (Table 4).⁹
- **If the first purchase is made, Fund credit to Greece would represent about 21 percent of total GRA Fund credit (Figure 7, Panel B),** making Greece the largest user of Fund resources. The share of the top five users of Fund resources to total outstanding credit would increase by a couple of percentage points to about 72 percent (Table 4).
- **The proposed arrangement would extend the Fund's existing GRA exposure to Greece for several years.** Under the current SBA, Fund exposure to Greece was projected to fall to below 1,000 percent of quota in 2015 about five years after

⁸ Debt service to the Fund is calculated assuming that all repurchases are made as scheduled, i.e., each purchase is repurchased in eight quarterly installments, beginning in 3¼ years after each purchase and ending after 5 years. Surcharges apply to outstanding credit above 300 percent of quota.

⁹ The FCC is the principal measure of Fund liquidity. The FCC indicates the amount of GRA resources available for new financing. This reduction represents the net effect of cancelling the undisbursed balances under the SBA and the new access to be granted under the EFF.

approval of the program.¹⁰ Under the proposed EFF, GRA credit would remain above 1,000 percent of quota until 2019 (Figure 5).

- **The uniform phasing of access under the proposed arrangement helps mitigate the risks to the Fund.** The uniform phasing links the build-up of outstanding credit to continued performance under the program. At the same time, it helps maintain the leverage of conditionality over the implementation of policies.
- **Potential total GRA exposure to Greece would be a multiple of the current level of the Fund's precautionary balances.** Existing Fund credit to Greece and the proposed commitments is equivalent to about 450 percent of the Fund's current precautionary balances (Table 4). After the first purchase under the proposed arrangement, credit to Greece would be about twice the size of precautionary balances, rising to about 300 percent in 2013 when credit outstanding is projected to peak,¹¹ underscoring the risks to the Fund's balance sheet.
- **In the event Greece were to fully draw on resources available under the proposed EFF, the charges accruing to Greece's GRA obligations would far exceed the Fund's burden sharing capacity were they to fall into arrears.**¹² Charges on GRA obligations would equal about SDR 446 million in 2012, over 20 times the current estimated residual burden-sharing capacity, and increase to over SDR 1 billion in 2014 (Table 4). While the burden sharing mechanism is designed to cover the Fund's income losses related to charges in arrears, its capacity is currently very limited and will remain so while the SDR interest rate is low and the Fund relies on borrowed resources. In these circumstances, should charges on Greece's obligations to the Fund fall into arrears, the Fund's income position will deteriorate and, over time, would have an adverse impact on prudential balances, underscoring the potential risks to the Fund's financial integrity.¹³

¹⁰ When the quota increase for Greece under the Fourteenth General Review of Quotas becomes effective, outstanding credit in 2015 would amount to just over 1000 percent of quota.

¹¹ Precautionary balances are projected on the basis of current margin and surcharges.

¹² Under the burden-sharing mechanism, the financial consequences for the Fund that stem from the existence of overdue financial obligations are shared between creditors and debtors through a decrease in the rate of remuneration and an increase in the rate of charge, respectively. The mechanism is, inter alia, used to compensate the Fund for a loss in income when debtors do not pay charges. Under current Board decisions, no burden sharing adjustments can be made that would result in a rate of remuneration below 85 percent of the SDR interest rate. While this limit could be changed, under the Articles of Agreement the rate of remuneration cannot be below 80 percent of the SDR interest rate (Article V, Section 9(a)). No corresponding ceiling applies to the rate of charge.

¹³ The non-recognition of charges receivable as income would undermine the Fund's ability to demonstrate that the net present value of credit outstanding has not been impaired. The earmarking of reserves resulting from accounting for the impairment of credit outstanding would be an implicit use of precautionary balances.

Table 4. Greece—Impact on GRA Finances

	as of 3/8/2012
Liquidity measures	
Forward Commitment Capacity (FCC) 1/	264,250
Impact on FCC on approval 2/	-23,785
Prudential measures	
Fund GRA commitment to Greece including credit outstanding	
in percent of current precautionary balances	454
in percent of total GRA credit outstanding 3/	37
Fund GRA credit outstanding to top five borrowers	
in percent of total GRA credit outstanding 3/	70
in percent of total GRA credit outstanding including first Greek purchase	72
Greece's annual GRA charges in percent of the Fund's residual burden sharing capacity for 2012	2,053
Memorandum items	
Fund's precautionary balances (end-January 2012) 4/	9,100
Fund's Residual Burden Sharing Capacity 5/	21.7

Sources: Greek authorities, Finance Department, World Economic Outlook, and IMF staff estimates.

1/ The FCC is defined as the Fund's stock of usable resources less undrawn balances under existing arrangements, plus projected repurchases during the coming 12 months, less repayments of borrowing due one year forward, less a prudential balance. The current FCC of SDR 255b is adjusted upwards by the undisbursed amount under the SBA.

2/ A single country's negative impact on the FCC is defined as the country's sum of Fund credit and undrawn commitments minus repurchases one-year forward.

3/ March 8, 2012, does not include proposed first purchase.

4/ Estimated. Precautionary balances exclude amounts in Special Reserves attributable to profits on gold sales in FY2010.

5/ Burden-sharing capacity is calculated based on the floor for remuneration at 85 percent of the SDR interest rate. Residual burden-sharing capacity is equal to the total burden-sharing capacity minus the portion being utilized to offset deferred charges and takes into account the loss in capacity due to nonpayment of burden sharing adjustments by members in arrears.

11. The proposed extension of exposure to Greece occurs amid high concentration of the Fund's portfolio to euro area members. Currently, credit to the euro area represents about 40 percent of total credit, but given the size of commitments to these members in early stages of disbursing, GRA credit to the euro area is projected to approach 80 percent of the total in 2014 based on current arrangements (Figure 8).

12. This large exposure to a single region that is subject to highly correlated shocks poses important risks. The Fund has extensive experience with risks that are a corollary of its countercyclical mandate. But large and concentrated lending to the Euro area, that is likely to be subject to correlated shocks, raises unprecedented financial risks. These risks, moreover, rise with the share of Fund lending in total official sector lending, the share of the latter in total financing needs, and are bigger, the greater is the reliance on GRA borrowing over quota and other structures. Moreover, risks would be heightened in the event of an exit from the euro zone.

Figure 8a. Credit Concentration by Region (share of total), 1980–2014 1/

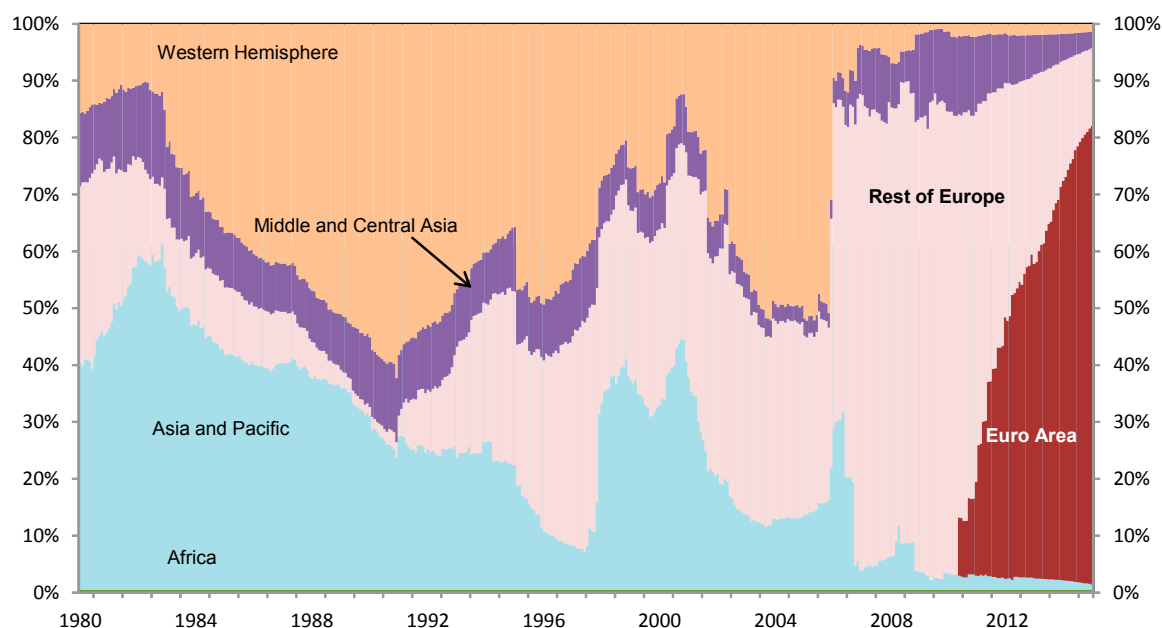
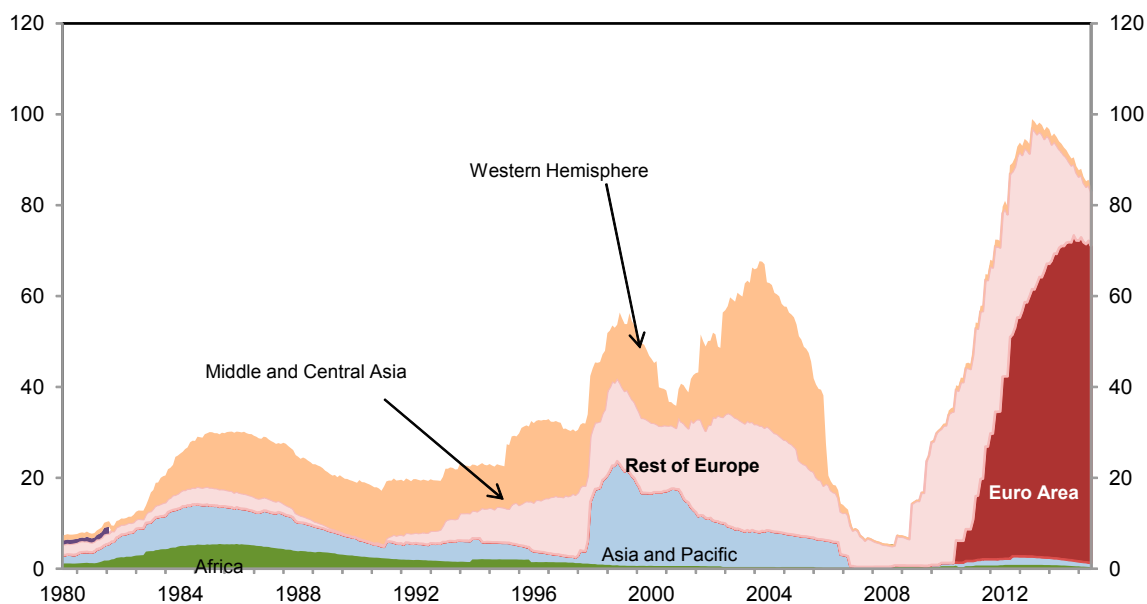


Figure 8b. Credit Concentration by Region (in SDR billions), 1980–2014 1/



Source: Finance Department

1/ Projections of credit outstanding based on current arrangements, the proposed approval of a new arrangement for Greece and cancellation of Greece's SBA, and assuming full purchases of committed amounts.

III. ASSESSMENT

13. **The proposed Extended Arrangement for Greece is intended to support the authorities' very ambitious and challenging program of macroeconomic adjustment and comprehensive structural reform.** If the program is successful, despite the many downside risks, Greece is expected to be able to resume economic growth, address its external imbalances, and put debt onto a sustainable path. Moreover, with the sustained support of European partners—conditional on adherence to the program—in amounts adequate to backstop repayments and to help restore access to private markets, Greece would be expected to be able to meet its obligations to the Fund on a timely basis.

14. **There are, however, substantial risks to the program, which, if they materialize, could adversely affect Greece's capacity to repay the Fund.** As highlighted in the staff report and in the debt sustainability analysis, the debt trajectory is extremely sensitive to program delays and slippages, with the attendant risks that Greece's debt sustainability could again come into question. With no room for maneuver on account of the extremely limited capacity to absorb slippages or adverse shocks, and the narrow range of available policy instruments, the success of the program will depend critically on building and sustaining momentum across of a wide range of policies that will stretch the social fabric and tax political support for the program. This will require a decisive break with the record of program implementation under the SBA, and a continuation of vigorous program implementation following the forthcoming elections, and the likely change of government.

15. **The success of the program will depend critically on a number of key factors, most notably:**

- The successful implementation of measures to promote internal devaluation and to improve the competitiveness and flexibility of the Greek economy. These are essential to pave the way toward a resumption of economic growth. As noted above, examples of successful large internal devaluations under hard currency pegs are rare, even under more favorable circumstances. Greece's starting situation is extremely challenging, and political resolve and bold front-loaded reform implementation are absolutely critical for internal devaluation to work.
- Strong measures to address Greece's weak revenue administration and public financial management system in order to complete the fiscal adjustment on a scale required to achieve primary surpluses of 4½ percent of GDP by 2014. This large and sustained adjustment will require deep cuts in the size of government, and more importantly, a targeted reduction in social transfers that must be implemented in the face of strong social and political resistance.
- The performance of the real economy, and in particular, the assumption that the response of the economy to the improvements in competitiveness and labor market

and other reforms will be sufficient to allow Greece to resume economic growth in 2014, notwithstanding on-going fiscal consolidation and financial system deleveraging. Some combination of a larger than programmed fiscal multiplier, the deflator falling more than expected as competitiveness is corrected, or a slower-than-projected response of the economy to the supply side measures, would jeopardize the prospect of achieving debt sustainability.

- The effective restructuring of the banking system, while keeping core elements solvent and liquid, will be key in maintaining what remains of depositor confidence and, in time, help support economic activity. In this context, continued Eurosystem support will be essential.
- The need to persevere with an ambitious privatization program that aims to make an important contribution to reducing Greece's debt and debt service burden, and improvements in economic efficiency that will strengthen the tax and employment base, and thereby help reduce the burden of fiscal adjustment. Such privatization program, with targets similar to past programs of a number of transition economies and other emerging markets, is essential to bringing the debt down to a more manageable position.
- Long-term financing from Greece's European partners on appropriate terms will be needed to help the authorities succeed in addressing Greece's deep structural problems, and to provide a backstop to Greece's gradual return to market access. This support, which is a key aspect of program design, will build on the substantial debt relief expected to be provided by private creditors.

16. If policies in these areas are not successful, Greece's adjustment would be undermined, with the likelihood that the debt trajectory would become unsustainable.

In such circumstances, Greece might be forced into a debt moratorium, which could lead to a disorderly exit from the euro zone in the absence of arrangements to backstop bank liquidity. The new currency would likely overshoot (at least in the medium term), and economic dislocations stemming from balance-sheet effects and legal uncertainties would likely lead to a sharp compression in real activity. Under those conditions, Greece's exposure to the Fund in terms of GDP would increase substantially. Such events would further undermine Greece's capacity to repay the Fund. In any event, if the program goes off track, Greece's capacity to meet its obligations to the Fund would hinge critically on the willingness of European partners to continue to backstop Greece's payments capacity and the Eurosystem's capacity to backstop bank liquidity while further efforts are put in place to stabilize the Greek economy. These are major risks to the Fund in view of Greece's record of program implementation and the upcoming political transition, although the completion of the prior actions for the proposed program, the assurance letters provided by the two main political parties, and the broad parliamentary endorsement of the policies contained in the MEFP provide important signals of policy continuity during the program period.

Table A1. Greece—Capacity to Repay Indicators based on Projected SDR rates 1/

	Mar-12	2012	2013	2014	2015	2016	2017	2018	2019	2020
Exposure and Repayments (In SDR millions)										
GRA credit to Greece 2/	18,940.9	23,138.3	27,263.1	26,581.8	24,879.2	23,552.1	22,386.1	20,287.4	17,256.0	13,408.4
(In percent of quota)	1,719.1	2,100.1	2,474.4	2,412.6	2,258.1	2,137.6	2,031.8	1,841.3	1,566.2	1,217.0
Charges due on GRA credit 3/	-	453.3	888.3	1,161.2	1,198.1	1,246.8	1,281.8	1,234.0	1,088.9	887.4
Debt service due on GRA credit 4/	-	453.3	2,360.1	7,439.0	8,497.2	3,973.1	2,447.8	3,332.7	4,120.3	4,735.0
Debt and Debt Service Ratios 5/										
In percent of GDP										
Total external debt	192.2	193.5	199.7	200.5	193.0	184.3	174.2	163.4	152.8	141.1
External debt, public	139.6	147.9	146.9	139.4	129.7	120.8	110.9	104.4	98.3	91.7
Total public debt	165.3	159.7	164.0	160.7	153.0	145.2	137.4	130.3	123.3	116.5
GRA credit to Greece	10.0	13.4	15.8	15.1	13.5	12.3	11.2	9.8	7.9	5.9
Total external debt service 6/	22.5	24.2	15.1	19.5	14.9	10.2	10.6	9.0	10.7	10.7
Public external debt service 6/	16.5	19.1	11.3	17.4	12.9	9.1	9.1	7.8	9.3	9.4
Debt service due on GRA credit	-	0.3	1.4	4.2	4.6	2.1	1.2	1.6	1.9	2.1
In percent of General Government Revenues										
Public external debt service 6/	40.2	45.2	26.7	41.4	32.2	22.7	22.8	19.4	23.2	23.4
Debt service due on GRA credit	-	0.6	3.2	10.0	11.5	5.2	3.1	4.0	4.7	5.2
Debt service due on EU credit 7/		1.6	6.4	7.2	8.6	9.2	9.2	9.0	8.9	11.4
In percent of Exports of Goods and Services										
Total external debt service 6/	99.2	97.3	58.2	72.6	53.8	35.7	35.7	29.6	34.1	33.6
Public external debt service 6/	72.6	76.8	43.5	64.9	46.5	31.7	30.9	25.5	29.7	29.5
Debt service due on GRA credit	-	1.1	5.3	15.7	16.7	7.3	4.1	5.3	6.1	6.6
In percent of Total Public External Debt										
GRA credit to Greece	7.2	9.0	10.8	10.8	10.4	10.2	10.1	9.3	8.1	6.5
In percent of Total Public External Debt Service										
Debt service due on GRA credit	-	1.4	12.1	24.2	35.9	22.9	13.4	20.6	20.4	22.3
Other Indicators										
REER (2005 = 100) 8/	106.1	103.2	100.5	98.2	96.6	95.4	94.5	93.8	93.3	92.7

Sources: Greek authorities, Finance Department, World Economic Outlook, and IMF staff estimates.

1/ Assumes full drawings.

2/ Repurchases are assumed to be made as scheduled.

3/ Includes GRA basic rate of charge, surcharges and service fees.

4/ Includes charges due on GRA credit and payments on principal.

5/ Staff projections for external debt, GDP, gross international reserves, and exports of goods and services, as used in the staff report that requests the proposed SBA. For Mar 2012, the figures use stock values as of end-December 2011.

6/ Interest on and amortization of medium and long-term debt.

7/ EU maturities are 30 years so service figures show only interest through 2020.

8/ IFS. Based on 2010 index rebased for euro area average and consistent with projected changes in the program from 2011 onwards.



Press Release No. 12/85
FOR IMMEDIATE RELEASE
March 15, 2012

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves €28 Billion Arrangement Under Extended Fund Facility for Greece

The Executive Board of the International Monetary Fund (IMF) today approved a four-year SDR 23.8 billion (about €28 billion, or US\$36.7 billion) arrangement under the Extended Fund Facility (EFF) for Greece in support of the authorities' economic adjustment program. The approval allows for an immediate disbursement of SDR 1.4 billion (about €1.65 billion, or US\$2.2 billion). The EFF arrangement entails exceptional access to IMF resources, amounting to 2,159 percent of Greece's quota.

The Executive Board also took note of Greece's cancellation of the three-year Stand-By Arrangement (SBA) for Greece which had been approved in May 2010 (see Press Release No. 10/187 (see [Press Release No. 10/187](#))).

Official sector support for the second Greek program entails €130 billion (about US\$170 billion) in new financing, in addition to the remainder of the financing support for the first program of €34 billion (about US\$44 billion). The IMF contribution of €28 billion will be disbursed in equal tranches over a four-year period. It represents about three-elevenths of the total, excluding payments related to the private sector involvement (PSI) and repayments of bonds held by the European Central Bank. This will keep the Fund's peak-exposure broadly unchanged relative to the SBA.

Following the Executive Board's discussion, IMF Managing Director and Chair Christine Lagarde said in a statement:

"Greece has made tremendous efforts to implement wide-ranging painful measures over the past two years, in the midst of a deep economic recession and a difficult social environment. The fiscal deficit has been reduced markedly and competitiveness has gradually improved. However, the challenges confronting Greece remain significant, with a large competitiveness gap, a high level of public debt, and an undercapitalized banking system.

"The new Fund-supported program will enable Greece to address these challenges while remaining in the Eurozone. The program focuses on restoring competitiveness and growth,

fiscal sustainability, and financial stability. The authorities are fully committed to these ambitious objectives and stand ready to take any additional measures as may be necessary. The successful debt exchange operation, debt relief and long-term support from Greece's European partners, and the commitment of the major Greek political parties to program objectives and policies provide important assurances for the new program.

"Greece's priority is to undertake competitiveness-enhancing structural reforms. The government's bold labor market measures will play a crucial role in this regard, complemented by measures to liberalize professions and product markets, improve the business environment, and privatize state-owned assets.

"Significant further fiscal adjustment is necessary to put debt on a sustainable downward trajectory. Reaching a primary surplus of 4½ percent of GDP by 2014 will require politically difficult cuts in government spending, as well as decisive measures to address tax evasion. It is important that the adjustment be both fair and sustainable, through strengthening the core social safety net and tax collection efforts.

"Securing financial sector stability and depositor confidence is also a priority. The program secures liquidity support for Greek banks, and provides funds for their recapitalization, alongside incentives to preserve private ownership. The resolution framework and the governance of oversight agencies have been strengthened to ensure appropriate use of public funds and safeguard against conflicts of interest.

"Risks to the program remain exceptionally high, and there is no room for slippages. Full and timely implementation of the planned adjustment—alongside broad-based public support and support from Greece's European partners—will be critical to success. The euro area leaders have reiterated their commitment to provide adequate support to Greece during the life of the program and beyond until it has regained market access, provided that Greece fully complies with the requirements and objectives of the adjustment program."

Recent Economic Developments

Since 2009, Greece has been unwinding fiscal and external imbalances, but through deep recession. Real GDP has declined by more than 13 percent since 2009. Private investment led the downturn in 2009, while public retrenchment started only in 2010. With falling incomes and employment, private consumption took over as the main driver of the recession in 2011.

Competitiveness gains are not yet evident on an economy-wide basis, and the current account deficit has remained close to 10 percent of GDP. Productivity growth turned positive only at the end of 2011 as labor market adjustment gathered speed. However, this has come at the cost of rapidly rising unemployment. The slow adjustment despite deep recession owes much to wage and price rigidities in labor and product markets and a small tradables sector.

The fiscal deficit has improved considerably by about 6 ½ percentage points of GDP between 2009 and 2011 despite the steep recession. Still, the primary deficit achieved in 2011 of 2 ½ percent of GDP remains well below the long-run debt stabilizing level of a 1 ½ percent of GDP primary surplus. The recession and losses from government debt exposures have taken a deep toll on the banking system, leaving banks undercapitalized and necessitating a higher level of public support.

Program Summary

The Greek authorities' economic program aims, over time, at restoring competitiveness and growth, attaining fiscal sustainability and financial stability. While building on progress made under the SBA, the authorities recalibrated their program strategy to place additional emphasis on the implementation of structural reforms to accelerate economic growth and employment.

Strengthening competitiveness: The program aims to make the labor market more dynamic to improve competitiveness, strengthen growth and reduce unemployment. Enhanced measures to reduce rigidities in the product and service markets will be implemented to increase competition and decrease prices. Through ambitious privatization and steep reductions in bureaucratic barriers to investment, the government aims to restore investment and growth.

Improving the fiscal position: The program provides room for structural reform impacts in 2012, targeting a primary deficit of 1 percent of GDP. The bulk of fiscal adjustment, however, will take place in 2013-14 to bring the primary balance to the new target of 4½ percent of GDP. To improve the fiscal position, the government will focus on improving tax collection, but even with an ambitious effort in this area some 5½ percent of GDP in additional spending cuts will be needed. These will focus on reducing the size of government

and more efficiently targeting social transfers. The core safety net will be strengthened to protect the most vulnerable in society.

Restoring financial sector stability: Significant resources will be set channeled to help banks cope with the impact of the recession and the restructuring of government debt. Government support will be structured so as to provide incentives to maintain private ownership where feasible. The framework for bank resolution and recapitalization and for financial sector oversight will also be strengthened, to ensure effective stewardship of bank recapitalization funds, and effective oversight of the system.

Reducing debt levels: A combination of private and official sector involvement is expected to deliver enough debt relief to place debt on a trajectory to fall below 120 percent of GDP by 2020 under the program baseline.

Growth Expectations

Growth in 2012 is expected to be in the range of -4½ to -5 percent, given the dominant influence of fiscal adjustment and labor market reforms. The recovery is expected to begin, quarter-over-quarter, in 2013, and benefit from moderate cyclical developments in 2014-2016.

Additional Background

Greece, which became a member of the IMF on December 27, 1945, has an IMF quota of SDR 1.1 billion (about €1.3 billion, or US\$1.7 billion).

For additional background on the IMF and Greece, see:

<http://www.imf.org/external/country/GRC/index.htm>

Greece: Selected Economic Indicators

	2010	2011	2012	2013	2014	2015	2016	2020
	Projections							
Domestic economy	(Percentage change, unless otherwise indicated)							
Real GDP	-3.5	-6.9	-4.8	0.0	2.5	3.1	3.0	2.2
Output gap (percent of pot. output)	2.9	-2.4	-6.7	-6.7	-4.7	-2.6	-0.9	0.0
Total domestic demand	-6.0	-8.9	-6.7	-1.4	1.3	1.9	1.9	1.3
Private consumption	-3.6	-7.2	-5.7	-1.1	0.9	0.5	0.4	0.2
Public consumption	-7.1	-9.5	-11.0	-9.5	-4.7	1.0	1.0	0.1
Gross fixed capital formation	-14.5	-17.0	-6.6	5.8	8.5	8.5	8.0	5.0
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	3.0	2.5	1.5	1.2	1.2	1.1	1.0
Exports of goods and services	4.2	3.0	3.2	5.5	7.0	7.5	6.9	5.0
Imports of goods and services	-7.2	-7.0	-5.1	0.0	2.4	3.2	3.1	2.3
Unemployment rate (percent) 1/	12.5	17.3	19.4	19.4	18.2	16.8	15.6	11.7
Employment	-2.7	-6.6	-4.8	-0.3	1.5	1.8	1.4	1.0
Unit labor costs	-0.4	-2.8	-8.6	-1.6	-1.9	-0.7	1.7	0.3
Consumer prices (HICP), end of period	5.1	2.2	0.8	0.0	0.6	1.1	1.2	1.9
Consumer prices (HICP), period average	4.7	3.1	-0.5	-0.3	0.2	1.0	1.1	2.0
GDP deflator	1.7	1.6	-0.7	-0.5	-0.1	0.8	1.0	1.9
Monetary survey								
Credit to the private sector (percent change)	-0.2	-3.2	-4.0	-2.2	3.1	3.5	4.0	4.5
Private sector deposits (percent change)	-12.1	-16.5	-10.5	-2.7	4.4	8.5	8.8	5.3
Liabilities to the BoG (in billions of Euro)	97.8	76.9	41.4	41.4	38.9	35.5	27.4	17.8
Balance of payments	(Percent of GDP)							
Current account	-10.1	-9.8	-7.5	-6.7	-5.4	-3.3	-2.4	1.2
Trade balance	-6.6	-5.8	-4.2	-3.0	-1.7	-0.4	0.8	5.0
Export of goods and services	20.0	22.7	24.8	25.9	26.8	27.7	28.6	31.8
Export of goods	7.5	9.4	10.5	11.0	11.4	11.7	12.0	13.1
Exports of services	12.5	13.3	14.3	14.9	15.5	16.0	16.6	18.8
Imports of goods and services	26.7	28.5	29.1	28.9	28.6	28.1	27.8	26.9
Imports of goods	20.0	22.0	22.6	22.4	21.9	21.4	21.1	20.1
Imports of services	6.7	6.5	6.5	6.6	6.6	6.7	6.7	6.8
Total transfers	0.1	0.3	0.3	0.3	0.3	0.2	0.2	-0.3
Net income receipts	-3.6	-4.2	-3.6	-4.0	-4.0	-3.2	-3.5	-3.5
Net international investment position	-99	-113	-125	-131	-134	-130	-126	-102
Gross external debt	179	192	193	200	200	193	184	141
Private sector capital flows (net)	-19	-19	-41	1	1	2	2	0
Public finances (general government, percent of GDP)								
Total revenues	39.5	41.0	42.2	42.2	42.1	40.1	40.1	40.1
Total expenditures	50.1	50.3	49.5	46.8	44.2	41.7	42.0	41.3
Primary expenditures	44.6	43.4	43.2	40.4	37.6	35.6	35.6	35.8
Overall balance	-10.6	-9.3	-7.3	-4.6	-2.1	-1.6	-1.9	-1.2
Primary balance	-5.0	-2.4	-1.0	1.8	4.5	4.5	4.5	4.3
Gross financing needs (pct of GDP)	24	29	73	23	21	17	11	9
Memo: GFN (in billions of Euro)	54	63	149	47	43	36	25	24
Memo: Deposit accumulation (in billions of Euro)	...	2.0	7.4	0.6	-2.9	0.2	0.2	0.2
New private sector borrowing (MLT, billions of Euro)	...	0.0	0.0	0.0	0.0	0.0	0.3	2.5
Privatization receipts (percent of GDP)	0.0	0.5	1.6	2.1	2.1	2.6	2.6	2.1
Gross debt (in percent of GDP)	145	165	163	167	161	153	145	117

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

1/ Based on Labor Force Survey.

Statement by Thanos Catsambas, Alternate Executive Director for Greece
March 15, 2012

Greece is at a historic crossroads. The crisis is economic and social, but the coalition government headed by Prof. Lucas Papademos, a former governor of the Bank of Greece and former Vice President of the ECB, has managed to stabilize the political landscape and to secure the support of the two largest political parties, the Socialist party headed by Mr. Papandreou (PASOK), and the Conservative party headed by Mr. Samaras (New Democracy). Even if elections are held in the near future (the exact date is still uncertain), Mr. Papandreou and Mr. Samaras have provided assurances that whoever succeeds Mr. Papademos will continue the policies agreed under the Fund-supported economic program.

I. ECONOMIC DEVELOPMENTS UNDER THE CURRENT SBA

Since 2009 Greece has experienced a painful recession, with a cumulative decline in GDP of 13.7 percent. As the country enters 2012, GDP is projected to decline further by 4.8%, while the unemployment rate reached 21.0 percent in January. At the same time, CPI inflation, which has risen from 1.2 percent in 2009 to 4.7 percent in 2010, declined to 3.1 percent in 2011.

These macroeconomic outcomes are the result of the wide-ranging economic adjustment program that began in May 2010. The set of measures, unprecedented in Greece's modern history, encompassed **fiscal policy**, **financial sector policies**, and a vast array of **structural reforms**, all aimed at achieving fiscal sustainability, mitigating the financial sector liquidity and solvency issues, and improving competitiveness.

A. Fiscal Policy Measures

The fiscal measures in support of this extraordinary adjustment comprised both tax and expenditure policies. On the **revenue** side, the three VAT rates were increased, while a number of goods and services were reclassified to higher rates; excise taxes on fuel, cigarettes and alcohol were raised by 33%; special levies were imposed on profitable firms, high income individuals, and holders of high-value real estate; and a solidarity tax on annual declared incomes higher than €12,000 was introduced with graduated tax rates ranging from 1% to 5%.

On the **expenditure** side, nominal general government wages were reduced by 30 percent, and the number of employees was reduced by 10 percent or about 85,000; the number of state-owned enterprise employees was also cut by 18 percent, while total personnel spending in the SoE sector was reduced by 29 percent. Public sector pensions were trimmed by 15.7 percent on average.

B. Fiscal Outcomes

As the table below indicates, the measures noted earlier led to a substantial reduction of the **budget deficit**. According to the latest Eurostat and IMF/EC/ECB data, the general budget deficit in 2011 declined by 6.4 percentage points compared with 2009. The adjustment is even more impressive if it is

measured according to the **primary budget deficit**, which fell from 10.4% of GDP in 2009 to 2.4% in 2011, or by 8.0 percentage points.



C. Financial Sector Policies

The authorities have been adjusting policies to track the evolving situation in the banking system. The Hellenic Financial Stability Fund was established at the outset of the SBA as a capital backstop for viable banks. As the banking sector situation deteriorated, the authorities strengthened the resolution framework and made plans to set aside considerable funds for bank recapitalization. In addition, to assess loan quality, BlackRock, an independent advisory firm, conducted a diagnostic exercise in 2011 to help the Bank of Greece determine the weaknesses of individual banks.

D. Structural Reforms

To enhance competitiveness the Greek government also initiated an unparalleled array of structural reforms. Those included measures in the labor market, the pension system, the restricted-entry occupations, and in local administration.

In the **labor market**, part-time working arrangements with flexible hiring policies and duration of employment were introduced; sub-minimum wages for first-time labor market entrants to facilitate youth employment, and a 20 percent cut in overtime premia were established; and the probation period for new employees was extended to 12 months and permissible layoffs were raised from 2% to 5% per month of the active labor force. Furthermore, the eligibility criteria for unemployment benefits were streamlined and at the same time firms were allowed to opt out from sectoral-level agreements, in order to improve flexibility in their wage structures.

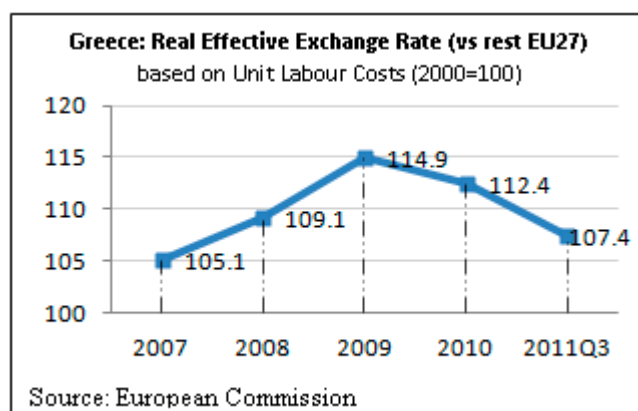
The **pension reforms** have been the cornerstone and the main achievement of the current SBA arrangement. The old pension system, characterized by several segmented funds with diverse benefits, was consolidated in a unified new system for all current and future employees; the effective retirement age was increased substantially to 65 years and linked to life expectancy; the minimum contributory period for retirement on a full benefit rose to 40 years, while pension benefits were tightly linked to life-time contributions; retirement penalties were increased for early pensioners and voluntary exit plans abolished; and disability criteria and respective rules were revised and streamlined.

Bold reforms to open up restricted-entry professions have been enacted: 108 professions were liberalized by a single law in 2011, including the long-haul road transport sector, for which no new licenses had been issued since 1971; fees for public notaries were reduced by 30 percent; and the list of hardship and hazardous occupations was revised.

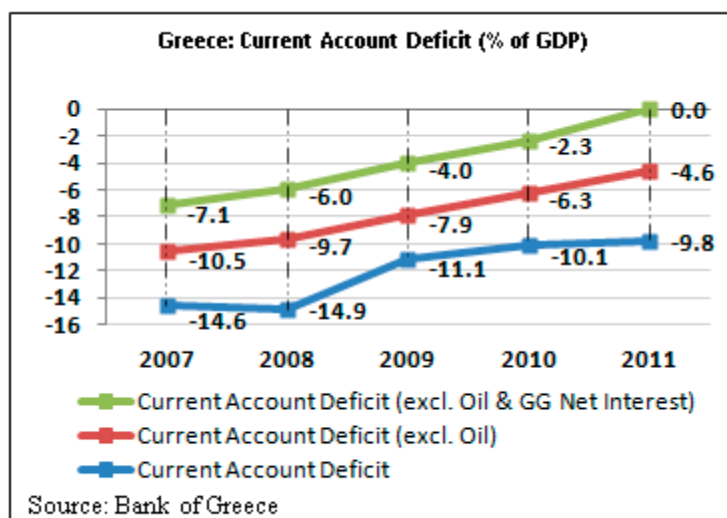
Finally, **reforms in local administration** led to a reduction of municipalities from 1,034 to 325, of local authority entities from 6,000 to 1,160, of local elected officials from 30,795 to 16,657, and in the replacement of 53 prefectures with 17 broader regions.

E. Macroeconomic Outcomes

Under the SBA-supported program, fiscal retrenchment and broad structural reforms were the main tools for Greece to **improve its competitiveness** and gradually eliminate the **external sector imbalances**. On both grounds, the Greek economy has taken strides in achieving these objectives. As the table below indicates, within two years (2010-11), Greece managed to regain over 50 percent of the competitiveness lost between 2000 and 2009. From 2009 to 2011, the Real Effective Exchange Rate (vis-à-vis its 26 EU trade partners), as measured by Unit Labor Costs, fell from 114.9 to 107.4 index points.



In parallel, as the table below demonstrates, the current account deficit fell from 14.9 percent of GDP in 2008 to 9.8 percent of GDP in 2011. The deficit reduction is even more significant if we exclude the oil trade balance and the general government interest payments: in this case the deficit in 2011 was around 0 percent of GDP, down from 6 percent in 2008.



F. Implementation Issues

Despite the far-reaching reforms in all areas of economic policy, the outcomes in some areas have been mixed. In particular, while the pension reform was successfully implemented in a timely manner, reforms in the labor market lagged behind. This outcome has been the result of two main weaknesses: first, a delayed implementation of measures that were formally approved either by parliament or through ministerial decisions; and, second, an incomplete or unsatisfactory process of implementation, which has reflected limited administrative capacity and lack of specialized knowledge in certain areas.

II. NEW ECONOMIC PROGRAM, POLICIES, RISKS AND EXPECTATIONS

The new program, to be supported by an extended arrangement, has three main objectives. First, to continue fiscal consolidation and thus attain debt sustainability, but by switching the policy emphasis *from tax increases to further expenditure retrenchment, while intensifying the efforts to improve revenue administration*. Second, *to push forward with deep and broad structural reforms, which would enhance aggregate supply by reducing economy-wide costs*. Third, *to initiate reforms in the financial sector aiming at achieving commercial bank solvency, improving supervision, and modernizing the governance of the central bank*. In terms of quantitative objectives, the new program aims at achieving primary surpluses beginning in 2013 and reaching a debt-to-GDP ratio of about 120% by 2020. The program assumes that GDP growth will return to positive territory in 2014.

A. PSI, OSI and Prior Actions

The program, which has been put together after the **launching of the PSI** and assurances about **OSI contributions**, has a four-year duration and reflects no increase of Fund resources compared to peak exposure under the Stand-by arrangement. The PSI was completed successfully, with an 85.8 percent voluntary participation and a nearly 97 percent participation after the activation of the Collective Action Clauses. The PSI and OSI together are expected to help reduce the debt-to-GDP ratio by about 8 percentage points.

The program incorporates an unprecedented number of **prior actions**, under five general areas: (a) tax, expenditure and public wage policy, all embedded in a supplementary budget for 2012; (b) new extensive tax administration reforms; (c) far-reaching labor market reforms, including drastic cuts in the minimum wage and an overhaul of the collective bargaining system; (d) a comprehensive assessment of banks' capital needs, and (e) new framework for bank resolution and recapitalization. All these policy actions, which comprised over 40 individual measures and many required parliamentary approval, were fully implemented by March 8 through well-coordinated and very effective procedures, demonstrating the ownership of the new program by both government and parliament.

B. Emphasis on Growth

In parallel, renewed emphasis is being placed on **growth**, which is the ultimate objective of the past and current stabilization efforts. In particular, the Greek government is committed to:

- Accelerate the elimination of rigidities in labor, product and service markets;
- Reduce the footprint of government in the economy through the elimination of bureaucratic impediments to FDI and the privatization of public assets;
- Continue to implement wide ranging administrative reforms aiming at improving the quality of public services; and
- Strengthen the efficiency and effectiveness of civil service, including in its ability to mobilize structural funds. In this important growth-enhancing area the Greek government has recently focused on the timely implementation of actions to absorb and utilize effectively the available **Structural and Cohesion Funds** from the European Union. These funds, which help start or complete investment projects, cover a wide range of sectors:
 - ✓ In infrastructure, the extension of the Athens Metro and the completion of several sewerage and wastewater treatment plans;
 - ✓ In banking, the financing of SMEs; and
 - ✓ In education and human resources, the continuation of Lifelong Learning Programs, which was inaugurated in 2010.

These and other similar projects should help Greece absorb about €4 billion in Structural and Cohesion Funds in 2012.

C. Financial Sector Policies

Under the EFF-supported program, the government will create a viable private banking sector and improve governance in financial oversight agencies. In particular, the Greek government is committed to complete an assessment of banks' capital needs; enact legislation to support bank recapitalization and resolution; improve the structure of the Hellenic Financial Stability Fund and strengthen the funding of

the Hellenic Deposit & Investment Guarantee Fund; and reform governance arrangements in the Bank of Greece. The bank recapitalization will be key not only to restore confidence but also to the supply response, which is the linchpin of the new program.

D. Mitigation of Remaining Risks

The Greek authorities are aware that some implementation risks, mainly of a technical nature, might linger on during the duration of the EFF arrangement. However they are confident that such potential risks will be mitigated thanks to three factors: (a) the strength and front-loaded nature of the program, notably through the prior actions already implemented; (b) the endorsement of the program by the leaders of the two major political parties; and (c), the consistently improving administrative capacity of the public sector, thanks to the extensive technical assistance that has been provided, and will continue to be provided, through missions and on the ground by resident staff from the Fund and European agencies.

It is also noteworthy that on March 1, 2012 Greece was the first member of the European Union to sign the “**Commitment on Confidence in Statistics**”, which had been propagated by the European Commission in April 2011 as a means to improve the governance of European statistics. In its Commitment, the Greek government makes a number of pledges with a view to ensuring that statistics are reliable, timely and professionally compiled. An independent statistical advisory board will be created to oversee the implementation of the European Statistics Code of Practice by the Greek statistical system.

E. Expectations

Greeks aspire to play a constructive role within Europe, are proud of their European identity, consider themselves an integral part of the Eurozone, and are determined to deliver on their country’s commitments, with the support of the international community. In addition, the cost-reducing structural reforms and FDI-encouraging privatization plans, coupled with fiscal retrenchment and liquidity assistance to the banking sector, will help set the stage for sustainable growth of the Greek economy within the Eurozone. The proposed program under the EFF is expected to help the Greek people achieve their aspirations, while the ownership of the politically difficult set of structural reforms has already been demonstrated by the speedy adoption of the prior actions and the endorsement of the program by the major political parties.

In sum, a new program under the EFF could be seen as a “structural shift” in the political, economic and social environment of Greece: the government will obtain financing for four years, the banks will be recapitalized, and, in general, uncertainty about the prospects of the Greek economy will diminish. My authorities firmly believe that a new program under the EFF, following the successful implementation of the PSI, will extend the planning horizon of both the government and the private sector, will help build confidence in economic management, and will enhance liquidity in the banking sector through the repatriation of deposits. In short, a new program will provide the necessary “breathing space” to help return the economy to normalcy.

In closing, I wish to extend my authorities' appreciation for the hard and diligent work of the Fund staff, both on the ground and on mission, and for their patience and professionalism that has made the difficult road so far a good basis for the success of the new program. In my authorities' view all conditions are in place for a successful implementation of a Fund-supported program under the EFF.