

Greece: Second Review Under the Stand-By Arrangement—Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Greece.

The following documents have been released and are included in this package:

- The staff report, prepared by a staff team of the IMF, following discussions that ended on November 23, 2010 with the officials of the Greece on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on December 6, 2010. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- A Press Release summarizing the views of the Executive Board as expressed during its December 17, 2010 discussion of the staff report that completed the request.
- A statement by the Executive Director for Greece

The document(s) listed below will be separately released.

Letter of Intent (International Monetary Fund) *

Letter of Intent (European Commission and European Central Bank)*

Greece: Memorandum of Economic and Financial Policies (International Monetary Fund, European Commission and European Central Bank) *

Greece: Technical Memorandum of Understanding (International Monetary Fund, European Commission and European Central Bank)*

Greece: Memorandum of Understanding on Specific Economic Policy Conditionality (European Commission and European Central Bank, second update)*

*Also included in Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

GREECE

Second Review Under the Stand-By Arrangement

Prepared by the European Department in Consultation with Other Departments

Approved by Poul M. Thomsen and Martin Mühleisen

December 6, 2010

- **Stand-By Arrangement:** On May 9, 2010, the Executive Board approved a three-year Stand-By Arrangement for Greece in the amount of SDR 26.4 billion (3,212 percent of quota). A first purchase of SDR 4.8 billion (€5.5 billion) was made upon program approval, together with a disbursement of €14.5 billion by euro-area countries. A second purchase, amounting to SDR 2.16 billion (about €2.5 billion), was made upon completion of the first review on September 10; €6.5 billion was disbursed by euro area countries. The third disbursement, subject to completion of this review, amounts to SDR 2.16 billion (about €2.5 billion); €6.5 billion will be disbursed by euro area countries.
- **Recent Developments:** The GDP contraction has been slightly deeper than initially expected. Inflation and wage settlements are now moderating, and the current account deficit is falling gradually. Fiscal revenue shortfalls thus far have been met through continued under execution of budget spending. Bond spreads remain high owing to another round of Greek fiscal data revisions and financial turmoil in the Euro area periphery. Banks benefit from ECB liquidity support but liquidity remains tight. Some have been able to access markets and raise capital.
- **Program status:** Staff's overall assessment is that the program is broadly on track, but at an important crossroads, where a second wave of fiscal adjustment and structural reforms needs to find traction, and where political resolve will be needed to overcome vested interests. End-September performance criteria were met, but the indicative target on domestic arrears accumulation was missed due to budget execution problems and weak expenditure control at the sub-national level. End-year cash PCs are within reach, but the end-year accrual deficit target (ESA95) will likely be missed, in part due to reclassification of state enterprises into general government. The measures supported by structural benchmarks have been implemented, although with some delay in the case of commitment registers in line ministries and other public agencies. Agreement has been reached on a 2011 budget, including 2½ percent of GDP in new measures, that will deliver the program's fiscal target while protecting the most vulnerable. Fiscal institutional and sectoral reforms have been elaborated to underpin a more durable adjustment. Agreement has also been reached on liquidity and capital support policies for the banking system, and regarding restructuring of state banks. A second round of broader structural reforms has been fully articulated.
- **Discussions.** They took place on November 15–22 with the Minister of Finance, Governor of the Bank of Greece, and other Cabinet Ministers; and staff in these and other ministries. The mission also met private banks, think tanks, employer associations, labor unions, and opposition parties. The staff team comprised P. Thomsen (head), M. Flanagan, G. Everaert, H. Floerkemeier, E. Perez Ruiz (all EUR); G. Palomba (FAD); Y. Sun (SPR); and O. Frecaut and L. Zanforlin (MCM). B. Traa, S. Eble and M. Athanasopoulou (IMF resident representative office) assisted the mission.
- **Publication.** The Greek authorities consent to the publication of the Staff Report.

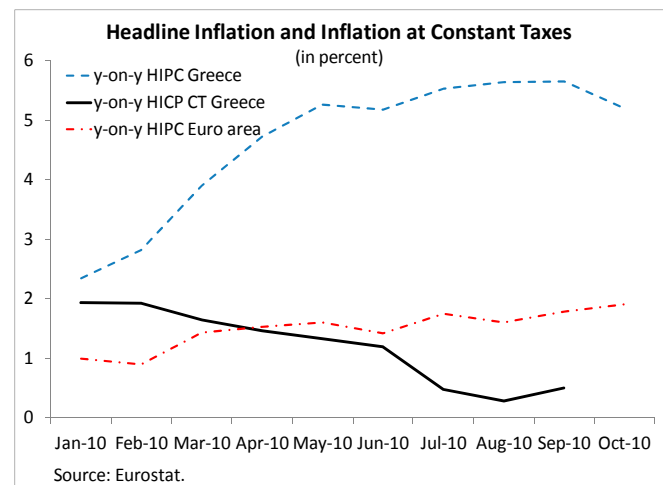
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I. RECENT DEVELOPMENTS

1. **The contraction in activity is trending slightly deeper than expected** (Table 1; Figure 1). GDP in the third quarter dropped by 4½ percent year-on-year, following the 4 percent decline in the second quarter, in both cases about ½ percent larger than expected. The retrenchment has been led by lower private consumption and investment, reflecting rising unemployment (hitting a new high of 12.2 percent in August), household balance sheet repair, and growing credit constraints for corporations. High-frequency indicators point towards continued contraction.

2. **Underlying inflation and wage settlements are now moderating, supporting stronger competitiveness** (Figure 2). Headline inflation slowed to 5.2 percent year-on-year in October, despite continued high pass-through of indirect tax hikes. Inflation at constant tax rates has continued to drop in line with program projections, running below the euro area average for the first time since Euro adoption. Meanwhile, moderate collective wage agreements and arbitration decisions in recent months have slowed unit labor cost growth in the business sector (recent wage agreements have averaged a 1.3 percent increase, and almost half have involved no increase). The CPI-based real effective exchange rate stood 1.2 percent lower in Q3 versus end-2009.



3. **The external deficit is narrowing gradually** (Figure 3). The current account deficit began to contract during the third quarter, falling about 1 percentage points of annualized GDP relative to the same period last year. This reflects a rebound of goods exports, a large increase in net shipping receipts, and a substantial decline in goods imports, only partly offset by weaker tourism receipts because of social unrest.

4. **In the financial sector, liquidity remains fragile despite continued extraordinary support from the ECB, but banks have managed to strengthen their capital** (Table 2, Figure 4):

- **Liquidity remains tight.** Deposit outflows slowed during the third quarter, and combined with falling credit spreads this temporarily reduced liquidity stress. A couple of larger private banks were able again to tap the interbank market, but only on a very limited scale and at high cost. Spreads have since reversed, and deposit outflows have picked up modestly, but the impact on liquidity has been broadly offset by the release in late November of the previously-approved €25 billion of government guarantees for bank bonds.

- **The ECB is continuing to provide extraordinary support.** The ECB's funding remains the main source of liquidity for the system, although it has stabilized at around €95 billion, or 22 percent of bank liabilities. Extraordinary measures include: (i) suspension of the link between sovereign credit ratings and eligibility of collateral for refinancing operations; (ii) intervention directly in the government bond market under the securities markets program (SMP)(purchases temporarily paused in the third quarter as market sentiment improved); and (iii) acceptance of uncovered bank bonds guaranteed by the government as collateral eligible for refinancing operations.
- **Credit is tight** (Table 3). Banks are not using the ECB's refinancing facility to finance new longer term lending. Credit growth to the domestic private sector slowed to 1 percent year-on-year in October. Banks continued to tighten standards for lending to corporations (especially SMEs), against rising demand from these entities to finance corporate debt restructurings. Banks eased standards for lending to households, although with limited impact, since demand for consumer and mortgage credit has sharply contracted.
- **Bank profitability remains weak**, in line with program assumptions. Between December 2009 and June 2010, non-performing loans grew from 7.7 to 9 percent of total loans. Banks' losses reached €700 million on a consolidated system-wide basis in the first half of 2010, while capital adequacy fell from 11.7 percent 11.2 percent. Bank results continue to benefit from profits of foreign subsidiaries, which collectively amounted to some €600 million during the first half.
- **A few private banks, however, have had some success recently in raising capital.** National Bank of Greece—the largest bank—has successfully completed a Euro €1.8 billion rights issue and is selling a 20 percent stake in its Turkish subsidiary; EFG Eurobank has announced plans to sell a stake in its Polish branch; and Piraeus has announced a €0.8 billion rights issue.
- **State banking entities remain a challenge.** A strategic review of the system and due diligence revealed serious issues in ATE (the only Greek bank to fail the Europe wide mid-2010 stress test, showing a capital shortfall of €243 million). Other state banks were seen to suffer efficiency issues and problems with their business model.

5. **Market sentiment towards Greece has been volatile** (Figure 5). Between early September and mid-October, the spread on 10-year Government debt dropped by 300 bps (to about 650). However, since mid-October the spread has backed up to above 900 basis points, driven by uncertainty concerning a European sovereign debt restructuring mechanism, renewed turmoil in other countries in the periphery, and news about revisions of fiscal data. Greece's traditional creditors (mainly European banks) have remained on the sidelines with already high Greek exposure, but during the late summer period when spreads improved, new investor groups began to show interest, primarily emerging market funds more familiar with high-yield assets and long-term investors, including sovereign funds.

6. Regarding fiscal policy, the overall fiscal adjustment has been impressive to date, even accounting for problems with budget execution and some data revisions, but reforms to fiscal institutions are progressing slowly, due to underlying barriers:

- **The scale of structural fiscal adjustment in 2010 has been very large.** Staff estimates that some 8 percent of GDP in structural revenue and expenditure measures have been taken to date. On top of this, pension reform has delivered large long-term fiscal improvements (perhaps as much as 10 percent of GDP through mid-century, with the actuarial work to determine the precise magnitude soon to be completed). While the deep recession has muted the impact to date on the headline accrual budget balance, the reduction is still on track to approach 6 percent of GDP.
- **Cash fiscal targets are being met, despite budget implementation challenges.** Revenue growth has been weaker than expected (3.7 versus 9.3 percent projected through October) due to macro factors and continued administrative difficulties. Spending pressure at non-state entities, especially hospitals and social security funds, has continued, reflecting high entitlement outlays. Under-execution of state spending (€2½ billion through October, mainly in military spending and social security transfers), has helped keep the deficit contained within cash targets, allowing end-September performance criteria to be met (Table 4; Figure 6).
- **Some arrears have accumulated in 2010 (which are captured in the projected accrual deficit).** An estimated €2.2 billion (1 percent of GDP) of arrears accumulated in the state budget (largely due to spending pressures including with investment projects); in local governments; in hospitals (due to delays in their providing invoices and thus receiving payment for services rendered); and in social security funds (related to unpaid lump-sum retirement bonuses).¹
- **Data revisions suggest that the fiscal adjustment started from a more elevated deficit.** Long-anticipated Eurostat data revisions point to higher government deficit and debt in 2006-2009. The final data indicate that the 2009 deficit increased from 13.6 to 15.4 percent of GDP, and debt from 115 to 127 percent of GDP. The revision, which was larger than expected, is primarily due to a reclassification of selected loss-making public enterprises into general government and improved data on pension arrears, and a number of other corrections in cash-to-accrual adjustments (Box 1).²

¹ The figure remains subject to change, as there is not yet a 100 percent response rate to the arrears survey.

² The fiscal data revisions do not result in a violation of Greece's obligation to provide accurate information under Article VIII, Section 5 because they result from methodological and classification changes, which are statistically acceptable, and not from the provision of inaccurate information or the non provision of available information.

- **Reforms to fiscal institutions are making progress in some areas, but are encountering delays elsewhere.** Regarding revenue administration, task forces have been set up to prepare and implement anti-evasion plans, and the planning phase is nearing completion. Public financial management reforms to control spending saw some initial successes, with the adoption of a modern budget law and publication of monthly fiscal data for the whole general government. However, inter-institution coordination issues and limited administrative capacity are slowing further progress, particularly with fully implementing commitment registers and introducing information management systems. And in the health sector, reforms are taking time due to technical complexity (e.g. moving from a negative to a positive price list) and limited administrative capacity to cope with multiple changes simultaneously (e.g. integrating health packages and combining health funds) (Table 5).

7. **After impressive early progress, a second round of structural reforms has commenced** (Table 6). After the successful first round of labor market reforms, recent work has centered on liberalizing the transportation sector (trucking and railroads), screening legislation in preparation for the deregulation of the service sector, and preparations for other reforms (e.g. diagnostic studies of the tourism and retail sectors). There have been some implementation problems with important previous reforms, with one stop shops for business start ups delayed due to legal and technical complications (that is, compatibility of legislation and IT problems). There have also been some delays with articulating the second stage of labor market reforms, which focuses on arbitration and collective bargaining.

II. THE MACROECONOMIC OUTLOOK

8. **The macroeconomic outlook has weakened slightly** (MEFP ¶ 1-2; Tables 7-8; Figure 7):

- **Growth projections have been reduced by a small amount.** The continued retrenchment of private consumption since the second quarter suggests contractions in 2010-11 in the order of -4¼ and -3 percent (versus the -4, and -2½ percent previously projected). Modest quarter-on-quarter growth is still expected to resume in late 2011, with external adjustment the main support.
- **Inflation will be broadly in line with program estimates.** Inflation is projected to slow to 4½ percent by end-2010, before retreating to about 1 percent by end-2011 as the statistical carryover from 2010 indirect tax hikes and of additional planned VAT rate increases peters out.
- **The current account should improve a little faster than projected.** Shipping receipts have already surprised on the upside, the tourism sector is projected to rebound from a low 2010 base, and import compression is faster than expected because of slightly faster contraction in domestic demand.

9. **Short-term risks to the outlook remain skewed to the downside, but there is upside potential in the medium-term.** Near-term risks emanate from: a deeper contraction of domestic demand, tighter monetary conditions in the euro area, continued financial market volatility and contagion from other peripheral Euro area countries, and a weaker global economic recovery. In the medium-term, with projected growth well below Greece's performance during the decade preceding the crisis, there appears to be comparatively more upside potential, provided structural reforms are implemented as planned.

10. **The upward revision to government debt raises vulnerability to shocks, but under the program baseline debt remains sustainable.** (MEFP ¶3, Appendix I). The revisions by Eurostat mean that public debt is now projected to peak at 158 percent of GDP before starting to decline. Similarly, debt ratios under all shocks are now higher, suggesting vulnerability to adverse interest rate dynamics is now higher in these scenarios. Lower growth and contingent liabilities remain the most significant risks, (although with some key enterprises now captured in the baseline, the deterioration under the latter shock is not as bad). Regarding external debt sustainability, overall trends have improved slightly, since the outlook for the current account has improved, while the fiscal data revisions have little impact on total external debt (although it does impact on the composition, with debt reclassified from state enterprises to the government sector).

III. DISCUSSIONS

11. **The discussions focused on securing faster underlying progress towards program fiscal, financial sector and competitiveness objectives** (MEFP ¶4). It was agreed that structural fiscal issues need to be more forcefully tackled to better support fiscal adjustment efforts, and move beyond the temporary reprieve offered by budget under execution. Problems in state banks need to be resolved to remove important pressure points from the system, which is otherwise coping fairly well. And while the broader structural reform program is off to an impressive start, the delays in preparing the next round of reforms need to be overcome to secure early gains in competitiveness, output and employment. With a favorable political calendar ahead, it was agreed that the time is right to redouble reform efforts.

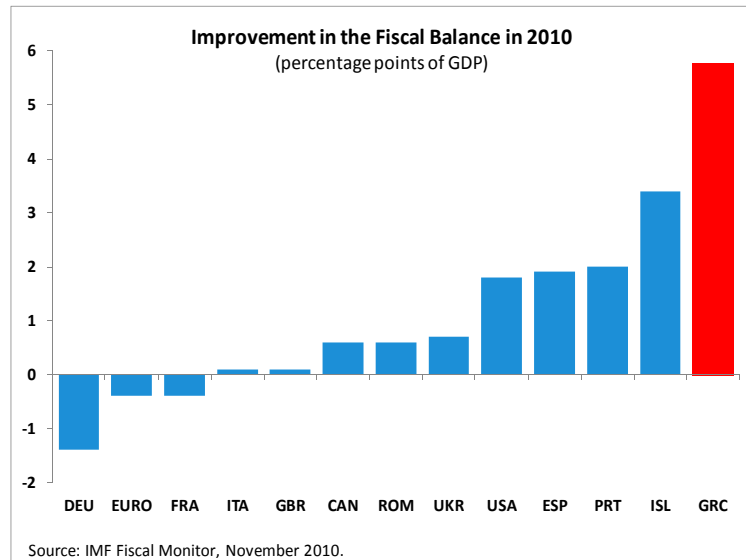
Fiscal Policy

12. **The authorities reiterated their commitment to reduce the general government deficit to below 3 percent of GDP by 2014** (MEFP ¶5). They saw the path and end-point as an anchor for their fiscal work, and an important reassurance to markets about prospective debt dynamics. This informed how they would respond to the latest fiscal data revisions.

13. **For 2010, the authorities are confident that end-year cash targets will be met, and expect to achieve a 6 percent of GDP reduction in the headline accrual deficit.** Cash targets are within reach. A combination of firming VAT collections and higher-than-

expected participation in the tax settlement should deliver the revised state budget revenue targets, while state budget under execution and lower-than-anticipated military outlays for the year as a whole should compensate for earlier revenue shortfalls. The authorities expect to be able to largely pay down the stock of arrears accumulated within year, given the amount of appropriations released and cash payment planned for November-December (which is higher than the monthly average to date), and since revenue collections in social security funds are projected to exceed earlier forecasts.

However, the fiscal data revisions announced in November mean that the accrual deficit will almost inevitably miss the target (for program purposes, cash targets have been defined to exclude the reclassification of new entities into the general government; see Box 2). The authorities stressed that the decline in the headline accrual deficit



by 6 percent of GDP in the face of a severe output contraction underscored that a very ambitious fiscal adjustment by international comparison was well underway.

14. **For 2011, the authorities have submitted a budget to parliament that would fully offset the impact of fiscal data revisions and achieve the original 7½ percent of GDP program target** (MEFP ¶7). The carry-over from measures implemented during 2010 (2.4 percent of GDP), and previously agreed measures which are to be adopted for 2011 (2.3 percent of GDP) will largely offset the drag from the revised macroeconomic outlook; structural spending pressures (including the rising interest bill), the expiration of some one-off measures from 2010 (e.g. the levies on high income individuals); and some new fiscal initiatives introduced by the authorities to support growth and the unemployed (selected corporate and VAT cuts, and a new jobs program). Thus the change in the overall deficit of 2 percent of GDP will require new measures of about this amount. With the needed measures in place, the state budget should be able to fully fund transfers to the social security sector (Tables 9-10), an important step towards preventing new arrears. And meeting the original program target would bring benefits in terms of lower future financing needs and greater credibility, leaving the objective of a resumption of market access in closer proximity.

15. **The authorities have specified the measures necessary to deliver the 2011 target** (MEFP ¶8). Table 11 contains a full update of previously agreed and new measures, their projected yields, and their implementation status. Previously agreed measures,

including VAT rate and base adjustments, attrition-based reductions of public employment, and the savings from local government reform, are on track for implementation. New measures to be adopted focus first on two key sources of pressure for the state budget, the health sector and state enterprises. Close to 1 percent of GDP in structural adjustment has been identified in these areas (e.g. drug price reductions, cuts in wages, and tariff increases). The measures also aim to eliminate inefficient and untargeted spending, by cutting subsidies to corporations and individuals, and by means testing certain social benefits. Finally, they aim to extract value from state assets and in this context to increase collections of tax arrears (with the support of the tax administration reforms discussed below). The policy package as a whole ensures continued protection for the most vulnerable (via the jobs initiative to support the unemployed, means testing of benefits, mechanisms to be put in place to protect low income earners from subsidy cutbacks, and tax arrears collections initiatives to create greater horizontal equity across taxpayers). The package also is designed to limit impacts on growth: public investment will be maintained; selected initiatives will be in place to support private investment (e.g. corporate tax cuts); and the spending cuts will generally fall on those who have a lower propensity to consume.

16. **A plan for fiscal adjustment in 2012-14 will be articulated by March, in time for the start of the 2012 budget cycle.** Staff projections suggest that yet unidentified measures yielding about 5 percent of GDP will be needed during 2012-14 to bring the deficit below 3 percent of GDP. In this regard, it was agreed that a firm commitment to next-stage fiscal reforms to close the medium term gap would be essential, with the focus on a few areas with the potential for significant and lasting budget savings, and where reform could both help support a continued fair distribution of the adjustment burden and contribute to higher efficiency. The authorities considered development of a detailed action plan for state enterprises to be particularly important, and they also intend to focus on extrabudgetary funds, the restructuring of public administration, and tax reform. Table 12 discusses the potential in each sector in more detail.

17. **Institutional reforms to support the medium-term fiscal adjustment effort have been more fully articulated** (MEFP ¶10):

- **Revenue administration.** Improving tax administration and distributing the tax burden more equitably remains essential to achieve the fiscal targets and maintain broad political support for the program:
 - The authorities have developed a fully-fledged anti-evasion action plan that will start in early 2011, and they are now working to integrate quantitative performance targets into the plan. It represents a major break with current enforcement practices (Table 13).
 - However, some important legal and administrative obstacles to effective revenue collection must be overcome. In particular: (i) tax dispute and judicial appeal processes are too long (lasting 7-12 years); (ii) the exercise of core tax

administration functions is stymied by a variety of restrictions (for instance, key information needed for audit purposes is inaccessible); and (iii) human resource management is insufficiently flexible (including rarely used and lengthy dismissal procedures). The authorities intend to address these problems with legislation and administrative changes by early 2011.

- The anti-evasion plan anticipates a more comprehensive medium term reform process. The focus will be on reorganizing revenue agencies, re-building the tax audit function, establishing a risk management framework, establishing a large taxpayer unit, and developing taxpayer services. This second stage of the work will begin in 2011 and will be channeled through the existing working groups.
- **Public financial management.** Improving this remains critical to stronger budget implementation. However, it was recognized that these are complex reforms, and implementation will be challenging, particularly outside of central government ministries and agencies (Table 14). Commitment registers have now been established and are expected to be operational in all line ministries and the main non-central government entities in early 2011. The appointment of accounting officers in all government agencies, set for March 2011, should help make these effective, and more generally help strengthen financial controls and prevent new arrears. At the same time, the development of data collection procedure and IT systems has reached the pilot stage and is expected to significantly improve fiscal reporting before the end of 2011.

18. **Pension reforms are nearing completion:** Preliminary actuarial studies for the largest pension funds show that the reforms adopted this summer have significantly reduced the projected increase in pension spending, but uncertainty remains about the impact on auxiliary pension and welfare funds. A full actuarial assessment of the effect on the main pension funds is expected by end-December and of the impact on the auxiliary pension funds by end-March. It is proposed that the relevant structural benchmark thus be postponed to end-March. To ensure that the reforms will achieve the goal of limiting the increase in pension spending to 2½ percentage points of GDP by 2060, the authorities will reform the auxiliary pension and welfare funds and, if needed, adjust the parameters of the main pension system. Changes will be adopted by end-June 2011, and will be implemented by 2012.

19. **The authorities' financing strategy remains oriented towards securing an early return to the market** (MEFP ¶12, Table 15, Figure 8). They aim to scale up treasury bill issuance and eventually lengthen the maturity of treasury bills (to cater to the solid demand in recent monthly auctions); issue a savings bond targeted at the Greek Diaspora, and, as discussed below, undertake a more ambitious program of asset sales. These developments would increase Treasury cash balances above the program baseline by end 2011, perhaps

significantly, and this would in turn leave the authorities in a better position to resume issuance of long-term debt.

20. The authorities recognized the need to eliminate lingering uncertainty about how high post-program amortization requirements will be handled. Reducing the required scale of amortization would likely allow an earlier restoration of market access on more reasonable terms. The authorities noted that once market operations resumed they would tailor the maturity and volume of new issuance to smooth the overall debt repayment profile. Still, the approach of the official sector would be crucial, and the authorities indicated that they would strongly welcome if resources from European partners and the Fund were provided with longer repayment periods. Management and staff intend to propose to the Executive Board a transformation of the current SBA into an EFF once understandings can be reached with the EU and European governments on a parallel extension of the maturity of their loans. This change would extend Greece's repayment schedule from 5 years to 10 years.

Financial Sector

21. While financial sector developments had been better than expected, the authorities recognized the continued challenge of preserving financial stability (MEFP ¶13). They noted that the weakening of banks' financial position was in line with developments in the macroeconomic environment, but manageable and within program assumptions. The discussions revolved around the mechanisms in place to manage liquidity risk and the risk of capital erosion, with a particular focus on state banks.

22. The authorities believe that they have the tools to ensure sufficient system liquidity. Baseline forecasts show that the renewed increase in spreads of late has thinned liquidity, particularly for a few banks, and implementation of changes to the ECB collateral framework would further reduce it. Projections suggest that the tranche of guarantees released in November will address this. However, it was recognized that a ratings downgrade or further market turbulence could lead to significant new strains. The authorities thus indicated that they stand ready to authorize and make available another tranche of government guarantees if such risks materialize. Staff considered that it would be essential for the ECB to maintain its extraordinary channels for support of the banking system, including purchases of government bonds under the SMP. This would prevent disorderly deleveraging by banks, and avoid that a severe credit crunch amplifies the negative impact on growth of the fiscal contraction now underway.

23. The FSF is operational, and it was agreed that a comfortable funding cushion would be maintained for this capital back-stop mechanism (MEFP ¶15).

- *Operations.* The FSF Board is now in place and meeting regularly, and the authorities explained that they were focused on recruiting the necessary specialized staff by

January 2011. To this end they indicated that obstacles related to the length of staff contracts would be removed.

- *Capital needs.* Revised projections by the IMF/EC/ECB staff have been completed using updated stress tests based on end-June data, which encompass both a baseline and a more adverse macro scenario. The projections suggest that the originally foreseen size of the FSF remains fully adequate (€10 billion over the duration of the program), but no bank will likely need any support from the FSF during the next 4-6 months. In view of this, the €1.5 billion that has to date been transferred to the FSF will be more than adequate for the time being.
- *Capital transfers.* It was agreed that the government would rephrase its disbursements to the FSF and put in place a new mechanism for disbursing (with an intermediate step involving a deposit into a dedicated government account). The revised mechanism will ensure availability of resources if there should yet prove to be a need, while the resources can alternatively serve as a liquidity backstop for the government if this proves necessary. The mechanism has the added advantage that the government will earn a higher return, at least until all funds are ultimately disbursed to the FSF.

24. **The authorities and staff agreed on a restructuring strategy for state controlled banking entities** (MEFP ¶16; Table 16). Based on the strategic review and individual due diligences the authorities confirmed that their priority is to address serious issues in two state owned entities. Two others could be candidates for divestment. All of these entities are subject to restructuring plans under the competition rules of the European Commission and this will provide a framework to measure their progress toward financial stability and improved efficiency, while also protecting the fiscal position of the government:

- **ATE Bank.** The authorities stressed that this institution faces serious problems, but argued that its core intermediation activity is profitable, and that it plays a key role in delivering services to specific sectors and regions. They wish to maintain the government's majority stake while the bank is transformed into a more efficient and well capitalized institution, with reduced lending to public entities, and enhanced governance. A restructuring plan will thus be devised to eliminate non-core activities and non-strategic holdings, and to significantly reduce the size and cost base of the bank. To provide the bank with a proper capital cushion, it was agreed that it will be recapitalized, after due diligence by an audit firm on its loan portfolio. To minimize direct fiscal costs, the authorities may utilize the surplus of reserves within the Hellenic Loan and Consignment Fund (see below). If the audit reveals the capital need to be larger than anticipated, the restructuring plan will be revised to target further downsizing.
- **Hellenic Loan and Consignment Fund (HLCF).** The HLCF mixes escrow-type consignment services with deposit collection and loan extension. Its banking activities are unregulated, it does not have access to established facilities to help

manage its liquidity risk, it is exposed to significant interest rate risk, and both its internal and external control procedures are deficient. While small, it can amplify liquidity shocks through the system by competing aggressively with banks for deposits. It was agreed that the HLCF should be unbundled through legislation (proposed as a new program structural benchmark for end-March), with the banking activities transferred to an institution able to properly manage them. Its sizeable surplus of reserves could be extracted to fund the capital increase in ATE.

- **Hellenic Postbank and Attica Bank.** The authorities noted that neither bank requires urgent action, although in each case both efficiency and the business model could be improved. They would consider disposal of the public's direct and indirect minority holdings, once market conditions are appropriate.

25. **The authorities indicated that they would remove important barriers to the improvement of bank efficiency** (MEFP ¶17). This requires reform of the employment framework (which prevents banks from redeploying staff within their network of branches or adapting their business hours); and of the civil servant like employment regime that provides tenure-like protection and makes it difficult to reward performance. To address these issues, all bank employees will be placed under the same private sector employment status by the end of February 2011, and other rigidities will be removed. The broader reform of collective bargaining (discussed below) should also help contain bank labor costs.

Structural Reforms

26. **The authorities were determined to maintain an ambitious pace of reforms, and to continue to focus on those that promise to have an early impact on competitiveness, growth and employment** (MEFP ¶19). Preparations were continuing towards the next phase of reforms, as set out in the May MEFP. The authorities perceived important benefits in the next phase, pointing to the potentially positive impact on competitiveness of further advancing labor market reforms, deregulating the service sector, and unlocking potential in key sectors. They also noted that these reforms, along with improvements in the business environment, would help attract investment.

27. **Policies were agreed to address some lingering labor market reform issues** (MEFP ¶20, Figure 9). The outstanding issues include the design of arbitration and collective bargaining mechanisms. The existing arrangements have contributed to upward wage drift and loss of competitiveness over time, and have encouraged the informal sector. In particular, public sector entities have typically been first movers in sectoral collective bargaining, producing wage increases unanchored to productivity growth. Sectoral agreements then act as a floor for all remaining firms, with individual unions using their unilateral right to arbitration to demand more. This upward bias has in turn encouraged SMEs to drift into the informal economy, increasing the tax burden on those remaining in

the formal sector. The authorities reiterated their program commitment to break this dynamic. They intend to allow symmetric access to independent arbitration services for both employers and workers, and eliminate the compulsory extension of sectoral agreements to those not represented in negotiations, while enabling firms to deviate downwards (there would be limited exceptions related to legal factors like the minimum wage floor). This would align Greece with best EU practices in collective bargaining.

28. **The authorities have now specified their legislative approach for the deregulation of the service sector** (MEFP ¶21, Figure 10). The program's aim has been to bring Greece towards EU best practice in terms of liberal regulation. At present Greece's highly regulated service sector hinders investment and hampers competitiveness (since services serve as inputs to export sectors). Problems of over-regulation are widespread across the 160 service sectors, including barriers to entry and fixed tariffs. The authorities indicated that amending all of the sector specific legislation would be a lengthy exercise, and an approach had to be found to speed up and focus the work. To this end, the government would address a number of high economic impact professions in legislation to be adopted by end-March 2011. These professions include lawyers, notaries, engineers, architects, auditors and pharmacists, all areas where Greece is far from best practices (Table 17). For other services the authorities plan to embed a general prohibition on unjustified restrictions in the law. However, they acknowledged some residual legal uncertainty, which could yet necessitate a longer sector-by-sector legislative approach.

29. **The authorities have made progress in identifying strategies to unlock potential in key industries, including those where the state now operates** (MEFP ¶22).

- Initiatives are underway to strengthen the **tourism and retail trade sectors**. These are high potential areas in terms of investment and export potential on the one hand, and price and competitiveness improvements on the other. The authorities indicated that they expect to fully incorporate the liberalization principles set out in the EU Services Directive into Greek legislation by year-end. This will facilitate access to the Greek market, either via direct establishment or cross-border service provision (for instance, by tourist agencies). The authorities also indicated that, in line with the program strategy, they had commissioned diagnostic studies analyzing further barriers in the tourism and retail sectors and how reforms in these sectors could contribute to growth and disinflation. The studies, due by year-end would inform a second round of liberalization in early 2011, as necessary.
- The authorities are preparing a more ambitious three year **privatization strategy** than originally foreseen in the program. The Greek public sector is very large (Table 18), spanning 94 fully and partially state owned enterprises in industries ranging from transport and utilities to gaming and tourism. Government real estate holdings are also large, although there is no inventory of real estate assets to allow an estimate of the value of total holdings. With this and Greece's challenging debt position as backdrop, the authorities are working towards a more ambitious privatization plan,

with the aim to raise at least €7 billion over the next three years (3 percent of GDP), including at least €1 billion in 2011. Plans covering about 40 percent of the total target have been drafted, and 14 companies have been identified for full or partial privatization using different placement methods (including direct sales, auctions and concession agreements). To further develop the plan, the authorities indicated that by mid-2011 they would make an inventory of real estate holdings.

30. Reforms to the business environment are progressing, and the authorities indicated their commitment to finalize various initiatives by year end (MEFP ¶23).

Entrepreneurship and investment in Greece face severe bureaucratic hurdles, while strict barriers to entry have allowed high margins (Figure 11; Table 19). The authorities explained that their effort to address these issues will soon bear fruit:

- Parliament approved **fast-track investment legislation** in November simplifying procedures and accelerating deadlines for approval of strategic investment projects (defined in terms of the size of investment and/or the number of jobs created). With this reform, eligibility will be decided within 30 days, applications can be completed within 15 days, and licensing completed within 2 months after the application is filed. Under the previous system business licensing could take between 4 and 18 months.
- The government is taking steps to eliminate key legal and technical hurdles to the full operation of **one-stop-shops** by end-March 2011, including adapting IT systems and ensuring compatibility of legislation across the government entities involved. Once these hurdles are overcome, it will be possible to start up a business in one day (versus an average of 19 days previously).
- The government intends to complete, by year end, a vast simplification of **licensing** systems in the technical professions (e.g. for plumbers, electricians, machine operators); as well as legislation to accelerate licensing procedures for enterprises' physical establishments (covering authorization, environmental, and building permits). In this latter context the authorities expect to: enact binding deadlines after which tacit consent would apply; define clear standards for applications; and abolish unnecessary and time-consuming in-situ inspections.
- To reinvigorate **enforcement of competition rules**, the government intends to table legislation by year end aimed at enhancing the independence and effectiveness of the Hellenic Competition Authority. The new law would enable the competition authority to prioritize cases according to their economic impact.

31. The authorities noted that their reform agenda for 2011 included a number of further actions to improve economic efficiency, competitiveness and growth. Most notably, the authorities intend to reduce tax obstacles to firm expansion; stimulate exports (via simplified customs procedures); fight the informal economy (by strengthening the labor inspectorate); further liberalize the transportation sector (buses, coaches and

limousines, and the extension of concession agreements for airports); and improve public procurement (by establishing a single public procurement authority) (Table 20). Progress towards these reforms will be the subject of discussion during future program reviews.

IV. PROGRAM MODALITIES

32. **The program continues to meet key targets** (MEFP ¶1–23, and MEFP Tables 1–2).³ End-September performance criteria were met, but the indicative target on arrears was missed due to continued budget execution problems and weak expenditure control at the sub-national level. The measures supported by structural benchmarks have been implemented, although with some delay in the case of the measure to implement a commitment register in line ministries and other public agencies.

33. **Key elements of program monitoring for 2011 have been set:**

- **Quantitative performance criteria** have been proposed for March 2011 and June 2011, and indicative targets have been proposed for September and December 2011. A quarterly indicative ceiling on the stock of arrears has also been proposed (MEFP Table 1). Coverage of the PC is already set to broaden in 2011 to incorporate hospital arrears, and staff and authorities propose additional modifications to bring the PC closer to the general government deficit as measured on an ESA95 accrual basis. Specifically, it is proposed that one reclassified extra-budgetary fund be included from January 1 onward, while from September 2011, targets incorporate the financial balances of the 16 public enterprises that have been reclassified into general government. The broadening of coverage is proposed to be gradual to allow time for the soon-to-be introduced data collection processes to mature.
- Several new **structural benchmarks** are proposed in support of program objectives (MEFP Table 2). The identification of fiscal measures (MEFP ¶9) will directly support Greece's still-significant medium-term fiscal adjustment need, and thereby underpin the projected reduction of public debt. The removal of barriers to effective tax administration (MEFP ¶10) will support efforts to improve tax collection, and thereby limit the macroeconomic and political stresses that could otherwise arise from a need for higher tax rates and/or deeper spending cuts. Appointing accounting officers in line spending agencies (MEFP ¶10) will support efforts to strengthen financial controls, a crucial underpinning for budget implementation and prevention

³ The fiscal data revisions and Eurostat-related coverage adjustments have no impact on Greece's performance under the end-June 2010 performance criterion on the fiscal deficit, since (i) the definition of general government is defined in the TMU and unaffected by the new Eurostat definition; and (ii) since the cash target is unaffected by revisions of non-cash items.

of arrears. Separation of the banking from the consignment activities in the HLCF (MEFP ¶16) will address a key pressure point in the financial system, and set the stage for recapitalization of ATE, another source of pressure. Finally, the implementation of reforms to collective bargaining (MEFP ¶20) will help address the wage drift that has in the past contributed to the deterioration of Greek competitiveness.

34. **Financing needs remain as estimated in the original program** (Table 21). The program can continue to cover the government financing needs in full, through early 2012 if necessary. Projected general government gross financing needs have risen by some €7 billion over the program period, due to reclassification of state enterprises into the general government (net of already projected amounts for called guarantees), and the identification of some new arrears. The additional need can be covered via some state enterprise rollover of debt (where outcomes have already been better than program projections), and by the additional resources expected to arise as the authorities execute their revised financing strategy.

35. **With disciplined program implementation, Greece's debt is expected to be sustainable, and its repayment capacity to be adequate** (Table 22). While Greece's public debt is projected to rise and peak higher within the program period (due to the historical revisions to debt data), the significant fiscal consolidation and growth recovery should eventually bring the debt ratio firmly onto a downward path. The Fund's exposure to Greece remains high but manageable, and high post-program debt servicing requirements continue to point to a successful return to markets as critical to Greece's repayment capacity to the Fund (i.e. under the terms of the Stand-By Arrangement). While investor sentiment remains volatile, there have been some indications of slowly improving prospects, including foreign investor interest at recent t-bill auctions.

36. **There remain substantial risks to the program.** Recent macroeconomic and fiscal data and policy developments suggest that the program has stayed close to its baseline, but risks will linger for some time. The most prominent among these include a more severe economic downturn and delayed growth resumption; slippages in fiscal adjustment reflecting delayed reform of fiscal institutions; and delays in the resumption of market access. In the latter context, the recent worsening of conditions in European sovereign debt markets, if prolonged, would represent a significant risk to the program, but policy actions and external support for other countries affected are expected to keep this risk contained. Close cooperation continues between the authorities and the Fund/EC/ECB, to recognize and mitigate any risks along these dimensions.

V. STAFF APPRAISAL

37. **The program remains broadly on track.** Output is close to the targeted path, inflation is finally beginning to decline, and competitiveness is slowly improving. Above all, policies are generally being implemented as planned.

38. **A very ambitious fiscal adjustment effort is well underway.** Revenue shortfalls and overspending at lower levels of government have continued to be offset by under spending at the state level. The end-September cash deficit target has been met and the December target is within reach. There has been some accumulation of arrears, especially in the health sector, but even the change in the accrual deficit points to an impressive effort: taking measures of some 8 percent of GDP to overcome the drag from the severe recession and cut the deficit by 6 percent of GDP in one year is unprecedented, even if an inflated 2009 budget might have contained low-hanging fruits. And by sticking to the original target for 2011—in effect offsetting not only shortfalls evident in 2010 but the entire statistical revision in just one year—the authorities are reconfirming their determination to come to grip with Greece’s fiscal problem.

39. **However, fiscal structural reforms need to be advanced more forcefully to ensure that the fiscal adjustment is lasting.** Cutting state expenditures to offset poor tax compliance and lack of expenditure control at lower level of government is not a sustainable policy. Improving expenditure control at sub national levels, not least in the health sector, and strengthening tax compliance is therefore essential to place the fiscal adjustment on a sustainable basis. This is also key to socially well-balanced policies. Thus, attempting to cut wages and pensions further—because of inability to secure a fair distribution of the tax burden and to cut pervasive waste, not least in generously paid and staffed state enterprises—would likely encounter serious public resistance, fuel concern about equity, and undermine broader support for the program.

40. **In view of this, the Government’s determination to push ahead with a comprehensive modernization of the health sector, begin an equally far reaching reform of state enterprises, and redouble efforts to improve tax administration is welcome.** In each of the targeted areas, technical challenges are large and reforms will take time to take hold and yield significant results. It is therefore essential for the Government to develop comprehensive, concrete, and detailed time-bound action plans now if it is to generate the additional savings and revenue gains of more than five percent of GDP needed in 2012-14 to bring the deficit below 3 percent of GDP. Without such reforms, the fiscal adjustment effort is likely to fail. Progress with these fiscal structural reforms will therefore be a primary focus of the next review of the program, in particular the plans for state enterprises, as this is the least advanced of these important reforms.

41. **An acceleration of reforms more broadly remains essential to restore robust economic growth.** Such reforms are off to a very good start. Already adopted pension reforms are impressive and strong labor market reforms are nearing completion. But the momentum is set to slow as the focus now shifts to liberalization, including opening up of closed professions and deregulation of tourism and retail sectors, as these reforms are generally still at a diagnostic or preparatory stage. While the reform agenda is large, ambitious and will take years to implement in full, it is essential that implementation soon reaches the critical mass needed to convince investors that the business climate is changing, spurring the investment recovery necessary for strong and sustained economic growth.

Thus, for the recession to come to an end and give way to a gradual recovery in output already in 2011, it is crucial that the government vigorously advance reforms in the coming months. Herein lies the main potential risk to the program going forward.

42. **The increase in arrears is a matter of much concern.** The increase is not surprising given the scale of the expenditure reduction that is being planned and the weak expenditure controls at lower levels of government. Strengthening such controls is indeed a main focus of the considerable IMF technical assistance that is currently being provided to Greece. It is essential that the authorities give priority to implementing the TA recommendations, in order to avoid yet another negative statistical revision. Thus the emergence of large arrears would be a serious setback to the government's consolidation efforts and the credibility of the program.

43. **Turning to the financial sector, liquidity remains precariously tight.** A concern in this regard is that a change in the ECB's collateral policy would reduce repo-eligible collateral and that another down-grading by rating agencies could further cut collateral buffers. As far as the government is concerned, it is important that it stands ready to boost collateral by providing additional guarantees of uncovered bank bonds. As far as the ECB is concerned, it must keep open its various extraordinary channels for support of the Greek banking system as long as the sovereign's impaired access to capital markets continues to spillover to the financial system by disrupting Greek banks' access to the interbank market. Staff considers that purchases of government bonds by the ECB is one such important channel. Staff's key concern in this regard is that excessively fast de-leveraging at a time when fiscal policy is highly contractionary could have a significant and prolonged adverse impact on the economy.

44. **As far as banks' capital needs are concerned, developments to date have been encouraging.** The rise in NPLs are in line with program assumptions, banks have been able to raise significant capital through market transactions, and the FSF—the program's capital backstop mechanism—has not had to be activated. The key structural issue facing the authorities in the financial sector at this stage is to restructure the state banking sector. In this regard, staff strongly encourages the authorities to move swiftly to privatize Hellenic Postbank and Attica Bank. Moreover, should the capital need of the Agricultural Bank exceed amounts suggested under the July CEBS stress tests, the government should embark on a much more aggressive downscaling of this bank.

45. **In conclusion, the program is up to a very good start, but pressure points evident in the public sector, and still generally unfavorable investor sentiments, suggest that the program is at crossroads.** Further fiscal adjustment and—above all—the return of robust economic growth hinges crucially on a strong determination on the part of the Government to forcefully advance its structural reform agenda in the coming months, in the public sector and more broadly. Such reforms will undoubtedly be fiercely resisted by entrenched vested interests, testing the government's resolve. But the Government's

determination to date, together with a favorable political calendar, augurs well for the prospects in this regard. Staff fully supports the conclusion of the review.

Box 1. Eurostat Data Revisions

The long process of revising Greece's pre-crisis fiscal data has been completed. In October 2009, the government of Greece disclosed that fiscal data were misreported, and published revised statistics on the deficit and debt for 2008-09. But in light of the large revisions and as more data became available, Eurostat withheld validation of these fiscal statistics, and requested methodological and classification improvements. With the completion of this process in November 2010, all reservations have been removed.

The fiscal data revisions rectify a number of shortfalls with earlier statistics:

- **Coverage adjustments.** European statistical standards (ESA95) require that government-controlled enterprises where sales cover less than 50 percent of production costs should be classified to the general government sector. A total of 17 such enterprises or entities were identified. These include large loss-making entities in the rail, public transport, and defense sectors, as well as some off-budget accounts, including in the agricultural sector. Hence, the debt of these entities (7¼ percent of GDP) is now included in headline debt data, and their annual losses increase the annual deficit (to the extent their called guarantees were not already reflected).
- **Other factors – better information and elimination of some inaccuracies.** Better information became available, in particular on arrears. This includes tax refund arrears, as well as lump sum payments to retiring civil servant pensioners. The latter amount to some 0.2 percent of GDP and increased the 2009 deficit of the social security sector. For earlier years, other corrections of social security balances were due to corrections of imputed interest payments, double counting of revenues, and other inaccuracies. New information on swaps also became available and further helps explain the upward revision in debt data.

'Intermediate' GDP data consistent with the new public sector statistics were also made available. This is to ensure that ratios for fiscal statistics are compiled on a consistent statistical basis.

Table. Summary of Deficit, Debt and GDP Revisions under the EDP (percent of GDP, unless indicated otherwise)

	2006			2007			2008			2009		
	Prelim	Revised	diff	Prelim	Revised	diff	Prelim	Revised	diff	Prelim	Revised	diff
General government deficit	-3.6	-5.7	-2.2	-5.1	-6.4	-1.3	-7.7	-9.4	-1.8	-13.6	-15.4	-1.8
<i>of which:</i>												
due to changes in GDP			0.0			0.0			-0.1			-0.2
due to changes in level			-2.2			-1.3			-1.7			-1.6
<i>of which:</i> coverage 1/			-0.7			-0.8			-0.7			-0.8
other			-1.5			-0.5			-1.0			-0.8
General government debt	97.8	105.9	8.2	95.7	104.9	9.2	99.2	110.3	11.1	115.1	126.7	11.5
<i>of which:</i>												
due to changes in GDP			-0.4			-0.3			1.0			1.3
due to changes in level			8.6			9.5			10.1			10.2
<i>of which:</i> coverage 1/			8.1			7.6			7.3			7.5
other			0.5			1.9			2.8			2.7
Memo item												
Nominal GDP (billion Euro)	210,459	211,314	855	226,437	227,134	697	239,141	236,936	-2,205	237,494	235,035	-2,459

1/ Reclassification of public enterprises.

Box 2. Program Cash Targets versus Final ESA95 Accounts

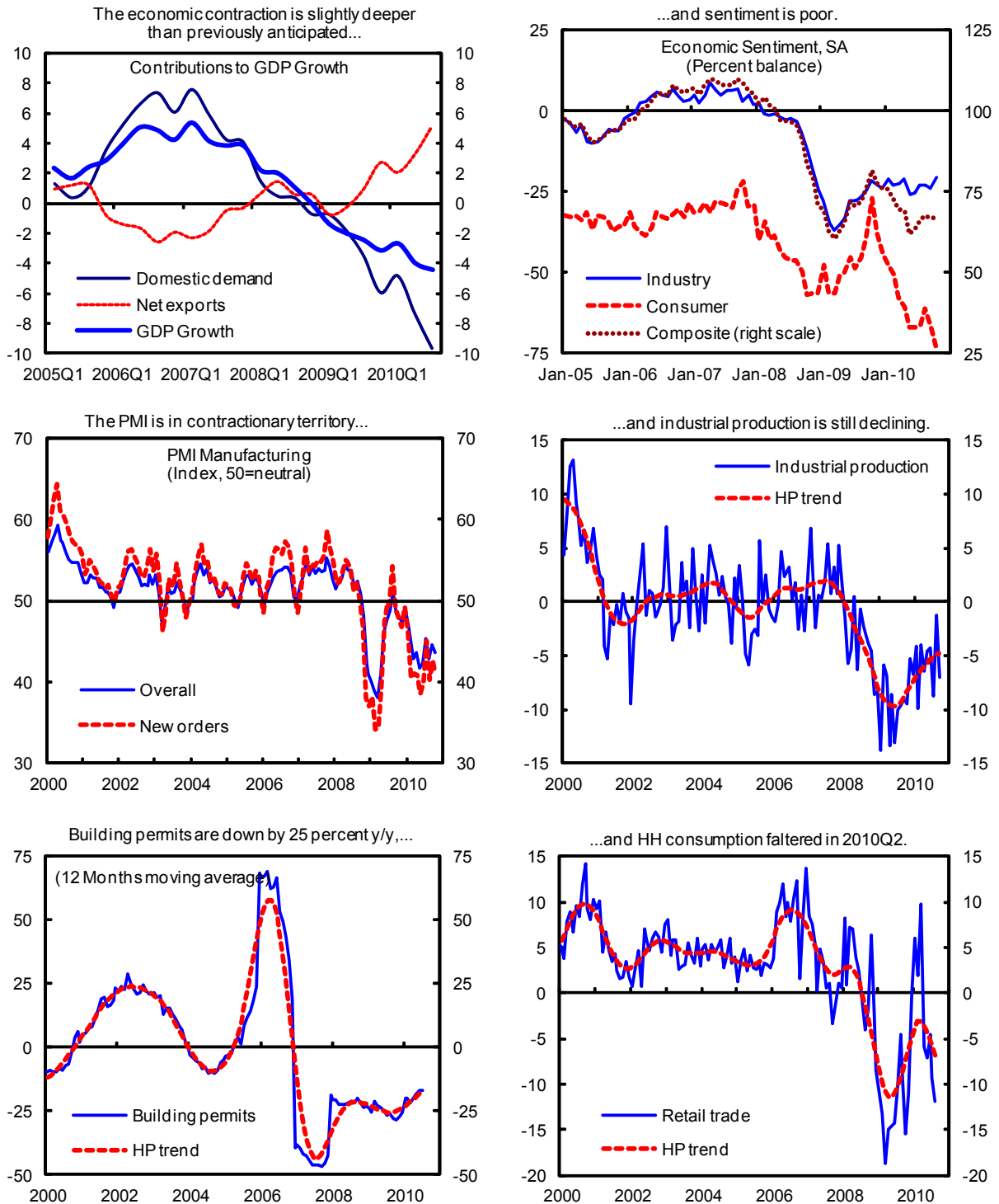
The program is monitored on the basis of quarterly cash targets for the modified general government. This includes the state budget, off-budgetary items such as military procurement spending, as well as the financial balances for the social security funds and local governments. This captures around 90 percent of all contributions to the ESA95 fiscal deficit, and is available with a one month lag. The items excluded are those for which no, or no timely, information is available.

The headline program deficit figure is measured based on ESA95 principles. These include a number of adjustments to the cash data used for monitoring:

- | | | Table. Cash and ESA95 targets (Euro billion) | | |
|--|---------------------------------------|--|-------|------|
| | | 2010 | | |
| | | Progr. | Proj. | diff |
| <ul style="list-style-type: none"> • <i>Coverage</i>: Transactions involving state enterprises now reclassified within general government, extra-budgetary funds, and off-budget accounts, are included. In 2010, state enterprises are projected to add €1½ billion to the deficit, while funds and accounts will reduce the deficit by some €0.6 billion. | 1. Program cash balance | -17.2 | -19.3 | -2.1 |
| | State budget balance (incl. military) | -19.6 | -20.8 | -1.2 |
| | LG and SSF balances | 2.4 | 1.5 | -0.8 |
| | 2. Cash to accrual adjustments | -1.3 | -3.0 | -1.8 |
| | Coverage | -1.5 | -0.9 | 0.6 |
| | Timing adjustments | 1.5 | 0.4 | -1.0 |
| | Arrears | 0.0 | -0.5 | -0.5 |
| | Floating payments | -1.0 | -1.6 | -0.6 |
| | Other | 0.2 | 0.3 | 0.1 |
| | 3. ESA95 general government balance | -18.5 | -22.3 | -3.8 |
- *Time adjustments*. Adjustments are made for the timing of the accrual versus payment of revenue and interest, delivery of military equipment, and claims submitted to the EU (rather than the cash paid or received). These adjustments are projected to lower the deficit by €450 million in 2010.
 - *Arrears*. Adjustments are made for invoices or benefits overdue for payment. Largely due to the accumulation of unpaid lump sum pension payments for public service employees in 2010, this is expected to contribute €500 million to the deficit in 2010.
 - *Payment float*. Adjustments are made for the change in accounts payable for hospitals and local governments. This is expected to contribute €1.6 billion to the deficit in 2010.
 - *Settlement of other past debts*. Included in this category are repayments to the EU. This will reduce the measured accrued deficit in 2010 by €345 million.

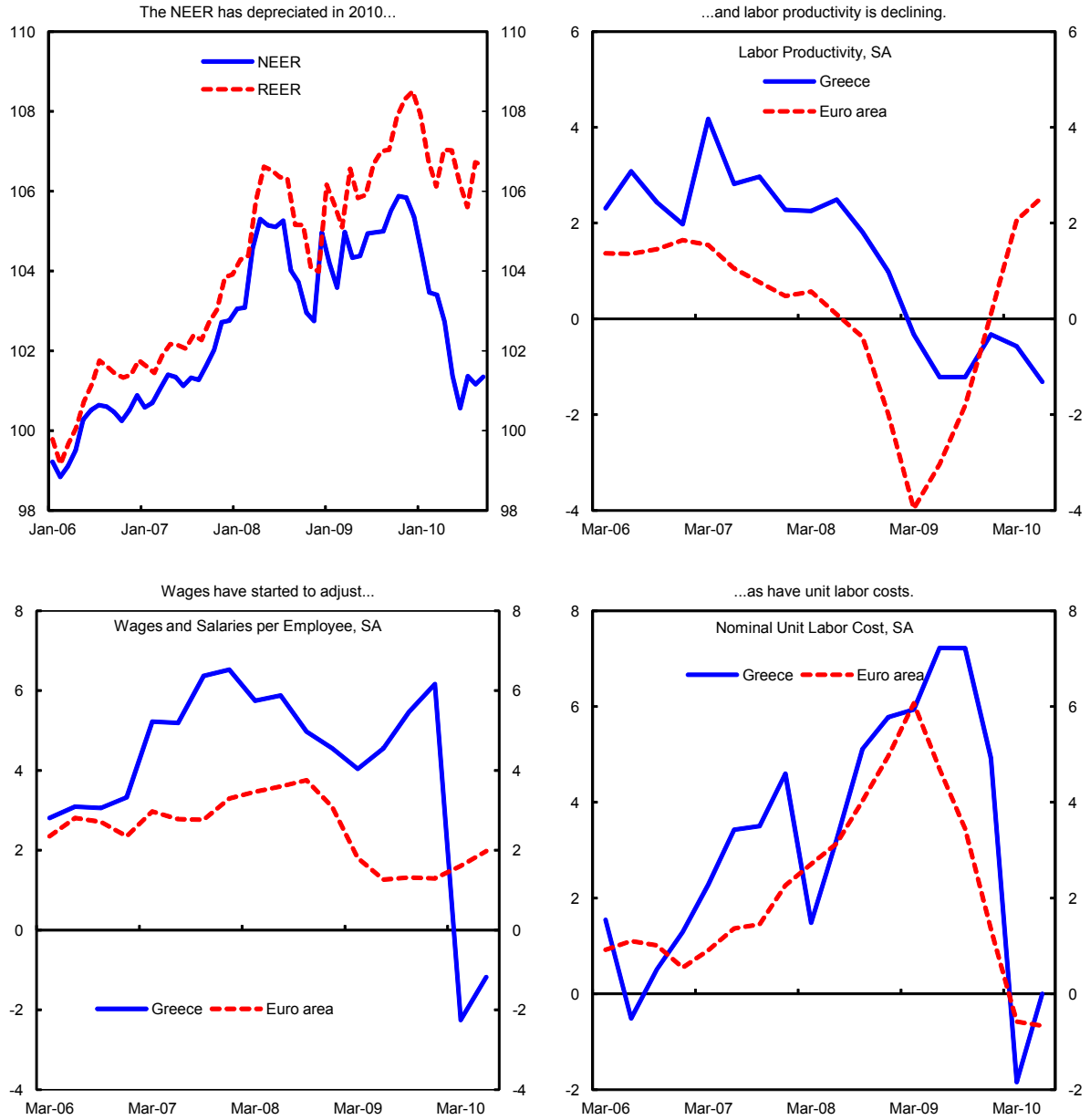
The divergence in the two deficit measures in 2010 versus previous projections reflects several factors. First, the cash over performance programmed at the first review to help keep the ESA95 target on track no longer appears achievable. Second, larger cash to accrual adjustments add to the deficit, stemming mostly from lower accrued revenues and other timing adjustments, and larger projected outstanding accounts payable.

Figure 1. Greece: Selected Economic Indicators, 2005–10
(Year-on-year percent change, unless otherwise indicated)



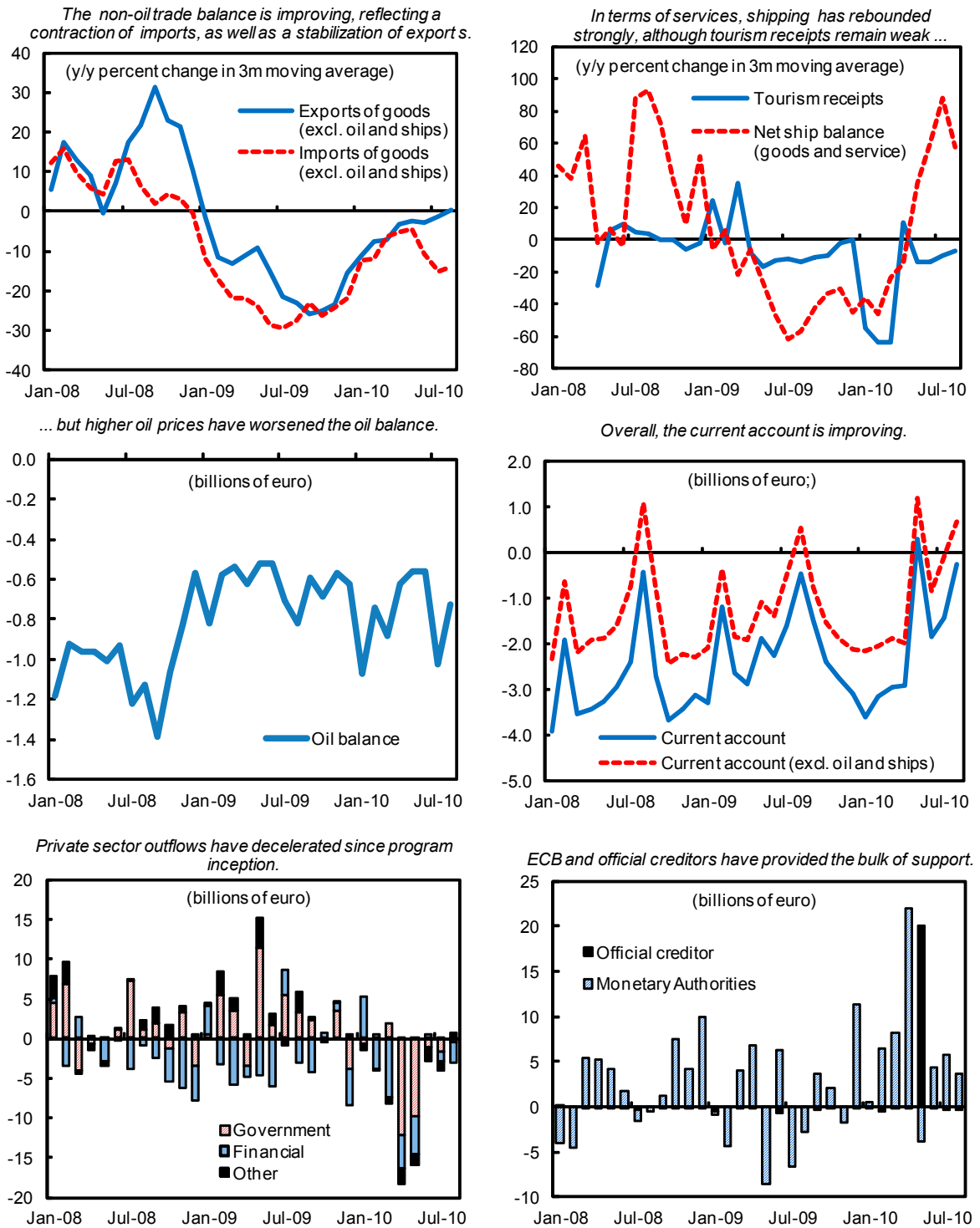
Sources: National Statistical Service; Eurostat; and IMF staff calculations and estimates.

Figure 2. Greece: Competitiveness Indicators, 2006–10
(Year-on-year percent change, unless otherwise indicated)



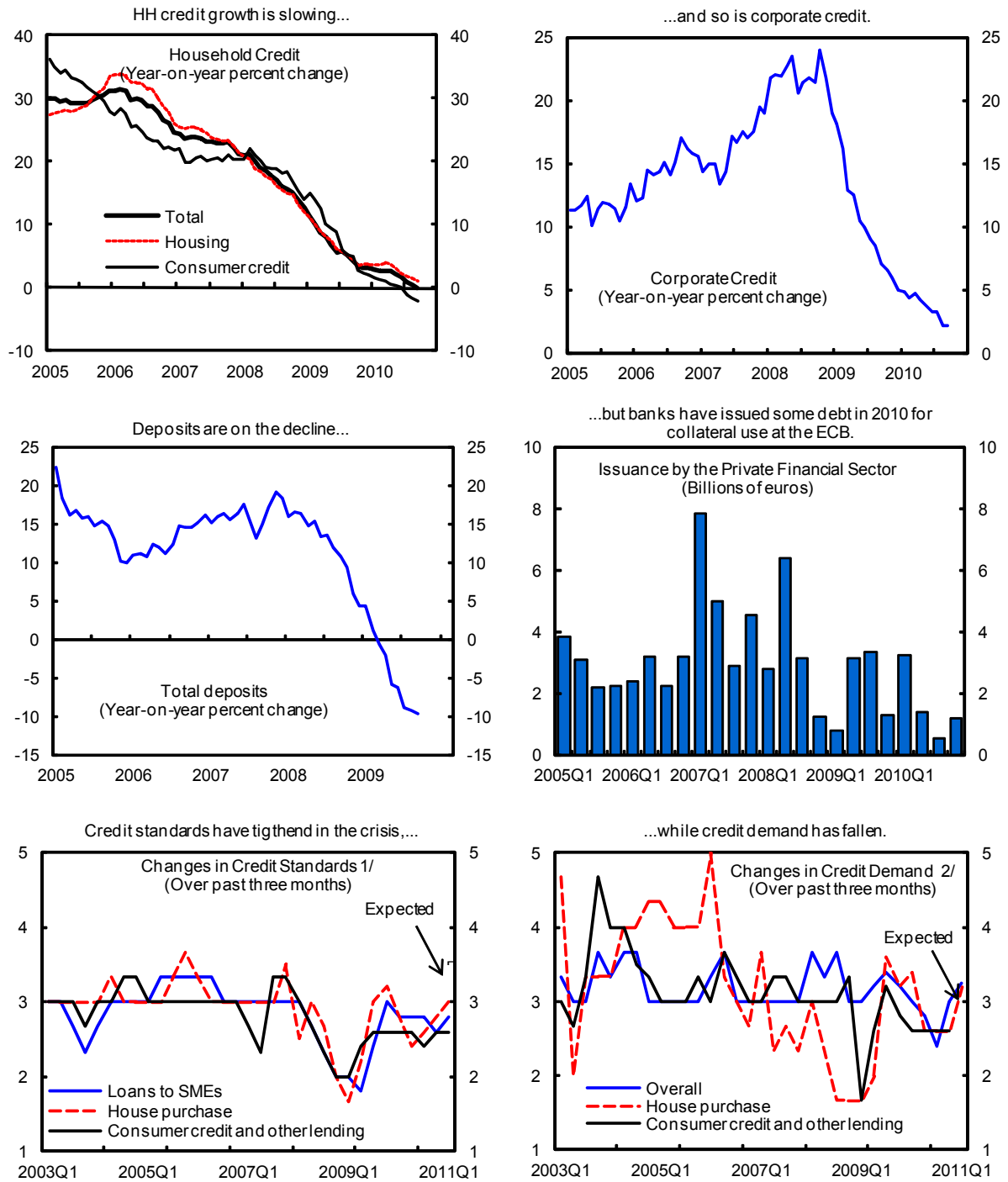
Sources: Eurostat; and IMF staff calculations.

Figure 3. Greece: Balance of Payments



Sources: Bank of Greece; and IMF staff calculations.

Figure 4. Greece: Money and Banking Indicators, 2005–10



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

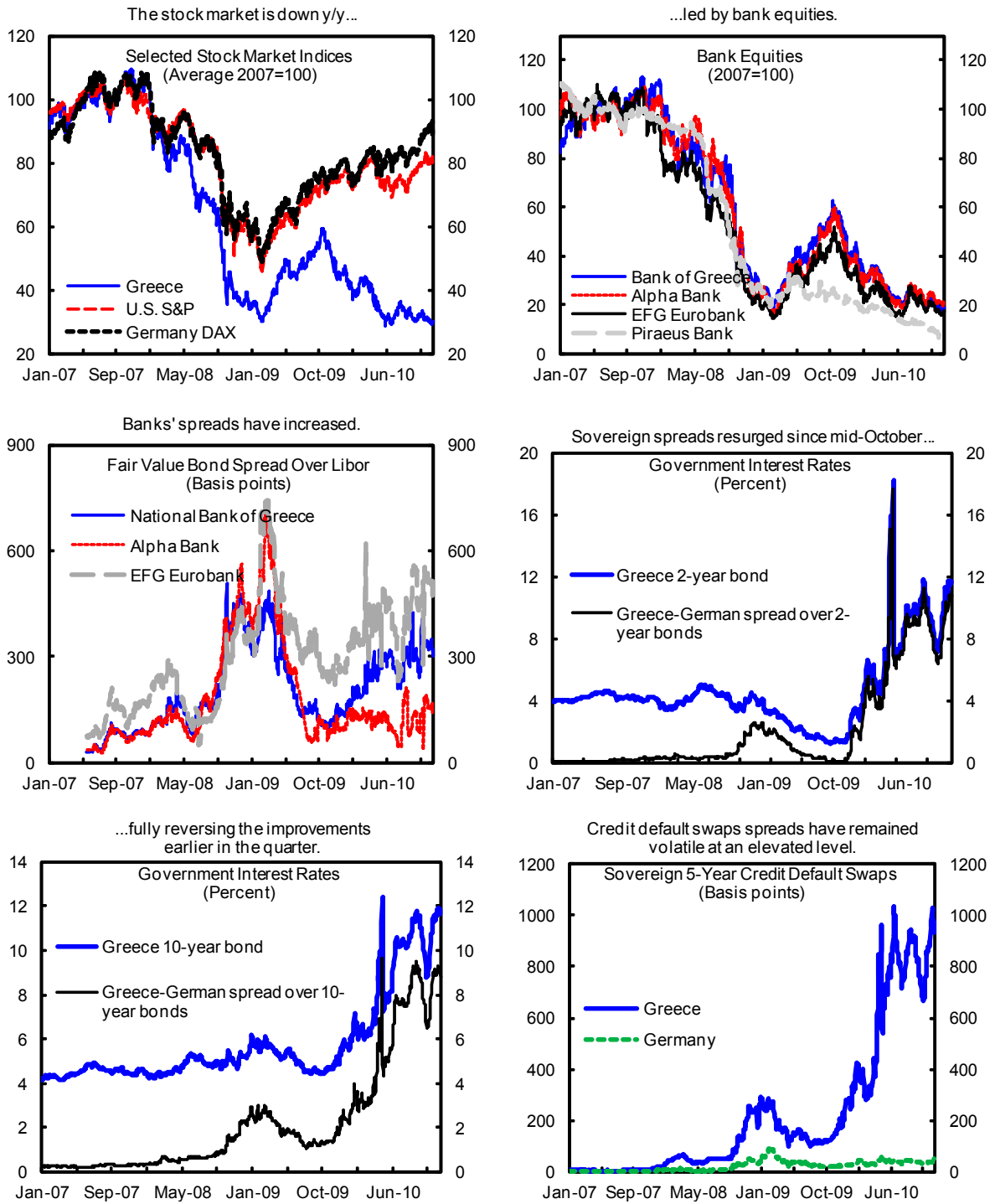
1/ Scale: 1= tightened considerably; 2= tightened somewhat; 3=remain unchanged; 4=eased somewhat

5= eased considerably

2/ 1= decreased considerably; 2= decreased somewhat; 3=remain unchanged; 4=in creased somewhat;

5= increased considerably

Figure 5. Greece: Financial Indicators, 2007–10

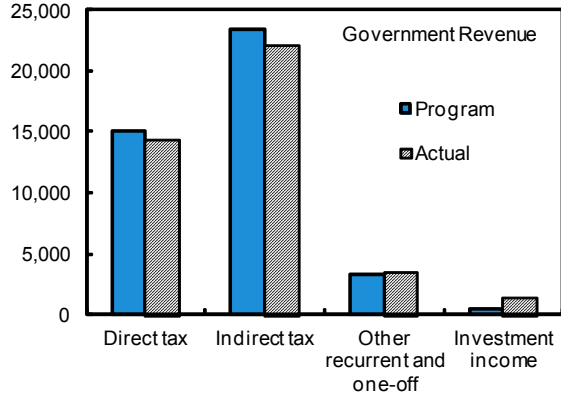


Sources: Bloomberg; and Moody's Creditedge.

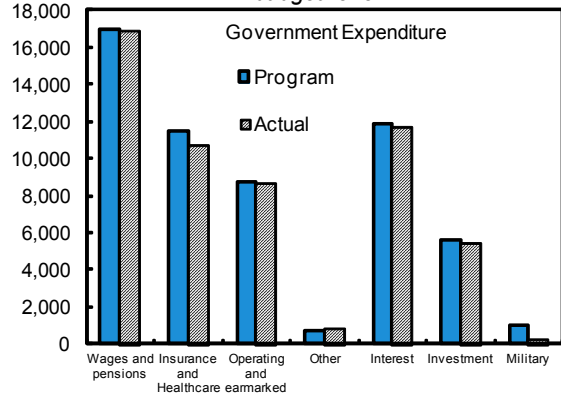
Figure 6. Greece: Budget Execution up to end-September

(Millions of euro)

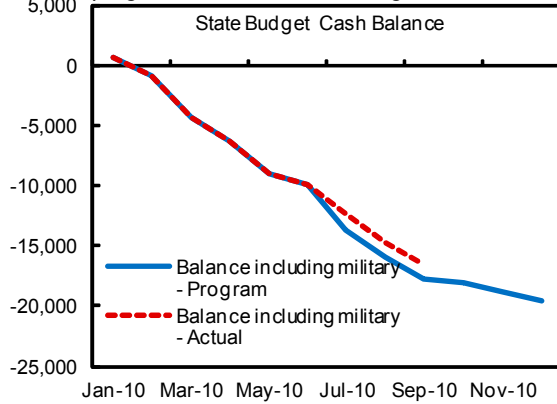
Revenue has been 2.2 percent below program, with noticeably shortfalls in indirect taxes,...



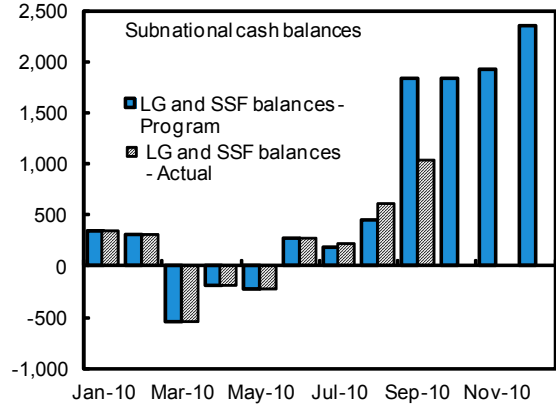
...but expenditure containment at the state budget level...



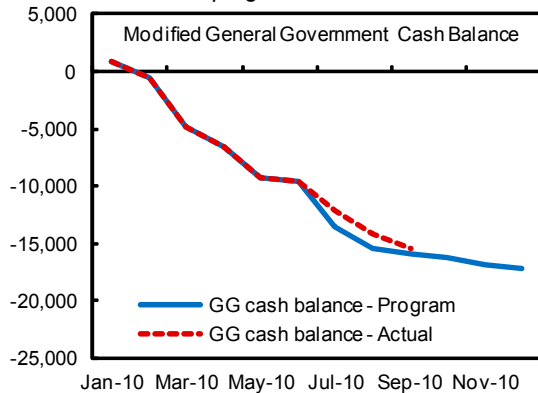
...has helped ensure a better-than-programmed cash state budget balance.



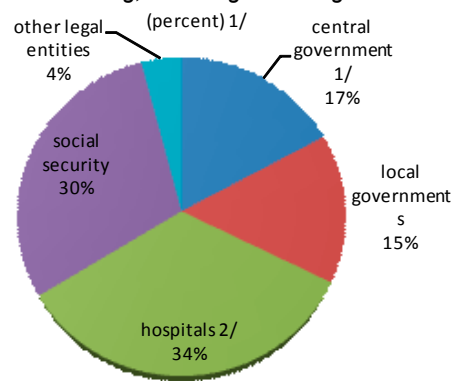
Despite some shortfalls in subnational cash balances ...



... the primary cash balance target under the program was met.



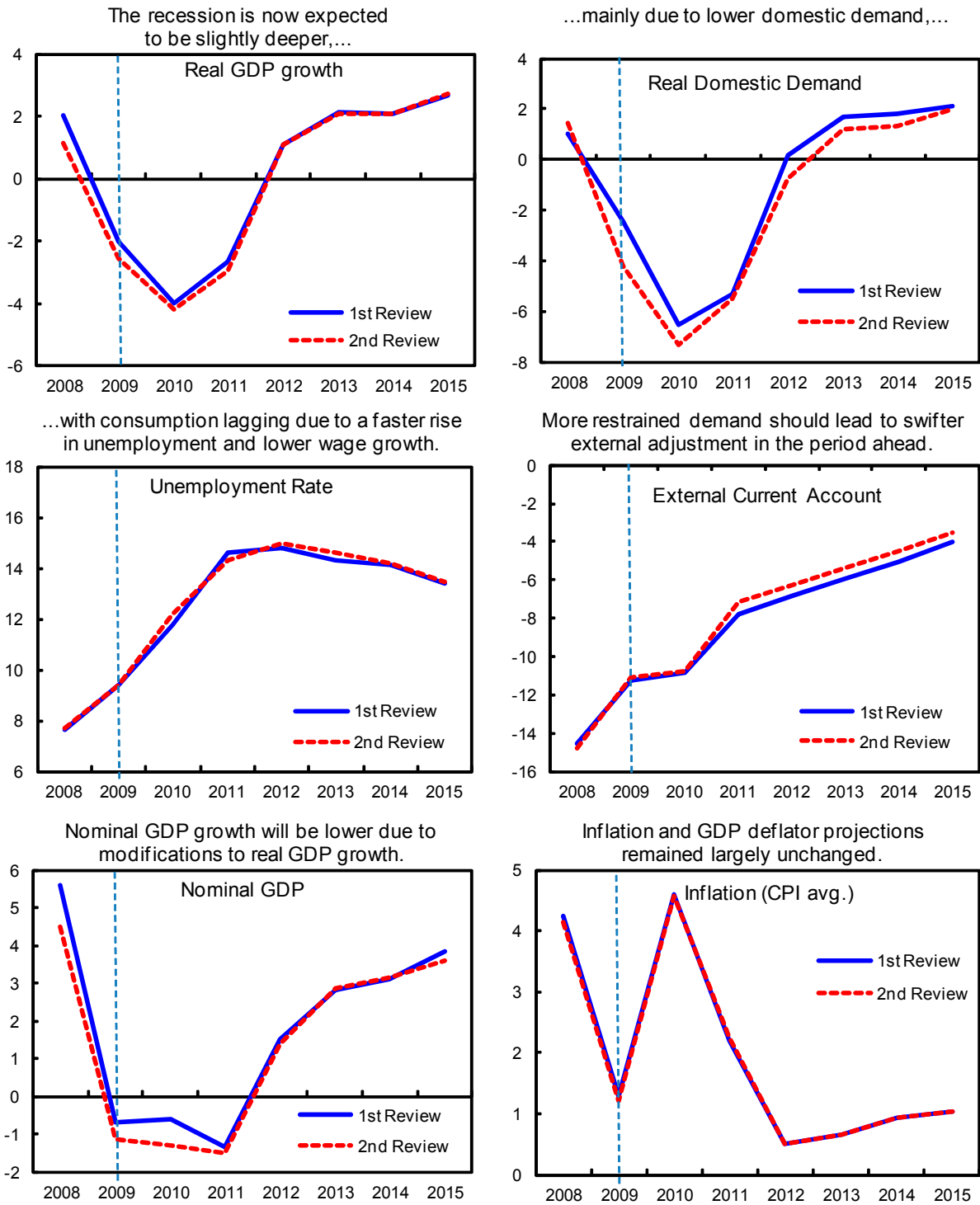
However, some 2.2 billion in arrears are outstanding, affecting ESA targets.



Sources: National authorities; and IMF staff calculations.

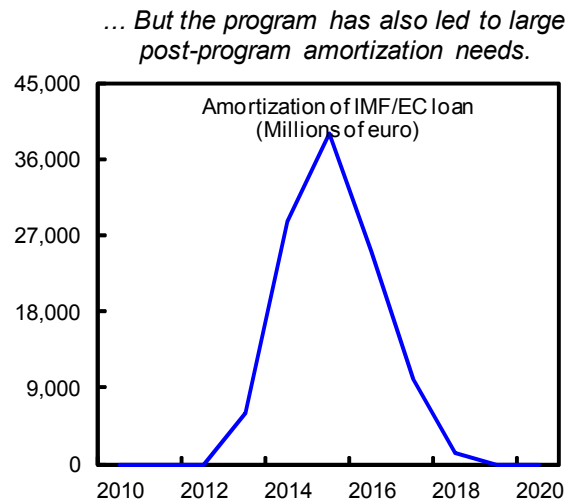
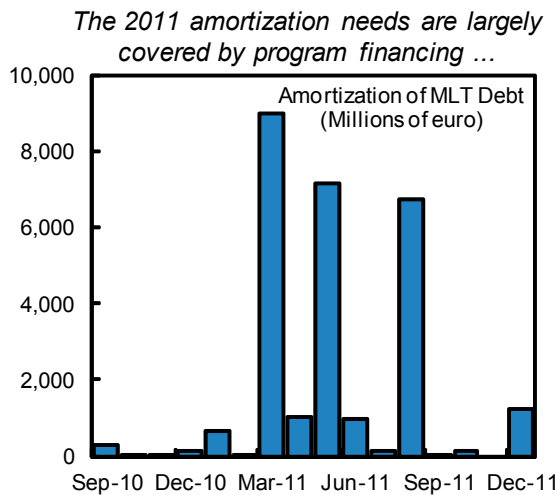
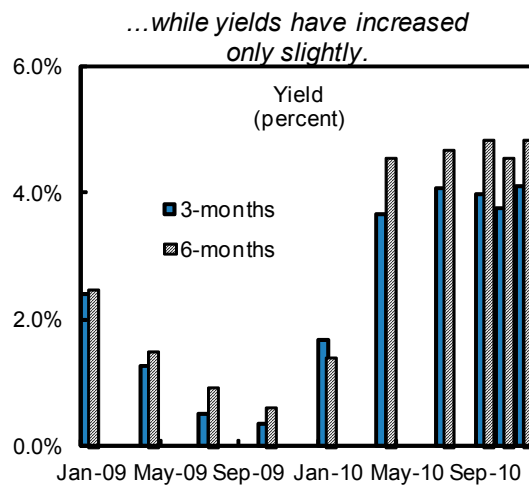
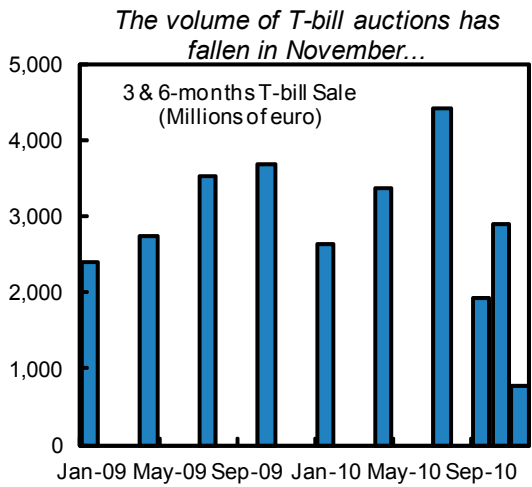
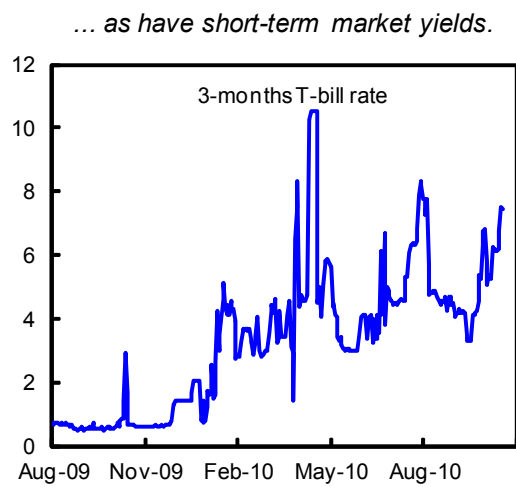
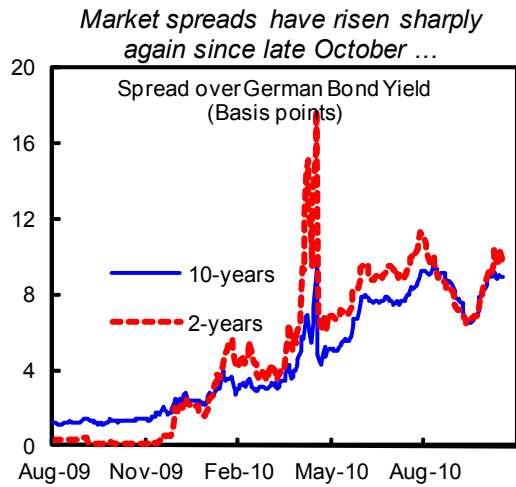
1/ Survey results. Data for central government refer to end-August. 2/ Hospital arrears exclude the stock of 5.3 billion known at end-2009.

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



Sources: National authorities; and IMF staff projections.

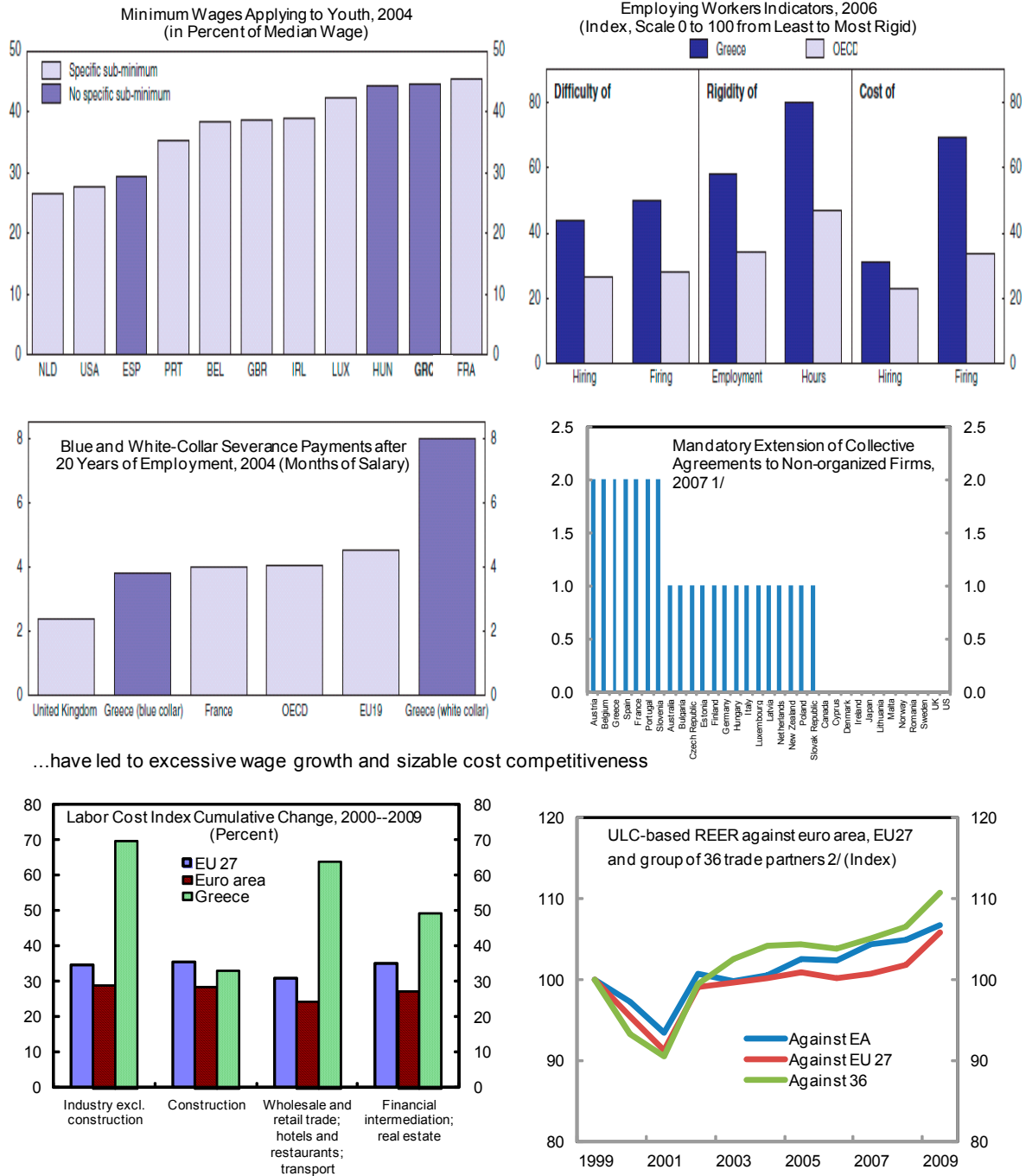
Figure 8. Greece: Fiscal Financing Challenges



Source: IMF staff calculations based on data provided by the authorities.

Figure 9. Greece: Labor Market Indicators, Wage Formation and Competitiveness

Entry and exit barriers in the labor market and the widespread extension of sector wages to non-signatory firms...

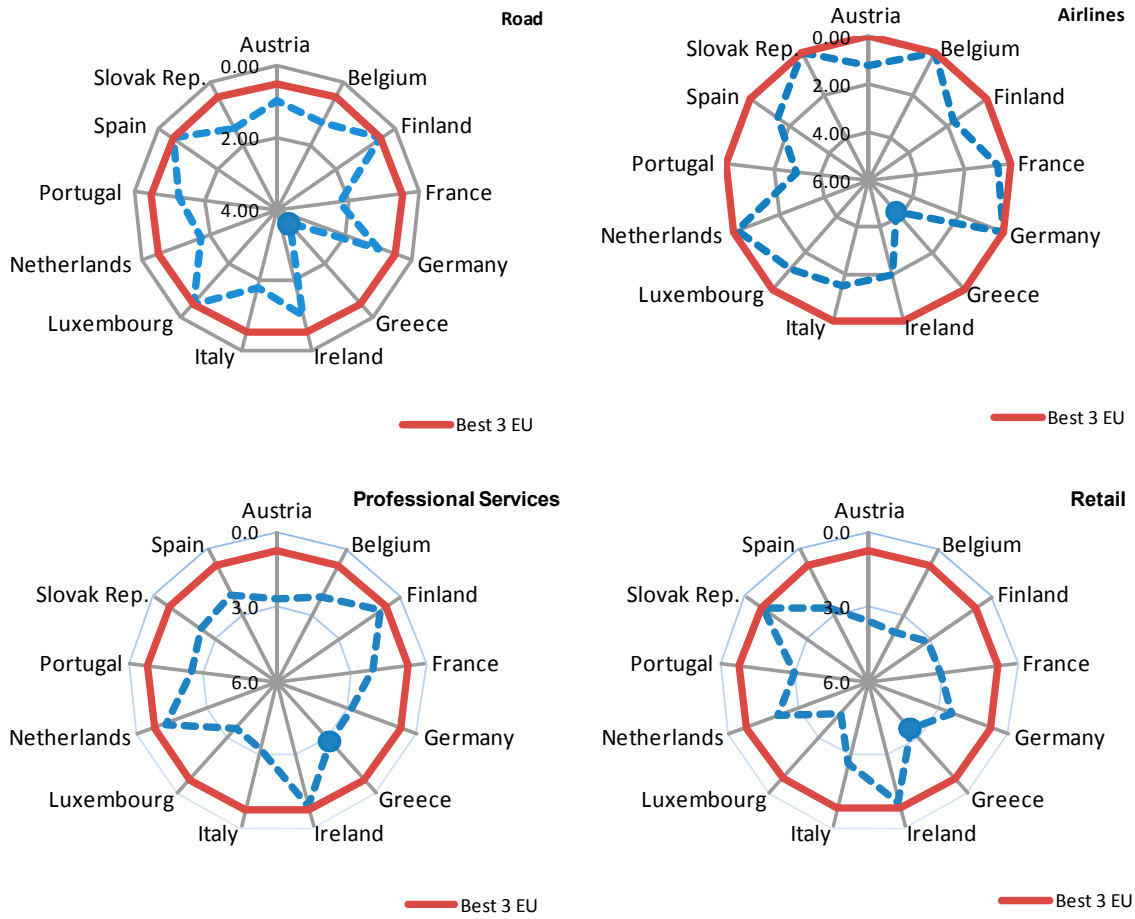


...have led to excessive wage growth and sizable cost competitiveness

Sources: OECD, Eurostat, Ameco and Database on Institutional Characteristics of Trade Unions, Wage Setting, State Intervention and Social Pacts (Visser, 2007).

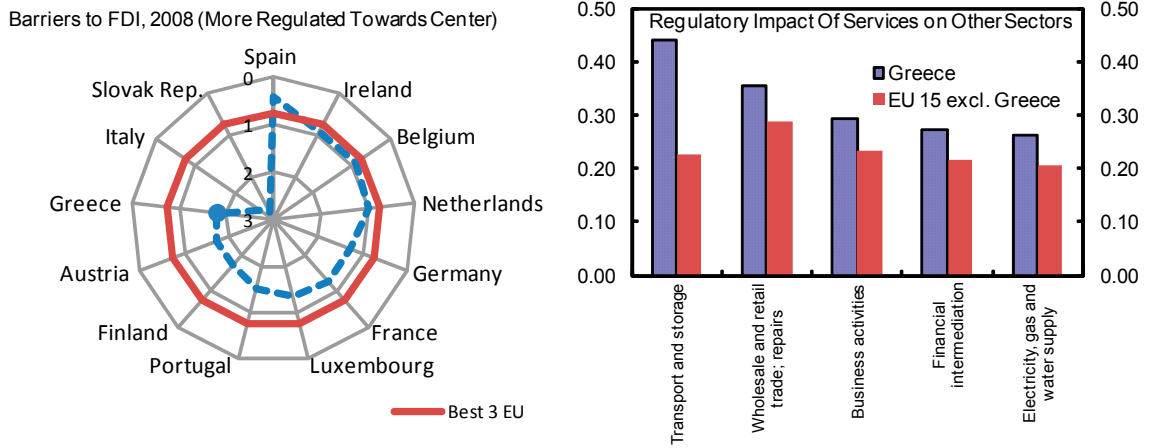
1/ Code is as follows: 2 = provision for mandatory extension available, regularly applied and affecting more than 10 percent of the workforce; 1 = provision for mandatory extension available, but seldom applied and affecting less than 10 percent of the workforce; 0 = legal provision for mandatory extension not available.
 2/ EU27 plus Australia, Canada, Japan, Mexico, New Zealand, Norway, Switzerland, Turkey and the US.

Figure 10. Greece: Regulatory Conditions in Services
(More regulated towards center)

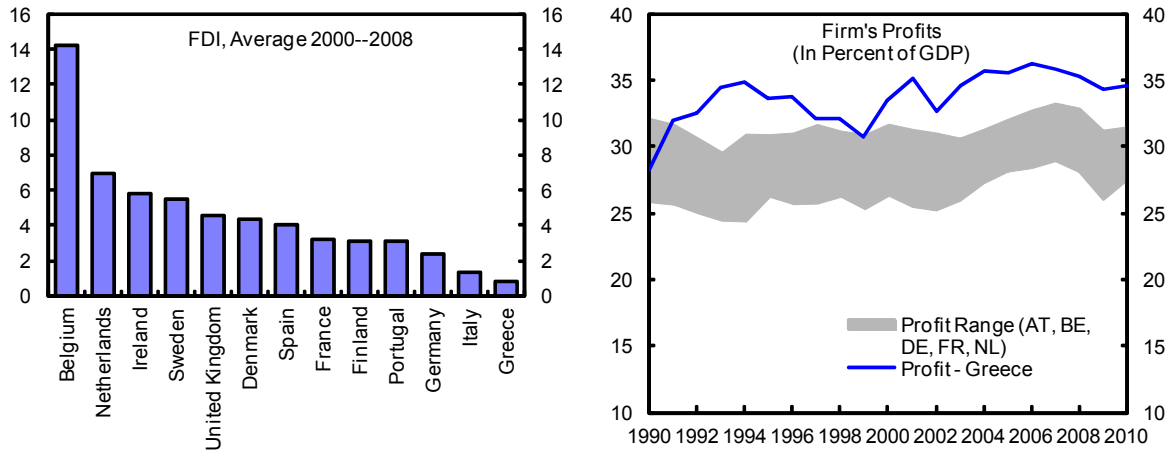


Source: OECD
Note: Other EU15 excludes Luxembourg.

Figure 11. Greece: Investment Conditions and Knock on Effects of Regulations
Obstacles to foreign investment and over-regulation of the domestic economy...



...have discouraged FDI and secured comfortably high and uncontested profits



Source: OECD and Ameco.

Table 1. Greece: Selected Economic Indicators, 2006–10

	2006	2007	2008	2009	2010	2010
					Prog.	Proj.
	(Percentage change, unless otherwise indicated)					
Domestic economy						
Real GDP	4.5	4.2	1.1	-2.6	-4.0	-4.2
Output gap (percent of pot. output)	4.8	7.5	7.4	3.7	-1.1	-1.3
Total domestic demand	5.9	5.7	1.5	-4.2	-6.5	-7.3
Private consumption	5.5	3.1	3.2	-1.8	-3.0	-4.1
Public consumption	1.3	9.2	1.0	7.6	-10.6	-9.0
Gross fixed capital formation	10.6	5.4	-7.6	-11.4	-12.0	-18.8
Change in stocks (contribution)	0.4	0.8	1.1	-2.4	-1.0	0.1
Foreign balance (contribution)	-1.8	-1.2	0.9	2.2	3.3	4.0
Exports of goods and services	5.3	5.8	4.0	-20.1	3.0	0.9
Imports of goods and services	9.7	9.8	4.0	-18.6	-8.6	-12.0
Unemployment rate (percent)	8.9	8.3	7.7	9.4	11.8	12.2
Employment	1.9	1.2	1.1	-1.0	-2.6	-2.8
Hourly wage (manufacturing)	2.1	3.4	2.4	5.3	...	0.5
Consumer prices (HICP), end of period	2.9	3.9	1.9	2.6	4.4	4.4
Consumer prices (HICP), period average	3.2	2.9	4.1	1.2	4.6	4.6
Core prices, period average 1/	2.4	3.1	3.1	2.3	2.9	3.2
GDP deflator	3.1	3.1	3.3	1.5	3.5	3.0
	(Percent of GDP)					
Balance of payments						
Current account	-11.3	-14.5	-14.8	-11.1	-10.8	-10.4
Trade balance	-9.5	-11.0	-11.4	-7.8	-7.1	-7.0
Export of goods and services	21.2	21.6	22.9	18.2	19.0	19.4
Imports of goods and services	30.7	32.7	34.3	25.9	26.2	26.4
Total transfers	1.6	0.7	1.2	0.6	0.3	0.3
Net income receipts	-3.4	-4.1	-4.5	-3.9	-4.0	-3.8
Net international investment position	-84.9	-95.1	-76.0	-87.4	-96.2	-97.7
Public finances (general government)						
Total revenues	39.0	39.8	39.7	37.8	39.5	39.8
Total expenditures	45.2	46.5	49.2	53.2	47.4	49.4
Primary expenditures	40.5	41.7	44.2	47.9	41.8	43.1
Overall balance	-6.1	-6.7	-9.5	-15.4	-7.9	-9.6
Primary balance	-1.5	-1.9	-4.5	-10.1	-2.2	-3.3
Gross debt	106	105	110	127	130	141
Interest rates and credit						
Long-term lending interest rate 2/	6.3	7.0	7.4	5.7	6.1	6.2
Private credit growth 2/ 3/	21.1	21.5	15.9	4.2	2.8	1.4
Exchange rates						
Nominal effective exchange rate 2/	1.8	1.9	2.1	0.4	...	-3.6
Real effective exchange rate (CPI-based) 2/	2.4	2.1	2.2	1.7	...	-0.4
Real effective exchange rate (man. ULC-based) 2/	5.0	-0.7	-1.7	4.2	...	-1.6
Memorandum item:						
Nominal GDP (billions of euros)	210	226	236	233	236	230
Nominal GDP (percentage change)	7.8	7.4	4.5	-1.1	-0.6	-1.3

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

1/ Core prices exclude energy, food, alcohol, and tobacco. Data for 2010 refer to August.

2/ As of August 2010.

3/ Domestic credit growth of households and enterprises.

Table 2. Greece: Financial Soundness Indicators
(Percent)

	2005	2006	2007	2008	2009	2010Q1	2010Q2
Regulatory capital to risk-weighted assets 1/	13.2	12.2	11.2	9.4	11.7	11.7	11.2
Regulatory Tier I capital to risk-weighted assets 1/	10.9	9.9	9.2	7.9	10.7	10.6	10.1
Nonperforming loans net of provisions to capital	19.2	15.4	16.8	26.1	38.2	40.6	45.4
Nonperforming loans to total gross loans	6.3	5.4	4.5	5.0	7.7	8.2	9.0
Sectoral distribution of loans 2/							
Consumer credit	15.2	16.3	15.0	14.1	14.0	13.0	14.4
Lending for house purchase	31.4	33.4	34.5	32.4	35.0	35.5	31.8
Non-financial corporations	50.5	47.1	47.2	50.4	47.5	48.0	45.6
Insurance corporations and pension funds	0.1	0.1	0.2	0.1	0.0	0.0	0.1
Other financial intermediaries	1.6	1.8	1.5	1.5	1.9	1.9	1.8
Other	1.2	1.4	1.5	1.5	1.6	1.5	6.4
Return on assets (after taxes) 3/	0.9	0.8	1.0	0.2	-0.1	-0.6	-0.6
Return on equity (after taxes) 3/	15.9	12.7	14.8	3.2	-1.5	-8.7	-9.7
Interest margin to gross income 3/	75.5	72.3	71.9	83.1	74.8	98.1	97.4
Non-interest expenses to gross income 3/	54.5	52.2	52.6	60.0	57.4	65.8	66.0
Liquid assets to total assets 2/	34.0	33.6	35.1	38.7	45.2	45.9	39.6
Liquid assets to short-term liabilities 2/	47.0	46.5	48.0	50.0	56.9	57.4	55.0
Net open position in foreign exchange to capital 1/ 4/	2.8	4.8	3.9	7.9	11.7	10.8	10.7

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/ From 2004 in accordance with IFRS.

4/ Based on revised figures from 2002 onwards.

Table 3. Greece: Monetary Survey

	2005	2006	2007	2008	2009	Mar-10	Jun-10	Sep-10	2010 proj.
(in billions of euro)									
Aggregated Balance Sheet of Monetary Financial Institutions (MFIs)									
Total assets	318.5	356.5	434.6	536.1	579.2	603.9	677.8	662.0	659.1
Cash (held by credit institutions)	2.2	2.6	2.7	2.7	2.5	2.3	2.2	2.1	2.1
Claims on Bank of Greece	4.4	4.6	7.2	7.9	8.2	4.7	10.1	9.1	9.0
Claims on other MFIs	44.1	51.3	76.8	130.3	163.2	187.7	211.4	199.0	198.1
Claims (Loans) on non MFIs	155.7	175.0	206.7	227.7	222.5	224.1	284.1	281.4	280.2
Domestic	151.2	170.2	198.5	215.1	209.5	210.3	277.1	274.7	273.5
General government	14.2	13.3	14.8	14.7	16.5	17.7	15.3	14.9	14.8
Other sectors	137.0	156.9	183.7	200.4	193.0	192.6	261.8	259.8	258.6
Other countries	4.5	4.8	8.2	12.6	13.0	13.8	7.0	6.8	6.8
Securities 1/	69.1	75.7	85.7	97.8	116.1	116.4	99.3	99.2	98.8
Other assets	37.8	41.7	50.3	64.5	61.2	64.0	65.9	66.2	65.9
Fixed assets	5.3	5.6	5.2	5.2	5.4	4.6	4.9	4.9	4.9
Total Liabilities	318.5	356.5	434.6	536.1	579.2	603.9	677.8	662.4	659.1
Liabilities to Bank of Greece	2.4	4.9	8.8	40.6	49.7	67.1	94.3	94.5	94.0
Liabilities to other MFIs	49.1	57.7	87.8	121.8	149.0	159.1	170.4	170.8	170.0
Deposits and repos of non MFIs	189.7	212.8	249.7	281.7	280.1	273.6	295.5	291.1	282.3
Domestic	166.7	181.8	206.1	237.4	246.7	240.4	230.9	231.1	222.0
Other countries	23.0	31.0	43.6	44.3	33.4	33.2	64.6	60.1	60.3
Capital and reserves	24.1	26.3	30.6	30.0	41.6	42.5	42.7	43.2	43.0
Banknotes and coins in circulation	14.4	16.0	16.9	19.0	21.6	21.4	21.8	21.8	21.7
Other liabilities	38.9	38.9	40.6	43.0	37.1	40.3	53.1	41.0	48.0
Money and credit									
Broad money	175.6	193.6	219.9	251.4	261.1	248.2	239.6	236.4	235.4
Credit to the private sector	149.6	179.2	215.1	249.3	252.9	254.3	263.3	261.2	256.5
Credit to government	38.0	35.7	31.5	31.7	41.9	48.6	48.8	52.0	51.8
(annual percent change)									
Broad money	7.7	10.2	13.6	14.3	3.9	0.1	-7.3	-11.1	-9.8
Domestic deposits	15.9	9.1	13.4	15.2	3.9	1.2	-6.3	-10.4	-10.0
Credit to the private sector	20.9	19.7	20.1	15.9	1.4	3.8	3.0	1.8	1.4
Credit to government	10.1	-6.1	-11.8	0.7	32.3	22	15.3	24.7	23.5
(in percent of GDP)									
Broad money	90.2	92.2	97.5	106.7	112.0	106.9	103.5	103.3	102.8
Domestic deposits	85.6	86.6	91.4	100.7	105.9	103.5	99.7	100.0	96.5
Credit to the private sector	76.8	85.3	95.4	105.8	108.5	109.5	113.7	113.1	111.5
Credit to government	19.5	17.0	13.9	13.4	18.0	20.9	21.1	22.5	22.5
Memorandum items:									
(in percent)									
Capital to assets	7.6	7.4	7.1	5.6	7.2	7.0	6.3	6.5	6.5
Credit/deposits	98.9	100.9	98.7	99.7	105.2	110.7	105.6	107.6	109.2

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

1/ Holdings of securities other than shares and derivatives.

2/ 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.

Table 4. Greece: Modified General Government Cash Balance for Program Monitoring
(In billion of Euro)

	2009 Actual	Program					
		Jun-10 Actual	Sep-10 Progr.	Actual	Dec-10 Progr.	Proj.	Dec-11 Proj.
I. State budget							
Revenues 1/	50.5	24.2	38.7	37.8	56.8	54.3	59.5
Net income Ordinary Budget (A+B-C)	48.5	23.8	38.2	36.5	53.8	51.4	55.6
A. Recurrent/ordinary revenue	52.3	25.1	40.6	38.6	57.4	54.9	57.5
1. Direct taxes	21.4	8.9	15.0	14.3	21.4	20.4	20.9
Income taxes	16.6	6.0	10.8	10.3	15.6	14.9	14.8
PIT	10.9	4.3	7.5	6.8	10.7	10.0	10.6
CIT	3.4	1.1	2.0	2.2	3.0	3.3	2.8
Other	2.3	0.6	1.3	1.3	1.9	1.6	1.4
Property taxes	0.5	0.1	0.4	0.4	0.8	0.6	0.9
Tax arrears collection	2.4	1.2	1.6	1.6	2.2	2.3	2.7
Other direct taxes	1.9	1.6	2.2	2.1	2.8	2.6	2.5
2. Indirect taxes	28.3	14.8	23.4	22.0	32.9	31.5	32.0
Transaction taxes	17.9	8.9	14.3	13.6	19.5	18.8	19.3
VAT	16.6	8.4	13.4	12.8	18.4	17.7	18.0
other	1.3	0.5	0.9	0.8	1.2	1.1	1.3
Consumption taxes	9.6	5.5	8.5	8.0	12.5	11.9	11.6
Tax arrears collections	0.4	0.2	0.3	0.3	0.4	0.4	0.5
Other indirect taxes	0.4	0.2	0.3	0.3	0.4	0.4	0.5
3. Transfers EU	0.3	0.1	0.1	0.2	0.4	0.4	0.3
4. Nontax revenue	2.3	1.4	2.0	2.1	2.7	2.6	4.3
B. One-off revenue	1.1	0.9	1.2	1.2	1.5	1.6	1.8
C. Tax Refunds (-)	5.0	2.3	3.6	3.3	5.1	5.1	3.8
Public investment budget	2.0	0.4	0.5	1.3	3.0	2.9	3.9
A. EU flows	1.9	0.3	0.4	1.2	2.9	2.6	3.7
B. Own revenues	0.2	0.1	0.1	0.2	0.1	0.3	0.2
Total expenditure 1/ 2/	83.6	34.1	56.4	54.4	76.4	75.1	78.6
Total ordinary spending	70.3	30.2	49.6	48.4	66.1	65.0	68.1
Total ordinary primary spending	58.0	24.5	37.7	36.8	52.7	51.7	52.1
A. Remuneration and pensions	25.2	11.3	16.9	16.9	22.9	22.7	21.6
B. Insurance and Healthcare	17.6	7.4	11.5	10.7	17.0	16.0	16.0
C. Operating and other expenditure and returned resources	14.5	5.4	8.7	8.6	12.2	12.4	13.3
D. Payments in exchange of claims of insurance fund 3/	0.8	0.4	0.5	0.5	0.6	0.6	0.6
E. Reserve	...	...	...	...	...	...	0.6
Interest expenditure	12.3	5.7	11.9	11.7	13.4	13.3	15.9
Transfers to hospitals for the settlement of past debt 4/	1.5	0.0	0.2	0.3	0.2	0.3	0.5
Investment spending	9.6	3.7	5.6	5.4	8.2	8.5	8.5
Spending on military procurement	2.2	0.2	1.0	0.2	1.8	1.3	1.6
State Budget primary spending 1/ 2/ (variable monitored for PC)	71.3	28.4	44.3	42.4	62.7	61.5	62.7
Balance state budget 1/ 2/	-33.1	-9.9	-17.7	-16.5	-19.6	-20.8	-19.2
II. Balance local governments 1/ 5/	0.0	0.3	0.2	0.1	0.0	0.0	0.0
III. Balance social security funds 1/ 5/	0.5	-0.1	1.6	0.9	2.3	1.5	0.7
IV. Balance of extra-budgetary funds (ETERPS) 1/ 5/	...	...	...	...	...	...	0.2
V. Called guarantees from non-general govt entities	...	...	...	...	...	...	-0.1
VI. Balance of reclassified public enterprises 1/ 5/	...	...	...	...	...	...	-0.8
VII. Modified general government cash balance 6/	-32.5	-9.7	-15.9	-15.5	-17.2	-19.3	-19.1
of which : Modified general government primary cash balance (variable monitored for PC)	...	-4.0	-3.8	-3.6	-3.6	-5.7	-3.2
VIII. Adjustments 7/	-3.6	...	...	...	...	-3.1	2.3
IX. General government balance (ESA 95)	-36.1	...	...	...	...	-22.3	-16.8
Memorandum items							
Floor on the modified general government primary cash balance 8/	...	-4.0	-4.0	-3.6	-5.7	...	-3.2
Ceiling on state budget primary spending 8/	...	28	50	42	67	...	63

Source: Greek Ministry of Finance and Fund staff projections.

1/ Including measures taken in the context of the 2010 and 2011 program.

2/ Including spending on military procurement.

3/ For the personnel of the Public Power Company.

4/ Such transfers are excluded from spending for measurement of the PCs in 2010.

5/ Change in net financial assets. Excludes valuation changes.

6/ Including balances of reclassified public enterprises

7/ Cash to accrual, coverage, and other ESA adjustments.

8/ PC targets include a margin to account for deviations from historical seasonality.

Table 5. Greece: Health Care Reform Plans, 2010–11

Timeline	Enhance the Sector Institutional Structure and the Monitoring of Health Spending	Curtain Pharmaceutical Expenditures
Reforms already initiated with carry over in 2011		
	<p>Implications of new pension law on health (<i>June 2010</i>). The law:</p> <ul style="list-style-type: none"> • provides for the financial and accounting independence of health funds (<i>by end-December 2010</i>), • creates a central health agency in charge of implementing uniform benefit packages across all social security funds, and • requires the integration of all social security funds with the NHS (<i>by December 2012</i>). <p>Arrears and unpaid bills are assessed (<i>mid 2010</i>). A stock taking exercise reveals about EUR5.5 billion in arrears and unpaid bills for the period 2005-2009 in the health sector. These outstanding payments are to be cleared and monthly reviews of arrear accumulation set up for the future. Accounting officers are introduced in all hospitals.</p>	<p>Price reducing actions implemented (<i>second half 2010</i>). Prices of pharmaceutical reviewed with significant across the board price cuts (average 20 percent), and benchmarking to international standards (the three lowest prices in the EU). In addition, e-prescribing introduced in O.AEE.</p>
Reform Plans to be Initiated in 2010 and 2011		
end-2010	<p>New accounting and control standards to come in place (<i>end-December</i>).</p> <ul style="list-style-type: none"> • With the 2011 budget, for the first time, a social budget will be compiled (although consolidated with LG budgets). • Commitment registers will be introduced in all government entities, including those operating in the health sector, and • inventory record of drugs and supplies performed. <p>Health funds and hospital to acquire some independence. Health funds to have financial and accounting independence, NHS hospitals to start centralizing procurement of expensive supplies, and outpatient fees to increase (<i>end-December</i>).</p>	<p>Mark ups and reimbursements to be reduced. The price list of non reimbursed medicines to be expanded and substituted by a positive price list of reimbursed medicines to help containing reimbursements and pharmaceutical mark ups; structural changes in the mark up structure to fix payments would contain mark up increases (<i>by end 2010</i>).</p>
2011		
Quarter 1	<p>Accounting and control standards to be fully operational. Monthly commitment registers are expected to be fully operating across the sector and common accounting rules to be implemented, including common codes of medical procedures. At the same time, computerization of NHS hospitals to monitoring expenditure and inventories is expected to be underway.</p> <p>Cost saving actions to be implemented. NHS hospitals to centralize procurement (including pharmaceuticals and large spending items), Diagnostic Related Groups (DRG) to be set for several specialties, e-prescribing extended to diagnostic centers, health funds to start coordinating purchases, electronic archiving of medical referral to private centers to be introduced, and procurement in IKA to be centralized.</p>	<p>Prices and consumption of pharmaceuticals to be limited. Drug pricing continues to be updated periodically and any limit for price reduction removed. Prescription list to be revised, protocols and guidelines for the use of pharmaceutical to be defined, and e-prescribing extended to all main funds. Moreover, measures to increase the penetration rate of generic drug prescriptions expected to be in place. (<i>March 2011</i>)</p>
Quarter 2	<p>IT systems to be improved. NHS hospitals' spending and inventories operations to be fully computerized.</p> <p>Coordination across institution to improve. Health packages to be harmonized across different health funds and homogenous social security contributions to be set for all funds. Moreover, e-prescribing is expected to be extended to all medical services, IT and quality systems, and IKA clinics to be integrated into NHS (<i>by June</i>)</p>	<p>Controls to be tightened. Centralized evaluation of prescriptions patterns (with possible penalties for irregular prescription behavior) to be set and a system to collect rebates from pharmaceutical companies set up. (<i>June 2011</i>)</p>

Source: IMF staff estimates and authorities.

Table 6. Greece: Status of Structural Reforms

Measures	EC MoU deadline	Status of Implementation	Comments
<i>Business environment</i>			
Law to remove barriers to entrepreneurship--legal framework for one-stop-shops	Q2-2010	Legislation completed	Law 3853/2010 adopted by Parliament on 17 June 2010 aims at reducing the number of steps needed to create a company.
Law to speed up large investment projects	Q4-2010	Legislation completed	The law, approved by Parliament on 17 November 2010, simplifies procedures and accelerates deadlines for approval of large-scale investment projects (mainly projects of more than €200 million or more than €75 million and creating 200 jobs).
<i>Services Directive</i>			
Endorsement of the EC general principles towards services liberalization established in the Services Directive	Q2-2010	Legislation completed-- Operationalization in progress	Law 3844/2010 adopted on 29 April 2010 transposes to national legislation the principles of free establishment and cross-border freedom of provision. The full operation of the point of single contact (through which service providers can obtain all relevant information and complete all procedures relating to their activities), initially expected by Q4-2010, is delayed until Q2-2011.
Review of sectoral legislation and effective prohibition of anti-competitive practices in services	Q3-2010 through Q2-2011	Screening process complete	Greece has screened legislation affecting around 160 professions checking for compliance with the liberalization principles set out in the Services Directive.
<i>Labor market</i>			
Reform of Employment Protection Legislation	Q4-2010	Legislation completed	Law 3863/2010 approved on 15 July 2010 introduces changes in minimum wages and overtime premia, having a direct impact on labor costs, and eases collective dismissals and employment protection legislation as a means to facilitate job reallocation
Reform of the mediation/arbitration system	Q4-2010	Draft law elaborated	Government has drafted a bill to amend mediation/arbitration services (law 1876/1990). The draft law provides for symmetric access to arbitration of both unions and firms if parties disagree with the proposal of the mediator. The bill ensures mediation/arbitration decisions based on transparent objective criteria and free from government influence. The new act explicitly indicates that mediators and arbitrators pay due attention to cost competitiveness.
Reform of collective bargaining	Q4-2010	Draft law elaborated	The draft proposal allows for some downward deviations of firm from sector wages by introducing the possibility of opt out clauses under certain conditions. Discussions continue about minimizing restrictions
<i>Sectoral deregulation</i>			
Road transportation	Q3-2010	Legislation completed	The granting of licenses is automatic upon meeting objective criteria set by the law. During a transition period of 2.5 years new entrants are nevertheless required to pay an entry fee equal to the goodwill of existing licenses. After 2013 the fee shouldered by the new entrants will exclusively cover administrative costs.
Railway sector reform	Q4-2010	Legislation completed	The law establishes the competencies of each railway company, defines the regulatory framework for the sector, regulates the State compensation framework (including an upper limit for annual service obligation contribution from the government), provides for part of the staff to be transferred to other units of the public sector and for managing boards of the railways companies to negotiate new collective agreements.
Railway sector reform	Q4-2010	Business plan elaborated	The business plan details actions (e.g. tariff changes, employment and wage policies, closing of loss-making lines, asset management strategy) for the main railways companies to breakeven by the end of the three-year plan, and provides sensitivity analysis to the baseline restructuring scenario. Specific features of the plan are awaiting EC clearance.
<i>Institutional reforms</i>			
Strengthening the role of the Hellenic Competition Authority (HCC)	Q4-2010	Draft law elaborated	The draft law ensures the independence of the HCC, strengthens its enforcement action and reinforces its advocacy role on legislative measures adopted by the government seen as having high economic impact.

Table 7. Greece: Medium-Term Macro Framework, 2010–15

	2010	2010	2011	2012	2013	2014	2015
	Program	Projections					
(Percentage change, unless otherwise indicated)							
Domestic economy							
Real GDP	-4.0	-4.2	-3.0	1.1	2.1	2.1	2.7
Output gap (percent of pot. output)	-1.1	-1.3	-4.9	-4.7	-3.8	-3.3	-2.5
Total domestic demand	-6.5	-7.3	-5.5	-0.7	1.2	1.3	2.0
Private consumption	-3.0	-4.1	-4.3	0.3	1.1	1.2	1.3
Public consumption	-10.6	-9.0	-8.6	-6.0	-1.5	-0.2	2.1
Gross fixed capital formation	-12.0	-18.8	-8.5	-0.1	3.7	3.3	5.3
Change in stocks (contribution)	-1.0	0.1	0.1	0.1	0.1	0.0	0.0
Foreign balance (contribution)	3.3	4.0	3.0	1.8	0.8	0.7	0.6
Exports of goods and services	3.0	0.9	5.4	6.0	7.0	7.1	7.3
Imports of goods and services	-8.6	-12.0	-6.4	-1.5	3.0	3.7	4.5
Unemployment rate (percent)	11.8	12.2	14.3	15.0	14.6	14.2	13.4
Hourly wage (manufacturing)	...	0.5	1.0	2.0	2.0	2.0	2.0
Employment	-2.6	-2.8	-2.3	-0.7	0.5	0.6	1.0
Consumer prices (HICP), end of period	4.4	4.4	1.1	0.5	0.8	1.3	1.0
Consumer prices (HICP), period average	4.6	4.6	2.2	0.5	0.7	1.0	1.0
Core prices, period average 1/	2.9	3.2	...	...	...	...	...
GDP deflator	3.5	3.0	1.5	0.3	0.8	1.0	0.9
(Percent of GDP)							
Balance of payments							
Current account	-10.8	-10.4	-7.1	-6.1	-5.2	-4.3	-3.3
Trade balance	-7.1	-7.0	-3.6	-2.6	-1.7	-0.8	0.0
Export of goods and services	19.0	19.4	21.4	22.8	24.0	25.0	26.1
Imports of goods and services	26.2	26.4	25.0	25.4	25.7	25.8	26.1
Total transfers	0.3	0.3	0.3	0.3	0.3	0.3	0.4
Net income receipts	-4.0	-3.8	-3.9	-3.9	-3.9	-3.8	-3.7
Net international investment position	-96.2	-98	-105	-109	-110	-109	-108
Public finances (general government)							
Total revenues 2/	39.5	39.8	39.0	38.9	38.6	36.6	35.6
Total expenditures 2/	47.4	49.4	52.1	52.7	53.3	51.5	49.8
Primary expenditures 2/	41.8	43.1	45.6	45.2	45.0	42.9	41.3
Measures (cum.) 3/	...	...	5.7	7.4	9.9	12.4	11.7
Overall balance	-7.9	-9.6	-7.4	-6.4	-4.8	-2.6	-2.5
Primary balance 3/	-2.2	-3.3	-0.8	1.1	3.5	6.0	6.0
Gross debt	130	141	152	158	158	154	150
Memorandum item:							
Nominal GDP (billions of euros)	236	230	227	230	236	244	253
Nominal GDP (percentage change)	-0.6	-1.3	-1.5	1.4	2.9	3.1	3.6

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

1/ Core prices exclude energy, food, alcohol, and tobacco. Data for 2010 refer to August.

2/ Excluding measures from 2011 onward.

3/ Includes unidentified measures.

Table 8. Greece: Summary of Balance of Payments

	2009	2010				2010	2010	2011	2012	2013	2014	2015
	Prel.	Q1	Q2	Q3	Q4	Program	Projections					
	(Billions of euro)											
Current account balance	-25.8	-9.7	-4.4	-3.0	-6.8	-25.6	-23.9	-16.2	-14.1	-12.3	-10.4	-8.4
Balance of goods and services	-18.1	-7.1	-3.7	-0.2	-5.1	-16.9	-16.0	-8.1	-5.9	-4.0	-1.9	0.1
Goods balance	-30.8	-8.2	-7.0	-7.0	-6.9	-30.6	-29.2	-24.5	-24.3	-24.4	-24.6	-25.0
Exports	15.3	3.6	4.2	4.4	3.9	16.0	16.1	17.6	19.2	20.9	22.5	24.3
Imports	46.1	11.8	11.3	11.4	10.8	46.6	45.3	42.1	43.5	45.3	47.1	49.3
Services balance	12.6	1.2	3.4	6.8	1.8	13.7	13.1	16.4	18.4	20.4	22.7	25.1
Credit	27.0	4.9	7.2	10.6	5.8	29.0	28.6	31.0	33.2	35.8	38.6	41.5
Debit	14.3	3.8	3.9	3.9	4.0	15.3	15.5	14.5	14.8	15.3	15.9	16.4
Income balance	-9.0	-1.9	-2.5	-2.5	-1.7	-9.5	-8.6	-8.8	-9.0	-9.2	-9.3	-9.4
Credit	4.3	1.0	0.9	1.0	0.7	4.3	3.6	3.6	3.6	3.6	3.7	3.7
Debit	13.3	2.9	3.4	3.4	2.4	13.7	12.2	12.4	12.6	12.8	13.0	13.2
Current transfers (net)	1.3	-0.7	1.8	-0.3	0.0	0.7	0.7	0.7	0.8	0.8	0.8	1.0
Capital and financial account balance	26.4	9.4	-15.2	-5.3	3.5	-12.4	-7.6	-30.3	-9.9	4.3	10.4	8.4
Capital account balance	2.0	0.1	0.0	0.6	2.1	2.8	2.8	2.9	2.8	2.7	2.6	2.5
Financial account	24.4	9.2	-15.2	-5.9	1.4	-15.3	-10.4	-33.2	-12.6	1.6	7.8	5.9
Direct investment	0.3	0.7	-0.3	-0.1	-0.2	1.0	0.2	1.4	1.9	2.3	2.7	2.9
Portfolio investment	27.9	4.9	-9.9	-13.3	18.2	-10.3	0.0	-20.0	3.7	11.9	61.6	66.5
of which: government	29.1	1.6	-23.1	-2.4	0.4	-12.9	-23.5	-27.3	-5.3	2.4	51.5	56.1
Other investment (excl. program financing)	-3.6	3.6	-5.1	7.4	-16.4	-5.9	-10.5	-14.6	-18.2	-12.6	-56.5	-63.5
Reserve assets (increase = -)	-0.1	0.0	0.1	0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net errors and omissions	-0.6	0.3	-0.6	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Program financing	0.0	...	20.2	8.8	2.5	38.0	31.5	46.5	24.0	8.0	0.0	0.0
	(In percent of GDP)											
Current account balance	-11.1	-4.2	-1.9	-1.9	-0.4	-10.8	-10.4	-7.1	-6.1	-5.2	-4.3	-3.3
Balance on goods and services	-7.8	-3.1	-1.6	-1.6	0.8	-7.1	-7.0	-3.6	-2.6	-1.7	-0.8	0.0
Goods balance	-13.2	-3.6	-3.1	-3.1	-2.9	-13.0	-12.7	-10.8	-10.6	-10.3	-10.1	-9.9
Services balance	5.4	0.5	1.5	1.5	3.6	5.8	5.7	7.3	8.0	8.6	9.3	9.9
Income balance	-3.9	-0.8	-1.1	-1.1	-1.3	-4.0	-3.8	-3.9	-3.9	-3.9	-3.8	-3.7
Current transfers	0.6	-0.3	0.8	0.8	0.1	0.3	0.3	0.3	0.3	0.3	0.3	0.4
Capital and financial account balance	11.3	4.1	-6.6	-2.3	1.5	-5.3	-3.3	-13.4	-4.3	1.8	4.3	3.3
Capital account balance	0.9	0.1	0.3	0.3	0.2	1.2	1.2	1.3	1.2	1.1	1.1	1.0
Financial account	10.5	4.0	1.8	-2.6	0.1	-6.5	-4.5	-14.6	-5.5	0.7	3.2	2.3
Direct investment	0.1	0.3	0.0	-0.1	0.2	0.4	0.1	0.6	0.8	1.0	1.1	1.1
Portfolio investment	12.0	2.1	-4.3	-5.8	7.9	-4.4	0.0	-8.8	1.6	5.1	25.3	26.3
of which: government	12.5	0.7	-10.0	-1.0	0.2	-5.5	-10.2	-12.0	-2.3	1.0	21.1	22.2
Other investment	-1.6	1.6	-2.6	3.2	-4.4	-2.5	-4.6	-6.5	-7.9	-5.3	-23.2	-25.1
Reserve assets (increase = -)	0.0	0.1	0.0	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net errors and omissions	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Program financing	...	...	8.8	3.8	1.1	16.1	13.7	20.5	10.4	3.4	...	...
Memorandum items:												
Program financing (billions of euro)	...	...	20.2	8.8	2.5	38.0	31.5	46.5	24.0	8.0	...	...
EU	...	...	13.5	7.6	0.0	27.6	21.1	36.6	17.5	5.8	...	...
IMF	...	...	6.7	1.2	2.5	10.4	10.4	9.9	6.5	2.2	...	...
External debt	172.8	179.6	184.8	188.8	181.3	183.5	187.5	192.7	199.1	203.3	205.6	203.5
Public sector	113.0	119.1	131.2	116.8	131.1	132.6	135.6	137.8	141.8	141.4	140.2	134.8
Private sector	59.8	60.4	53.5	72.0	50.2	50.9	52.0	54.9	57.2	61.9	65.3	68.8

Sources: Bank of Greece; and IMF staff estimates.

Table 9. Greece: General Government Operations

	2009	2010		2011
		Program	Proj.	Proj.
(billion of Euro)				
Revenue	88.8	93.3	92.3	96.9
Taxes on production, and imports	26.1	31.3	29.7	31.6
Taxes on income, and property	19.2	18.6	17.1	18.4
Social contributions	30.8	29.6	30.1	29.4
Other	9.6	9.2	10.6	13.1
Capital transfers	3.1	4.5	4.7	4.4
Primary expenditure	112.5	98.6	99.9	98.7
Wages	31.8	26.9	28.6	27.6
Social benefits	49.0	47.9	46.8	48.4
Goods and services	16.7	12.2	12.2	10.0
Subsidies	0.3	0.3	0.2	0.3
Other current	4.1	3.7	3.7	3.8
Capital	10.6	7.7	8.4	8.6
Primary balance	-23.7	-5.3	-7.6	-1.8
Interest payments	12.4	13.3	14.7	15.0
Overall balance	-36.1	-18.6	-22.3	-16.8
Gross debt (Maastricht)	298.0	307.5	327.2	347.2
(percent of GDP)				
Revenue	37.8	39.5	39.8	42.4
Taxes on production, and imports	11.1	13.2	12.8	13.9
Taxes on income, and property	8.2	7.9	7.4	8.1
Social contributions	13.1	12.6	13.0	12.9
Other	4.1	3.9	4.6	5.7
Capital transfers	1.3	1.9	2.0	1.9
Primary expenditure	47.9	41.8	43.1	43.2
Wages	13.5	11.4	12.3	12.1
Social benefits	20.9	20.3	20.2	21.2
Goods and services	7.1	5.2	5.3	4.4
Subsidies	0.1	0.1	0.1	0.1
Other current	1.7	1.6	1.6	1.7
Capital	4.5	3.2	3.6	3.7
Primary balance	-10.1	-2.2	-3.3	-0.8
Interest payments	5.3	5.6	6.4	6.6
Overall balance	-15.4	-7.9	-9.6	-7.4
Gross debt (Maastricht)	127	130	141	152
Memorandum items:				
Nominal GDP (in euro billions) 1/	235	236	232	228
Nominal GDP (in euro billions) 2/	233	..	230	227
Program target (in euro billions)	..	-18.6	-18.6	-17.0

Source: Greece authorities, and IMF staff estimates.

1/ 'Interim' GDP which reflects the revision of the Greek fiscal data, notably regarding the classification of public enterprises, thereby assuring (for ratio purposes) that fiscal data and GDP are compiled on the same statistical basis.

2/ Official data by Elstat.

Table 10. Greece: Social Security, Health, and State Budget Relations

	2009 1/	2010 Est.	2011 Proj.
<u>I. State budget</u>			
Grants to SSF	13,185	10,700	10,700
Grants to hospitals	0	810	1,650
<u>II. Social Security Funds</u>			
a) IKA, OGA, etc.			
Revenue	41,457	40,160	40,210
Contributions	21,255	21,706	21,341
Settlement from amnesty	814	910	1,100
Transfer from AKAGE	0	0	100
Social sources	2,060	2,137	2,079
Grants from state budget	13,185	10,700	10,700
Return on assets	2,032	2,154	2,168
Other	2,111	2,553	2,721
Expenditure	40,079	38,889	38,929
Pension benefits	26,168	25,520	27,169
Pharmaceuticals	7,153	6,326	4,653
Provision benefits	2,764	2,764	2,865
Fronted payments	1,610	1,610	1,697
Earmarked payments	459	459	404
Other	115	115	140
Administrative expenses	1,153	1,055	1,026
Transfers to hospitals	657	1,040	975
Balance	1,378	1,271	1,280
b) OAED, OAEE, OEK			
Revenue	3,162	3,331	3,836
Expenditure	3,506	3,602	4,416
Balance	-344	-271	-580
c) Statistical discrepancy			
		-300	0
a) + b) + c) balance = SSF Balance	1,034	700	700
<u>III. Hospitals</u>			
Revenue	1,042	2,235	3,010
Transfers from SSF	657	1,040	975
Transfers from state budget	0	810	1,650
Own revenue	165	165	165
Earmarked revenue	220	220	220
Expenditure	3,045	3,051	2,560
Pharmaceuticals	2,660	2,666	2,175
Other spending	385	385	385
Balance	-2,003	-816	450
Clearance of arrears			450

Source: Greek authorities, and IMF staff estimates.

1/ Includes AKAGE.

Table 11. Greece: Fiscal Measures for 2011

	(billion of Euro)	(% of GDP)	Status of Implementation
Carry-over of measures initiated in 2010	5,457	2.4	
Revenues	3,357	1.5	
Expenditures	2,100	0.9	
Measures initiated in May program for 2011	5,270	2.3	
Revenues	3,770	1.7	
Amnesty land use violations	150	0.1	Law adopted.
VAT increase from 11 to 13 and 5.5 to 6.5 %	1,000	0.4	To be implemented by December 2010 tax law.
Green taxes	150	0.1	
Gaming royalties	200	0.1	Auctions expected toward mid-2011.
Gaming licenses	500	0.2	Auctions expected toward mid-2011.
Special levy on highly profitable firms	1,000	0.4	Law adopted.
Eliminate CIT exemption on leased cars	150	0.1	Implemented by March 2010 tax law.
Book specification of incomes	50	0.0	Implemented by March 2010 tax law.
Increase legal value real estate	270	0.1	Law expected in January 2011.
Taxation of unauthorized establishments	300	0.1	
Expenditures	1,500	0.7	
Single payment authority wage bill cleanup	100	0.0	SPA in process of verifying records.
Nominal pension freeze	100	0.0	Implemented by May 2010 law.
Cut intermediate consumption	300	0.1	Implemented by budget allocation.
Kalikrates	500	0.2	Withholding tax to be increased.
Cut domestically funded investment spending	500	0.2	Implemented by budget allocation.
Measures initiated after May (Second Review)	5,050	2.2	
Revenues	2,250	1.0	
Reduction in CIT on retained profits to 20 percent	-320	-0.1	To be implemented by December 2010 tax law.
Unification of the rates on diesel and heating oil	600	0.3	Law expected to be adopted in September 2011.
Measures against fuel smuggling	190	0.1	
Increase in court trial fees	100	0.0	To be implemented by December 2010 tax law.
Action plan to collect tax arrears	200	0.1	Action plan of task force.
Speeding up tax penalties collection	400	0.2	Action plan of task force.
New framework for tax disputes and trials	300	0.1	To be implemented by December 2010 tax law.
Improved collection of social security contributions	340	0.1	
Reduction of VAT (drugs and health)	-250	-0.1	Law to be submitted to parliament in December.
Telecom licenses renewal	350	0.2	Expected for Q4 2011.
Receipt from guarantees	90	0.0	Completed.
Extension of airport concession	250	0.1	Expected for mid-2011.
Expenditures	2,800	1.2	
Savings in public enterprises	800	0.4	Implemented in March 2011.
Lower hospital spending/higher copayments	1,050	0.5	
Means testing of family benefits	150	0.1	Change in law expected in Q1 2011.
Reduction in transfers and operational expenditures by 5%	200	0.1	Implemented by budget allocation.
Reduction in short term contracts in the public sector	100	0.0	Implemented by budget allocation.
Reduction in military deliveries	500	0.2	
Total fiscal effort	15,777	6.9	
Reduction due to one-off measures in 2010	-1,670	-0.7	
Fiscal effort net of one-off measures of 2010	14,107	6.2	
Memo items			
Nominal GDP	228,408	228,408	
Total revenue measures	9,377	4.1	
Total expenditure measures	6,400	2.8	
Total revenue measures net of one-offs in 2010	8,107	3.5	
Total expenditure measures net of one-offs in 2010	6,000	2.6	

Source: Greek authorities and Fund staff estimates.

Table 12. Greece: Policy Priorities for Fiscal Consolidation Targets, 2012–14

Reform area	Issues	Possible options
State enterprise restructuring	<ul style="list-style-type: none"> • In 2011, public enterprises will still incur losses of more than €1.9 billion. • No dividends paid to the state, except from Telecom. • High wage and operating costs and widespread underpricing. 	<ul style="list-style-type: none"> • Review tariff policy to improve cost recovery. • Limit subsidies to public service obligations. • Tighten hiring freeze, downsize, further limit allowances, and cut operational expenditure. • Sell nonstrategic assets.
Eliminate unnecessary public entities	<ul style="list-style-type: none"> • 200-300 extra-budgetary entities escape proper controls and reporting. • Entities absorb central government resources through revenue earmarking. 	<ul style="list-style-type: none"> • Eliminate entities with no function. • Pass functions to the appropriate line ministry where functions overlap. • Merge entities performing similar functions and eliminate duplication.
Simplify the tax system and improve its administration and efficiency	<ul style="list-style-type: none"> • VAT collection efficiency (about 32 percent) and property taxes (about 0.4 percent of GDP) below EU average. • Narrow corporate income tax base (e.g. high depreciation rates). • Complex taxation of capital income. 	<ul style="list-style-type: none"> • VAT reform to widen the tax base (e.g. reduced lower rate items and eliminate geographical rate differentiation). • Corporate tax reform to broaden the tax base (e.g. decrease depreciation rates, eliminate exemptions, tighten transfer pricing regulations). • Rationalize the system of taxation of capital income.
Reform public administration and social programs	<ul style="list-style-type: none"> • Benefits largely untargeted and often overlapping. • Organizational structures not aligned with core functions and strategies. • Non meritocratic HR management. 	<ul style="list-style-type: none"> • Reduce benefits to households above the poverty line. • Eliminate duplication of benefits. • Streamline public sector organizations and activities, pending findings of the functional review.
Contain the wage bill	<ul style="list-style-type: none"> • The government wage bill is about one percentage points of GDP above the EU average. • The average salary in the public sector exceeds private sector wages by about 25 percent, and working time is about 10 percent shorter than in the private sector. 	<ul style="list-style-type: none"> • Tighten hiring freeze, and downsize across general government. • Increase working hours from 7 to 8 (in line with private sector). • Simplify the remuneration schemes, e.g. limit the ratio of allowances to the base wage (and link them to the job performed). • Limit wage drift and promotions (increase years in grade beyond 2).
Contain military spending, particularly procurement	<ul style="list-style-type: none"> • Military spending exceeds the average of the largest EU countries. 	<ul style="list-style-type: none"> • Reduce military spending towards EU average.

Source: IMF staff estimates.

Table 13. Greece: Revenue Collection Process—Issues and Actions

Stage of the Revenue Collection Process	Issues	Actions Taken and Next Steps
Taxpayers self-assess taxes due and tax authorities provide services to support taxpayer compliance	<ul style="list-style-type: none"> • Taxpayer services are decentralized or non-existent. 	<p>Next steps</p> <ul style="list-style-type: none"> • Centralized Taxpayer Service Directorate to be established, as part of the medium term reform plan (<i>June 2011</i>).
Taxpayers pay taxes and submit tax declarations. Tax declaration information becomes legal title for registration of the tax due.	<ul style="list-style-type: none"> • Tax declarations can only be registered as a legal claim if tax due under the declaration is paid in full. 	<p>Next steps</p> <ul style="list-style-type: none"> • Legislation needed to allow acceptance of tax declarations without full payment of taxes (<i>under discussion</i>).
Tax authorities perform controls on filing	<ul style="list-style-type: none"> • Weak and decentralized filing enforcement. Filing enforcement procedures not automated. 	<p>Actions taken</p> <ul style="list-style-type: none"> • Anti-evasion plan defined and project unit set up, including a task force to strengthen filing enforcement. <p>Next steps</p> <ul style="list-style-type: none"> • Legislation and administrative changes to be implemented, allowing centralization of filing enforcement (<i>early 2011</i>).
Tax authorities monitor and collect information on taxpayers (payments, declarations, etc)	<ul style="list-style-type: none"> • Data gathering is ad hoc with no central unit with dedicated staff for monitoring and compliance. 	<p>Next steps</p> <ul style="list-style-type: none"> • Anti-evasion plan to include a task force to centralize data collection, for use in monitoring and enforcing better compliance (<i>early 2011</i>).
Authorities identify cases to audit	<ul style="list-style-type: none"> • Audits generally neither prioritized nor risk-based as audits are required for all tax declarations by law. • Potentially large tax evasion: about 70 percent of self employed professionals declaring taxable income below minimum threshold exemption limit, and about 30 percent of VAT returns are not filed or filed late. 	<p>Actions taken</p> <ul style="list-style-type: none"> • Anti-evasion plan included dedicated task forces, to secure control of top 1000 taxpayers, high wealth individuals and self-employed (including follow up on filing, payment and audits). <p>Next Steps</p> <ul style="list-style-type: none"> • Medium-term reforms to develop a risk-based compliance framework, using risk based audit and IT detection systems to underpin risk-based self-assessment verification programs (<i>September 2011</i>).
Audits are performed and due tax assessed	<ul style="list-style-type: none"> • Limited use of indirect methods of assessment. No agreement to collect third party information. 	<p>Next steps</p> <ul style="list-style-type: none"> • Legislation and administrative measures to be enacted to allow: (i) full use of indirect methods of assessment, and (ii) data collection from third parties (<i>early 2011</i>); • Anti evasion plan to implement centralized audits of top 1000 taxpayers and high wealth individuals, as part of task forces' works (<i>early 2011</i>).
Dispute process starts for challenged assessments	<ul style="list-style-type: none"> • Average time of tax disputes 7 to 12 years has created a huge backlog of pending cases. • Administrative tax dispute process not independent from tax administration. • Pre-payment to access the judicial appeal process largely waved by courts. 	<p>Next steps</p> <ul style="list-style-type: none"> • Legislation enacted to reform the administrative tax dispute and judicial appeal processes. Legislation aims at: reducing the dispute period (no longer than 3 years), increasing the payment to access the judicial appeal process, and reducing the instances for payment suspensions granted by courts (<i>early 2011</i>).
Taxes and debt (including penalties) are collected	<ul style="list-style-type: none"> • Poor collection enforcement: tax debt collection around to 1 percent and debt collection not centralized. 	<p>Next steps</p> <ul style="list-style-type: none"> • Anti-evasion plan: a taskforce to be in place to centralize and adopt actions to speed up collection of tax debt (<i>early 2011</i>).

Source: IMF staff estimates

Table 14. Greece: Spending Process—Issues and Actions

Stages of the Spending Process and Issues	Actions Taken and Next Steps
<p>Develop a medium term budget framework</p> <ul style="list-style-type: none"> A medium-term strategy for the general government does not exist. 	<p>Actions taken</p> <ul style="list-style-type: none"> New Fiscal Responsibility and Management Act (FRMA) approved, establishing medium term fiscal strategy covering general government (<i>August 2010</i>). <p>Next steps:</p> <ul style="list-style-type: none"> Present a full MTFFS for the period 2012-15 for the GG to Parliament. The MTEF should set: (i) the deficits of the GG and its subsectors; (ii) estimates of revenue and expenditure for each subsector, including transfers; and (iii) an expenditure ceiling for the ordinary and investment budgets of the state (<i>June-November 2011</i>).
<p>Establish annual budget with spending ceilings for each budget item</p> <ul style="list-style-type: none"> Budgets prepared in a bottom-up fashion with no hard budget constraints. Fiscal planning largely confined to the state budget with the MOF only responsible for administration and management. Budget preparation processes for other general government entities disjointed. Responsibility for social security fragmented with no effective preparation, management and monitoring of social security budget. Parliamentary budget oversight weak and no intra-year supplementary budgets required. 	<p>Actions taken</p> <ul style="list-style-type: none"> The FRMA establishes: MOF's responsibilities for setting and controlling budget policies for all GG entities; top-down budget procedures and expenditure ceilings; alignment of budget preparation processes across the general government entities; separate social budget, and supplementary budgets; a Parliamentary Budget Office. 2011 budget published, with abridged MTFFS for GG, alongside the state budget, and consolidated social and local government budgets. <p>Next steps</p> <ul style="list-style-type: none"> Present a full MTFFS and 2012 budget to Parliament, including State budget, Social budget, and consolidated LG budgets (<i>November 2011</i>).
<p>Release budget appropriations to spending units; units make expenditure commitments</p> <ul style="list-style-type: none"> Line ministries do not check or control expenditure commitments; no central control on incurred commitments. Execution of budget releases focused on verifying payments. 	<p>Action taken</p> <ul style="list-style-type: none"> Commitment registers established. A presidential decree issued establishing commitment registers in all line ministries and GG entities (<i>November 2011</i>). <p>Next Steps</p> <ul style="list-style-type: none"> Commitment registers to be made effective in all GG entities (<i>early 2011</i>). Accounting officers to be appointed in all line ministries and major GG entities. The officers have the responsibility and authority to ensure sound financial controls and that expenditure commitments do not exceed appropriations (<i>March 2011</i>).
<p>Pay invoices after accounting and audit controls</p> <ul style="list-style-type: none"> Checking procedures to make payments cumbersome with several institutions involved (e.g. the department of financial services of the spending unit, the Fiscal Audit Office (FAO) and the Court of Audit locally stationed). Controls are mainly compliance-oriented. 	<p>Next Steps</p> <ul style="list-style-type: none"> 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 (<i>June 2011</i>).
<p>Collect and analyze information on payments, pending bills and arrears</p> <ul style="list-style-type: none"> No real-time monitoring of arrears and other pending bills. Collection of payment information at non-central government level difficult. 	<p>Actions taken</p> <ul style="list-style-type: none"> Data on arrears to be published, using surveys while waiting for commitment registers to be established (<i>September 2010</i>); <p>Next steps</p> <ul style="list-style-type: none"> Commitment registers to be used in all GG entities (<i>early 2011</i>). Accounting officers to be appointed in all central government agencies, with the responsibility, among others, to improve monitoring at spending unit level (<i>March 2011</i>). Work to begin to review the FMIS. Overall functionalities of the Financial Management Information System (FMIS) to be reviewed to use the new system to control fiscal operations and report fiscal data for the GG (<i>June 2011</i>). FMIS to be operational, (<i>late 2011</i>).
<p>Monitoring and reporting of fiscal developments for general government</p> <ul style="list-style-type: none"> Monitor and reporting focused on state budget. No timely in-year monitoring or reporting for general government published. Budget deviations not detected on time. 	<p>Actions taken</p> <ul style="list-style-type: none"> Aggregate monthly fiscal reports for GG published, using banking data for non-central government entities (<i>September 2010</i>); <p>Next steps</p> <ul style="list-style-type: none"> Detailed monthly fiscal reports for GG to be published, monitoring aggregate revenue, expenditure and transfers for all non central government entities (<i>end-March</i>), and showing the composition of revenue and expenditure by sub-sector and major economic category (<i>end-June</i>); Arrears data based on commitment registers to be published (<i>early 2011</i>); FMIS to be operational, to allow for automated detailed monthly fiscal reporting and financial controls (<i>late 2011</i>).
<p>Parliamentary oversight and general auditing</p> <ul style="list-style-type: none"> The Court of Audit does not carry out performance audits on a systematic base. 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"> Under review

Source: IMF staff estimates

Table 15. Greece: General Government Financing Requirement and Sources

(Billions of euro, unless otherwise stated)

	2009	2010	2010	2011	2012	2013	2014	2015
		Program	Projections					
Gross borrowing need	70.3	73.6	55.1	58.1	66.9	61.6	79.0	86.7
Overall balance	36.1	20.7	22.3	16.8	14.9	11.4	6.4	6.4
Amortization	29.7	37.4	26.0	37.1	45.8	49.0	75.2	79.1
M<	20.3	31.3	19.5	28.1	35.2	29.3	33.0	26.6
ST	9.4	6.1	6.5	9.0	10.6	13.6	13.6	13.6
Domestic banks	3.9	4.2	3.5	6.0	7.6	10.6	10.6	10.6
BOP	5.5	1.9	3.0	3.0	3.0	3.0	3.0	3.0
Exceptional creditors	...	...	...	...	...	6.1	28.6	38.9
EU	...	...	...	...	...	4.5	20.8	28.3
IMF	...	...	...	...	...	1.7	7.8	10.6
Other 1/	4.5	15.5	6.8	4.2	6.2	1.2	-2.6	1.2
Gross financing sources	70.3	35.6	23.6	11.6	42.9	53.6	79.0	86.7
Privatization receipts	0.9	0.0	0.0	1.0	2.0	2.0	2.0	2.0
Other	3.8	2.1	5.3	0.0	0.0	0.0	-3.8	0.0
Market access	65.6	33.4	18.3	10.6	40.9	51.6	80.8	84.7
M< 2/	59.2	25.4	9.3	0.0	27.3	38.0	67.2	71.1
ST	6.5	8.0	9.0	10.6	13.6	13.6	13.6	13.6
Domestic banks	3.5	5.0	6.0	7.6	10.6	10.6	10.6	10.6
BOP	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Financing gap	...	38.0	31.5	46.5	24.0	8.0	0.0	0.0
EU (8/11 of the gap)	...	27.6	21.1	35.6	17.5	5.8	0.0	0.0
IMF (3/11 of the gap)	...	10.4	10.4	10.9	6.6	2.2	0.0	0.0
Net market access	35.9	-4.0	-7.7	-26.5	-4.9	2.6	5.6	5.6
Domestic banks	17.6	0.7	8.9	-2.0	-2.4	-2.6	-2.7	-2.6
M<	18.1	-0.1	6.4	-3.6	-5.4	-2.6	-2.7	-2.6
ST (net increase)	-0.4	0.8	2.5	1.6	3.0	0.0	0.0	0.0
BOP	18.3	-4.7	-16.6	-24.5	-2.5	5.3	8.2	8.2
M<	31.2	-5.8	-16.6	-17.0	-2.5	5.3	8.2	8.2
ST (net increase)	-12.9	1.1	0.0	-7.5	0.0	0.0	0.0	0.0
Rollover rates of existing M< debt, percent	...	89.4	47.7	0.0	77.6	129.9	203.7	267.3
Total Maastricht debt in billions of euros	298.0	307.5	327.2	347.2	366.3	376.9	378.7	384.3
Exceptional creditors	...	38.0	31.5	78.0	102.0	103.9	75.3	36.4
EU	...	27.6	21.1	56.7	74.2	75.6	54.7	26.5
IMF	...	10.4	10.4	21.3	27.9	28.4	20.6	10.0
percent of quota	...	1110	1113	2280	2982	3037	2201	1066
Private sector	298.0	269.5	295.7	269.2	264.3	273.0	303.4	347.9
Total Maastricht debt (percent GDP) 3/	126.8	133.3	142.2	153.3	159.4	159.5	155.4	152.2
Exceptional creditors	...	16.5	13.7	34.4	44.4	44.0	30.9	14.4
EU	...	12.0	9.2	25.0	32.3	32.0	22.5	10.5
IMF	...	4.5	4.5	9.4	12.1	12.0	8.4	3.9

Sources: Ministry of Finance; and IMF staff's projections.

1/ It includes bank assistance and stock-flow adjustments.

2/ It includes stock-flow adjustments.

3/ As a ratio of official GDP released by Elstat.

Table 16. Greece: State-controlled Banking Entities—Key Data

	ATE Bank (Agricultural Bank of Greece)	Hellenic PostBank	Attica Bank	CDLF (Consignments Deposits and Loans Fund)
Legal nature	Listed bank	Listed bank	Listed bank	Non-bank government entity
State control	77.3 percent (directly)	43 percent (of which 33 percent directly)	28.9 percent (Indirectly only)	100 percent (no capital - reserves only)
In millions of euro, end-2009				
Assets, of which:	32,838	17,956	5,258	6,677
Loans	21,910	7,902	3,922	5,284
Greek govt bonds:	3,448	5,078	n/a	90
Deferred tax assets	416	121	18	n/a
Liabilities, of which:	31,477	16,714	4,675	6,022
Deposits	22,596	12,632	3,429	3,773
Consignments	n/a	n/a	n/a	1,931
Equity, of which:	1,361	1,242	583	655
Preferences shares held by the Greek state	675	225	100	n/a
Profit:	(405)	23	6	166
CEBS Stress-tests (July 2010)				
Tier 1 ratio - End 2009 (in percent)	8.4	17.1		
Tier 1 ratio - End 2011 (in percent)	4.4	10.1		
Capital shortage to reach 6% target (in millions of euro)	243	0	Not included in CESB sample	

Source: Bank of Greece.

Table 17. Greece: Regulatory Indicators in Closed Professions

	Greece	Finland	Ireland	Netherlands	Sweden	United Kingdom	United States	Greece	Finland	Ireland	Netherlands	Sweden	United Kingdom	United States
Question in OECD Regulatory Indicators Questionnaire:														
	PROFESSION: Legal							PROFESSION: Accounting						
Licensing														
How many services does the profession have an exclusive or shared exclusive right to provide?	5	0	2	4	0	0	1	7	2	1	3	2	5	2
Education requirements														
What is the duration of compulsory practise necessary to become a full member of the profession?	2	0	2	5	5	1	0	6	3	0	3	3	5	2
Are there professional exams that must be passed to become a full member of the profession?	yes	no	yes	yes	yes	no	yes	no	yes	no	no	yes	yes	yes
Regulations on prices and fees														
Are the fees or prices that a profession charges regulated in any way (by government or self-regulated)?	Minimum prices on some services	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation
	Greece	Finland	Ireland	Netherlands	Sweden	United Kingdom	United States	Greece	Finland	Ireland	Netherlands	Sweden	United Kingdom	United States
	PROFESSION: Architect							PROFESSION: Engineer						
Licensing														
How many services does the profession have an exclusive or shared exclusive right to provide?	8	1	0	0	0	0	0	10	1	0	0	1	0	0
Education requirements														
What is the duration of compulsory practise necessary to become a full member of the profession?	0	5	0	0	0	0	3	0	0	0	0	0	0	4
Are there professional exams that must be passed to become a full member of the profession?	yes	no	no	no	no	no	yes	yes	no	no	no	no	no	yes
Regulations on prices and fees														
Are the fees or prices that a profession charges regulated in any way (by government or self-regulated)?	Minimum prices on some services	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	Minimum prices on some services	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation

Source: OECD, Regulatory Indicators database.

Table 18. Greece: Public Sector Assets, 2007–10

	2007	2008	2009	2010 Proj.
	(Billions of euros)			
Assets 1/	188	186	197	195
Financial assets	73	64	76	75
Currency	10	13	13	12
Securities	0	2	2	2
Loans	1	1	1	1
Shares	42	29	39	39
Other	19	19	21	21
Public sector capital stock	115	122	121	120
Real estate 2/	n/a	n/a	n/a	n/a
	(Percent of GDP)			
Assets 1/	83.4	79.0	84.5	84.9
Financial assets	32.2	27.3	32.5	32.7
Currency	4.2	5.5	5.4	5.4
Securities	0.2	0.7	0.7	0.7
Loans	0.5	0.6	0.6	0.6
Shares	18.6	12.4	16.9	17.0
Other	8.6	8.1	8.9	8.9
Public sector capital stock	51.2	51.7	52.0	52.2
Real estate 2/	n/a	n/a	n/a	n/a

Source: IMF staff calculations.

1/ Excluding real estate holdings.

2/ Estimated by analysts at euro 200-300 billion (87-130 percent of 2010 GDP).

Table 19. Greece: Business Start-up and Licensing Procedures

	Greece	Avg. of EU top three 1/	Avg. of EU15 2/	Avg. of close competitors 3/
Ease of doing business (rank)	109.0	6.3	27.6	61.8
Starting a business (rank)	149.0	18.3	54.8	78.6
Procedures (number)	15.0	4.7	6.0	6.8
Time (days)	19.0	10.7	13.6	14.4
Cost (% of income per capita)	20.7	0.4	5.3	13.2
Minimum capital (% of income per capita)	22.3	8.7	17.0	16.3
Dealing with construction permits (rank)	51.0	21.3	45.7	104.2
Procedures (number)	15.0	9.3	14.7	16.4
Time (days)	169.0	118.7	157.2	253.0
Cost (% of income per capita)	52.9	63.5	81.8	265.2
Registering property (rank)	153.0	43.3	63.6	65.6
Procedures (number)	11.0	3.3	9.5	4.8
Time (days)	22.0	29.3	26.3	31.2
Cost (% of property value)	12.7	3.7	8.0	5.4

Source: World Bank Doing Business.

1/ UK, Denmark and Ireland.

2/ Former Euro-area 12 countries plus UK, Denmark and Sweden.

3/ Spain, Italy, Portugal, Croatia and Turkey.

Table 20. Greece: Structural Reforms Ahead.

<i>Business environment</i>			
Legislation on tax obstacles to mergers and acquisitions	Q3-2011	Government changes legislation to mitigate tax obstacles to mergers and acquisitions, including the non-transfer of accumulated losses and the computation of excessive benefit (Law 3522/2006, Article 11) in the transfer of private limited companies.	Facilitate firm expansion.
<i>Export promotion</i>			
Law to simplify export procedures	Q3-2011	Government takes decisions to simplify the process to clear customs for exports and imports and give larger companies or industrial areas the possibility to be certified to clear cargo for the customs themselves. Government abolishes the requirement of registration with the exporter's registry of the chamber of commerce for obtaining a certificate of origin.	Eliminate bureaucratic burdens on international trade. Stimulate exports.
<i>Labor market</i>			
Legislation on flexible forms of labor contracts and working time arrangements	Q4-2010	Government amends legislation to extend the probationary period for new jobs to one year (Law 3863/2010; Article 74.2). Government amends Law 2956/2001 to eliminate temporal limits in the use of temporary working agencies and adopts new legislation to promote fixed-term contracts. Government amends Law 1892/1990 (Article 38) to eliminate the provision establishing higher hourly remuneration to part-time workers. Government amends current legislation (Law 3846/2010; Article 7) to allow for a more flexible working time management.	Stimulate employment, attract more workers to the formal economy and moderate labor costs.
<i>Sectoral deregulation</i>			
Legislation on passenger road transportation	Q1-2011	The law will remove restrictions on the provision of services for occasional passenger transport by buses, coaches and limousines. Any operator meeting clearly specified criteria related to professional capacity will be granted unlimited access to the market. The cost for granting and renewing of licenses shall not exceed the administrative costs related to the licensing procedure and shall be levied in proportion to the number of vehicles licensed. The method for calculating the fees must be transparent and objective and shall not lead to over recovery of costs occurred.	Facilitate the entry of new competitors, thereby reducing the costs and improving the quality of transportation for passengers.
Concession agreement for regional airports	Q1-2011	Government adopts a new regulatory framework to facilitate the conclusion of concession agreements for regional airports. The new regulatory framework should remove anticompetitive practices and foresee appropriate oversight of the allocation and operation of concessions, in full respect of state aid rules.	Contribute to the development of the tourism sector.
<i>Institutional reforms</i>			
Legislation on public procurement	Q1-2011	Government adopts legislation establishing the Single Public Procurement Authority with the mandate, objectives, competences, powers and schedule for entry into force in line with the Action Plan submitted to the Commission in November 2010. Government transmits the draft law to the European Commission by 1 February 2011 for review and an assessment of compliance with the Action Plan.	Improve transparency and competition in public procurement. Reduce costs and improve the quality in provision of goods and services to the Public Administration.
Strengthening the role of the Labor Inspectorate	Q2-2011	Government ensures that Labour Inspectorate is adequately resourced with qualified staff. Quantitative targets are set on the number of controls to be executed. Government adapts legislation to require the registration of new employees before they start working.	Tackle undeclared work, broaden the labor tax base and ensure a more equitable distribution of the tax burden.

Table 21. Greece: External Financing Requirements and Sources

(Billions of euro)

	2009	2010	2010	2011	2012	2013	2014	2015
		Prog.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
GROSS FINANCING REQUIREMENTS	166.3	176.1	175.2	173.2	155.6	154.7	187.0	205.8
Current account deficit	25.8	25.6	23.9	16.2	14.1	12.3	10.4	8.4
Medium- and long-term debt amortization	28.2	22.8	22.8	28.1	25.8	25.4	47.7	55.3
Public sector	15.8	15.6	15.6	17.0	16.5	18.7	44.7	52.9
Banks	11.3	6.8	6.8	8.7	9.1	4.8	2.5	0.5
Corporates	1.1	0.3	0.3	2.3	0.2	1.9	0.6	1.9
Short-term debt amortization	112.2	127.8	128.5	128.9	115.7	117.0	128.9	142.1
Public sector & BoG	40.8	50.9	52.0	71.6	52.7	47.7	45.7	46.4
BoG 1/	35.3	49.0	49.0	68.6	49.7	44.7	42.7	43.4
Public sector 2/	5.5	1.9	3.0	3.0	3.0	3.0	3.0	3.0
Banks	70.2	75.8	75.8	56.9	62.6	68.8	82.6	95.0
Corporates	1.3	1.0	0.6	0.5	0.4	0.5	0.6	0.7
SOURCES OF FINANCING	166.3	138.1	143.7	126.7	131.6	146.7	187.0	205.8
Capital account (net)	2.0	2.8	2.8	2.9	2.8	2.7	2.6	2.5
Foreign direct investment (net)	0.3	1.0	0.2	1.4	1.9	2.3	2.7	2.9
Inward	1.8	2.3	1.7	3.0	3.5	4.0	4.5	4.7
Equities (net)	-0.2	-0.5	-0.5	-0.8	0.8	1.3	1.8	2.2
by nonresidents	0.5	0.2	0.2	-0.1	1.5	2.0	2.5	3.0
Assets drawdown (- increase)	-26.1	-7.2	-7.2	7.8	-12.2	-17.2	-17.2	-12.2
New borrowing and debt rollover	191.8	142.0	148.4	115.4	138.4	157.6	197.1	210.3
Medium and long-term borrowing	63.2	8.1	19.5	-0.3	21.4	28.7	55.0	58.6
Public sector	45.0	1.6	13.0	-10.3	11.2	21.1	51.5	56.1
Banks	7.9	6.1	6.1	7.9	10.0	5.8	3.0	0.6
Corporates	10.3	0.3	0.3	2.1	0.2	1.9	0.6	1.9
Short-term borrowing	128.5	134.0	128.9	115.7	117.0	128.9	142.1	151.7
Public sector & BoG	52.0	76.3	71.6	52.7	47.7	45.7	46.4	41.7
BoG 1/	49.0	73.3	68.6	49.7	44.7	42.7	43.4	38.7
Public sector 2/	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Banks	75.8	56.9	56.9	62.6	68.8	82.6	95.0	109.2
Corporates	0.6	0.8	0.5	0.4	0.5	0.6	0.7	0.8
Other	-1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PROGRAM FINANCING	...	38.0	31.5	46.5	24.0	8.0	0.0	0.0
European Union (8/11 of total)	...	27.6	21.1	35.6	17.5	5.8	0.0	0.0
IMF (3/11 of total)	...	10.4	10.4	10.9	6.5	2.2	0.0	0.0
<i>in percent of quota</i>	...	<i>946</i>	<i>949</i>	<i>996</i>	<i>597</i>	<i>199</i>	<i>0</i>	<i>0</i>
Memorandum item:								
Greece IMF quota (SDR millions)	823.0	823.0	823.0	823.0	823.0	823.0	823.0	823.0
Greece IMF quota (Euro millions)	1,095.8	1,095.8	1,095.8	1,095.8	1,095.8	1,095.8	1,095.8	1,095.8

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

1/ Includes liabilities to Eurosystem related to TARGET.

2/ Includes market instruments and trade credits.

Table 22. Greece: Indicators of Fund Credit
(Millions of SDRs, unless otherwise specified)

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Disbursements	9,131	9,612	5,767	1,922	...	...	...	...	...
(in percent of quota)	1,109.5	1,167.9	700.8	233.6	...	...	...	...	...
(Projected Debt Service to the Fund based on Existing and Prospective Drawings)									
Total	48	440	699	2,412	7,825	9,934	6,258	2,433	303
Interest	48	440	699	940	946	592	221	30	3
Amortization	0	0	0	1,472	6,879	9,342	6,038	2,403	300
Total debt service, in percent of									
Exports of goods and services	0.1	1.0	1.5	4.9	14.6	17.2	10.1	3.7	0.4
GDP	0.0	0.2	0.3	1.2	3.7	4.5	2.7	1.0	0.1
(Projected Level of Credit Outstanding based on Existing and Prospective Drawings)									
Outstanding stock	9,131	18,743	24,511	24,961	18,083	8,741	2,703	300	...
(in percent of quota)	1,110	2,277	2,978	3,033	2,197	1,062	328	36	...
(in percent of GDP)	4.5	9.5	12.2	12.1	8.5	4.0	1.2	0.1	...
Memorandum items:									
Exports of goods and services (in billion of euros)	44.7	48.6	52.4	56.6	61.1	65.8	70.8	75.6	80.7
GDP (in billions of Euros)	230.0	226.5	229.8	236.3	243.8	252.5	262.3	272.6	284.1
Euro/SDR rate (of November 16, 2010)	1.142								
Quota	823								

Source: IMF staff projections.

Table 23. Greece: Access and Phasing under the Stand-By Arrangement

Review	Availability Date	Action	Purchase		Total disbursements
			Millions of SDRs	Percent of quota	Billions of Euro
	May 10, 2010	Board approval of SBA	4,805.9	583.9	5.5
First Review	August 30, 2010	Observance of end-June 2010 performance criteria, completion of first review	2,162.7	262.8	2.5
Second Review	November 30, 2010	Observance of end-September 2010 performance criteria, completion of second review	2,162.7	262.8	2.5
Third Review	February 28, 2011	Observance of end-December 2010 performance criteria, completion of third review	3,604.5	438.0	4.1
Fourth Review	May 30, 2011	Observance of end-March 2011 performance criteria, completion of fourth review	2,883.6	350.4	3.3
Fifth Review	August 30, 2011	Observance of end-June 2011 performance criteria, completion of fifth review	1,922.4	233.6	2.2
Sixth Review	November 30, 2011	Observance of end-September 2011 performance criteria, completion of sixth review	1,201.5	146.0	1.4
Seventh Review	February 28, 2012	Observance of end-December 2011 performance criteria, completion of seventh review	2,403.0	292.0	2.7
Eighth Review	May 30, 2012	Observance of end-March 2012 performance criteria, completion of eighth review	1,441.8	175.2	1.6
Ninth Review	August 30, 2012	Observance of end-June 2012 performance criteria, completion of ninth review	1,441.8	175.2	1.6
Tenth Review	November 30, 2012	Observance of end-September 2012 performance criteria, completion of tenth review	480.6	58.4	0.5
Eleventh Review	February 28, 2013	Observance of end-December 2012 performance criteria, completion of eleventh review	1,441.8	175.2	1.6
Twelfth Review	April 30, 2013	Observance of end-March 2013 performance criteria, completion of twelfth review	480.6	58.4	0.5
Total			26,432.9	3,211.8	30.0

Source: IMF staff projections.

APPENDIX I. DEBT SUSTAINABILITY ANALYSIS

Fiscal

46. **The Fiscal DSA is based on revised debt data, and changes in some other assumptions:**

- In line with Eurostat revisions, the analysis starts from the new end-2009 debt data (127 percent of GDP), which includes a large share of government guaranteed debt held by public enterprises now reclassified into the general government.
- Disbursements to the FSF in 2010 have been lowered from €10 billion to €1.5 billion, based on projected near-term needs. The remaining resources would accrue to the FSF gradually over 2011-2013.
- In line with the upward revision in the level of debt, interest spreads over German bund rates have been revised upward and decline more gradually. In particular, the DSA assumes that it takes about 13 quarters before spreads return to ‘normal’ levels,⁴ implying that spreads fall to 300 bps by mid-2013. Based on historical experience with crises, this is equivalent to assuming Greece ranks in the 90th percentile regarding the time it takes for markets to return to ‘normal’ spreads.
- Other changes relate to the more cautious outlook on real GDP growth.
- Finally, for 2011 privatization proceeds of €1 billion are projected, and €3 billion per year for 2012-2013. Projections assume €2 billion per year for 2014-2015.

47. **The baseline projections and sensitivity analysis show uniformly higher debt levels, but dynamics remain largely unchanged (Figure A1 and Table A1).**

- **Baseline.** Under the baseline, debt peaks at 158 percent of GDP in 2013, and declines to 131 percent of GDP by 2020. Large rollover needs in the medium term remain a feature of Greece’s debt.
- **Historical and no policy change.** Under a historical scenario, debt would remain broadly flat at 143 percent of GDP. This reflects the recent history of high catch-up growth, relatively high fiscal revenue, and high domestic inflation that depressed real

⁴ This is defined as the average spread over Bund rates in the four quarters preceding the crisis plus 50 basis points.

interest rates. Under a no policy change scenario, debt would continue to rise to 215 percent of GDP by 2020, reflecting persisting high fiscal deficits.

- **Sensitivity analysis.** Lower growth and contingent liabilities from the banking system and from those state-owned enterprises that have not been absorbed into the general government remain the highest risks to debt sustainability.
 - **Weaker growth.** A one percentage point reduction in the GDP growth rate each year would result in debt rising to around 178 percent of GDP by 2020; (on the other hand, faster growth by one percentage point would bring the debt down to 91 percent of GDP by 2020.
 - **Recognition of implicit or contingent liabilities:** The shock includes: identified guarantees to public enterprises that remain outside of the general government (for a total of €8 billion), and the state-guaranteed liquidity support of the ECB to the financial system of €55 billion. All privatization proceeds are assumed to be zero under this scenario. This would leave the debt at 183 percent of GDP by 2020.
 - **Weaker fiscal adjustment:** a smaller adjustment of 1 percent of GDP per year would imply a more gradual decline to about 144 percent of GDP by 2020.
 - **More severe disinflation in 2011–2012:** 3 percentage point lower inflation than in the baseline would result in the debt to GDP ratio peaking at 175 percent of GDP and declining to 166 by 2020.
 - **Higher interest rate:** an interest rate increase of 200bps (reflecting a higher Euribor and SDR rate) would result in public debt of 145 percent of GDP by 2020.

Table A1: Greece: Sensitivity Test of the Public Debt Sustainability 1/
(In percent of GDP)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Baseline scenario	127	141	152	158	158	154	150	147	143	140	136	131
Higher growth of 1 percent per year	127	139	148	151	147	140	132	125	117	109	100	91
Lower growth of 1 percent per year	127	143	157	166	169	169	169	170	172	174	176	178
Disinflation (3 percent lower inflation for 2011-2012)	127	141	158	172	175	173	172	171	171	169	168	166
Lower primary deficit (by 1% of GDP)	127	142	154	161	162	159	156	154	152	149	147	144
Recognition of contingent liabilities, and new debt 2/	127	169	183	192	194	194	192	191	189	188	186	183
200 bps higher interest rate on new debt	127	141	152	158	159	155	153	151	150	148	147	145

Source: Fund staff calculations.

1/ Changes in assumptions are relative to the baseline.

2/ This assumes €63 billion in guaranteed debt.

Table A1. Greece: Public Sector Debt Sustainability Framework

(In percent of GDP, unless otherwise indicated)

	Actual		Projections											Debt-stabilizing primary balance 9/
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	
Baseline: Public sector debt 1/	110	127	141	152	158	158	154	150	147	143	140	136	131	1.6
Change in public sector debt	5.3	16.5	14.3	10.9	6.0	0.0	-4.3	-3.7	-3.3	-3.3	-3.7	-3.9	-4.3	
Identified debt-creating flows (4+7+12)	6.2	17.8	14.3	10.9	6.0	0.0	-4.3	-3.7	-3.3	-3.3	-3.8	-3.9	-4.4	
Primary deficit	4.5	10.1	3.3	0.8	-1.1	-3.5	-6.0	-6.0	-6.0	-6.0	-6.0	-6.0	-6.0	
Revenue and grants	39.7	37.8	39.8	42.4	43.2	44.2	43.4	42.0	41.7	41.5	41.1	40.7	40.3	
Primary (noninterest) expenditure	44.2	47.9	43.1	43.2	42.2	40.7	37.3	36.1	35.7	35.5	35.1	34.7	34.4	
Automatic debt dynamics 2/	0.7	6.2	8.1	8.7	5.3	3.8	3.6	2.6	2.6	2.6	2.1	2.0	1.5	
Contribution from interest rate/growth differential 3/	0.7	6.2	8.1	8.7	5.3	3.8	3.6	2.6	2.6	2.6	2.1	2.0	1.5	
Of which contribution from real interest rate	1.8	3.3	2.7	4.5	6.9	7.0	6.8	6.6	6.4	6.1	5.7	5.5	5.0	
Of which contribution from real GDP growth	-1.1	2.9	5.4	4.2	-1.6	-3.2	-3.2	-4.0	-3.8	-3.5	-3.6	-3.5	-3.5	
Contribution from exchange rate depreciation 4/	0.0	0.0	...	...	...	...	...	...	...	...	...	...	...
Other identified debt-creating flows	1.0	1.5	2.9	1.4	1.8	-0.3	-1.9	-0.3	0.1	0.1	0.1	0.1	0.1	
Privatization receipts (negative)	0.0	-0.4	0.0	-0.4	-0.9	-0.8	-0.8	-0.8	-0.4	-0.4	-0.3	-0.3	-0.3	
Recognition of implicit or contingent liabilities	1.0	0.3	2.9	1.8	2.7	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.4	
Other (specify, e.g. bank recapitalization)	0.0	1.6	0.0	0.0	0.0	0.0	-1.5	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes (2-3) 5/	-0.9	-1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	
Public sector debt-to-revenue ratio 1/	278.0	335.5	354.4	358.3	365.5	357.3	354.2	356.7	351.4	345.9	340.0	333.5	325.9	
Gross financing need 6/	9.5	15.4	20.8	23.6	26.2	25.3	31.8	30.9	24.5	26.3	20.8	25.6	15.8	
in billions of U.S. dollars	33.2	50.3	10-Year	63.2	69.2	77.6	76.7	99.2	99.7	82.2	91.4	75.6	97.0	62.7
Scenario with key variables at their historical averages 7/			141	142	144	144	142	142	142	143	143	143	143	-1.7
Scenario with no policy change (constant primary balance) in 2010-2020		Historical	141	154	165	172	177	183	190	196	203	209	215	2.8
Key Macroeconomic and Fiscal Assumptions Underlying Baseline		<u>Average</u>												
Real GDP growth (in percent)	1.1	-2.6	3.2	-4.2	-3.0	1.1	2.1	2.1	2.7	2.6	2.5	2.6	2.6	2.7
Average nominal interest rate on public debt (in percent) 8/	5.0	4.8	5.5	4.9	4.6	5.0	5.4	5.7	5.7	5.7	5.7	5.8	5.9	5.7
Average interest rate on new market debt				7.3	6.8	5.6	6.3	6.1	6.4	6.3	6.4	6.4	6.3	6.3
Average interest rate on all new debt (includes EU bilateral and IMF debts)				4.5	5.0	5.6	6.4	6.5	6.7	6.5	6.4	6.4	6.3	6.3
Spreads above German bund (10-year)				550	525	350	300	300	300	300	300	300	280	250
German bund rate				225	275	350	350	350	350	350	350	350	350	350
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	1.8	2.9	2.2	2.0	3.1	4.6	4.6	4.5	4.5	4.5	4.3	4.2	4.2	3.9
Nominal appreciation (increase in US dollar value of local currency, in percent)	-6.6	7.2	5.6	...	...	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	3.2	1.8	3.3	3.0	1.5	0.4	0.8	1.2	1.3	1.2	1.4	1.6	1.7	1.8
Growth of real primary spending (deflated by GDP deflator, in percent)	7.1	5.5	6.1	-13.8	-2.6	-1.4	-1.4	-6.4	-0.8	1.7	1.7	1.6	1.6	1.6
Primary deficit	4.5	10.1	1.5	3.3	0.8	-1.1	-3.5	-6.0	-6.0	-6.0	-6.0	-6.0	-6.0	-6.0

1/ General government. Excludes potential impact on debt of Greece's participation in the EFSF. The statistical treatment on this is yet to be decided by Eurostat.

2/ Derived as $[(r - \pi(1+g) - g + \alpha(1+r))/(1+g+\pi+g\pi)]$ 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 $\alpha\varepsilon(1+r)$.

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

6/ Defined as general government deficit, plus amortization of medium and long-term general government debt, plus short-term debt at end of previous period.

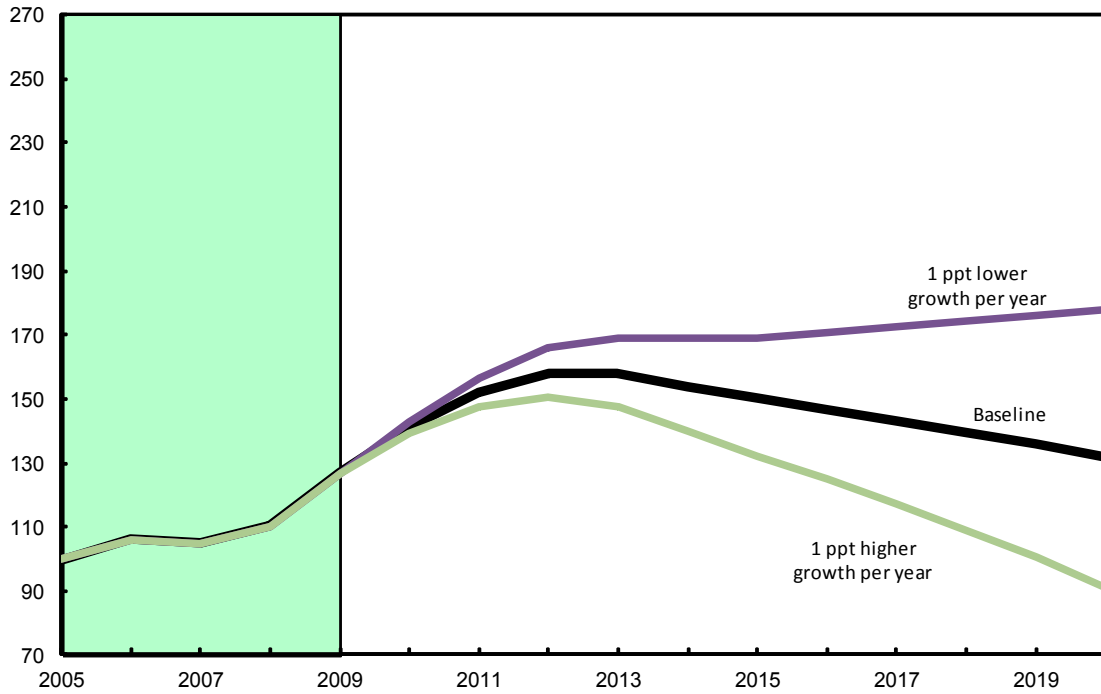
7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.

8/ Derived as nominal interest expenditure divided by previous period debt stock.

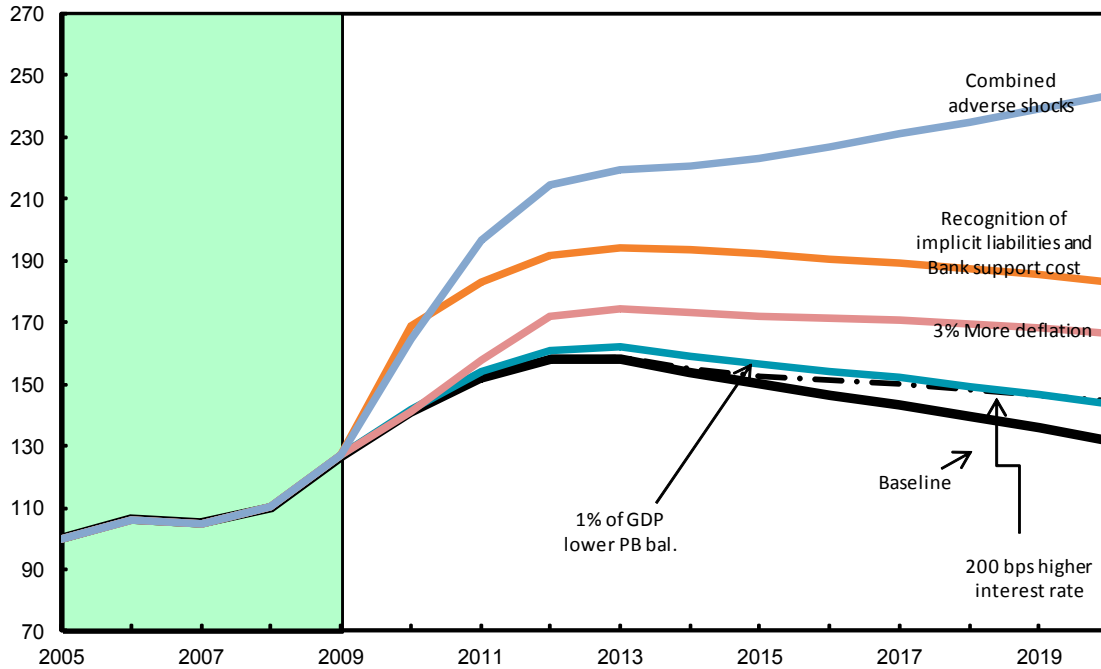
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure A1. Greece: Public Debt Sustainability Analysis (percent of GDP)

The pace of real GDP growth remains critical for ensuring falling debt/GDP ratios....



All other shocks (except a combined adverse shock) would affect the level of debt, but maintain the downward path for debt/GDP.



Source: IMF staff projections based on data provided by the authorities.

External

Given recent downward revisions of historical GDP data, Greece's current net external debt position is slightly worse than previously estimated. At 86½ percent of GDP, the external debt ratio in 2009 came in three percent of GDP higher than reported at the time of the first program review.

Nevertheless, the medium-term external debt dynamics have improved slightly under the new baseline, owing to a quicker expected adjustment of external imbalances. The external current account deficit is now projected to narrow sooner as the outlook for goods and services exports has improved against the backdrop of improving competitiveness (moderating wages; weaker euro) and higher international trade volumes. As a result, the net debt-to-GDP ratio is projected to continue rising and peak at 104 percent of GDP in 2013 (unchanged from previous baseline), and then expected to decline slowly afterwards, to 98 percent of GDP in 2015 (about 2½ percent of GDP lower than in the previous baseline). Should more optimistic assumptions materialize in the medium term, Greece's gross external financing needs would be substantially below previous projections (reduced by five to nine percent of GDP in 2012-15).

The sensitivity of the net debt position to selected adverse shocks remains largely unaffected by the revised historical data and medium-term assumptions. However, should key variables remain at their historical averages, debt levels would remain above the previous baseline, reflecting the higher initial indebtedness (Figure A2 and Table A2).

- **Weaker real GDP growth.** A 1 percentage point lower GDP growth will increase net debt ratio by about 5 ½ percentage points of GDP by 2015 relative to the baseline.
- **Higher deflation.** Reducing inflation by 3 percentage points in 2010 and 2012 will increase debt ratio by 5 percentage points by 2015 relative to the baseline.
- **Higher interest rate.** A 100 basis points increase in interest rate will increase the debt to GDP ratio by 6 percentage points by 2015 relative to the baseline.
- **Higher current account deficit.** A permanent ½ standard deviation (based on 2000-09) shock to the non-interest current account deficit will increase debt to GDP ratio by 9 ½ percentage points relative to the baseline

Table A2. Greece: External Debt Sustainability Framework

(In percent of GDP, unless otherwise indicated)

	Actual					Projections						Debt-stabilizing non-interest current account 6/ -2.8
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	
Baseline: External debt	58.0	62.0	67.7	74.8	86.5	95.2	102.8	105.0	104.6	102.9	99.6	
Change in external debt	4.4	3.9	5.7	7.2	11.7	8.7	7.6	2.2	-0.3	-1.8	-3.2	
Identified external debt-creating flows (4+8+9)	2.2	3.9	4.7	10.6	11.1	13.5	9.5	3.6	1.5	0.5	-1.1	
Current account deficit, excluding interest payments	5.7	9.1	11.8	11.6	8.4	8.1	4.5	3.5	2.6	1.7	0.8	
Deficit in balance of goods and services	6.2	9.5	11.0	11.4	7.8	7.3	3.6	2.7	1.8	1.0	0.1	
Exports	21.2	21.2	21.5	22.9	18.2	19.6	21.7	23.0	24.1	25.2	26.2	
Imports	27.4	30.6	32.5	34.3	25.9	26.9	25.3	25.7	25.9	26.1	26.3	
Net non-debt creating capital inflows (negative)	-2.8	-3.2	-5.3	-1.4	-0.8	-1.0	-0.9	-1.6	-1.7	-1.8	-1.9	
Automatic debt dynamics 1/	-0.8	-2.0	-1.7	0.4	3.5	6.4	5.9	1.7	0.6	0.6	0.0	
Contribution from nominal interest rate	1.8	2.2	2.6	3.2	2.7	2.6	2.8	2.8	2.8	2.8	2.7	
Contribution from real GDP growth	-1.1	-2.4	-2.6	-0.4	2.0	3.8	3.2	-1.1	-2.2	-2.2	-2.7	
Contribution from price and exchange rate changes 2/	-1.5	-1.7	-1.8	-2.3	-1.1	-2.5	-1.2	-0.7	-0.9	-1.1	-0.9	
Residual, incl. change in gross foreign assets (2-3) 3/	2.2	0.0	1.0	-3.4	0.5	-2.3	-0.6	-0.8	-1.0	-1.1	-1.1	
External debt-to-exports ratio (in percent)	273.4	292.9	314.2	327.3	476.5	486.1	474.1	456.3	433.6	408.4	380.6	
Gross external financing need (in billions of euros) 4/	49.8	68.8	90.4	106.8	165.3	171.1	163.9	136.7	128.0	152.0	164.2	
in percent of GDP	25.5	32.7	39.9	45.3	70.9	74.5	72.8	59.7	54.3	62.4	65.1	
Scenario with key variables at their historical averages 5/						95.2	97.7	100.1	102.3	104.4	106.4	-3.6
Key Macroeconomic Assumptions Underlying Baseline												
Real GDP growth (in percent)	2.2	4.5	4.5	0.7	-2.6	-4.3	-3.3	1.1	2.1	2.2	2.7	
GDP deflator in US dollars (change in percent)	2.8	3.1	3.0	3.5	1.5	3.0	1.3	0.6	0.8	1.1	0.9	
Nominal external interest rate (in percent)	3.6	4.1	4.6	4.9	3.5	3.0	2.8	2.8	2.7	2.7	2.8	
Growth of exports (euro terms, in percent)	5.2	7.4	9.6	10.4	-21.5	6.3	8.5	7.9	8.0	7.8	7.8	
Growth of imports (euro terms, in percent)	8.6	20.2	14.3	9.6	-25.2	2.3	-7.9	3.3	3.9	4.1	4.4	
Current account balance	-7.5	-11.3	-14.4	-14.8	-11.1	-10.8	-7.2	-6.3	-5.4	-4.5	-3.5	
Net non-debt creating capital inflows	2.8	3.2	5.3	1.4	0.8	1.0	0.9	1.6	1.7	1.8	1.9	

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).

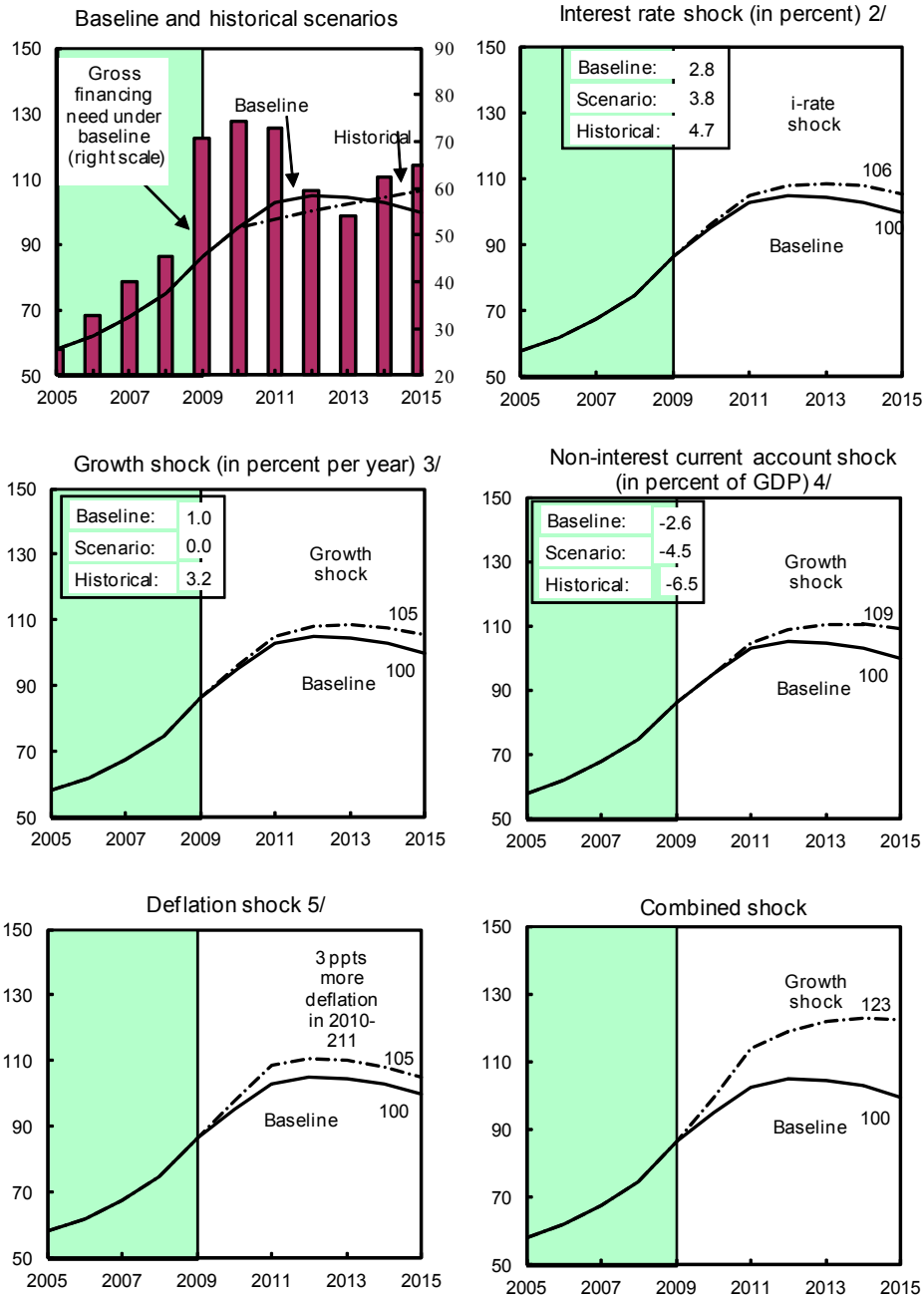
3/ For projection, line includes the impact of price and exchange rate changes.

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/ 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 A2. Greece: Net External Debt Sustainability
(External debt in percent of GDP)



Sources: Greek authorities, and staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ Interest rates are increased by 100bps for the projection period.

3/ Growth rates lower by 1 percentage point.

4/ Current account deficit higher by a 1/4 of standard deviation.

5/ Inflation lower by 3 percentage points in 2010 and 2011.

APPENDIX II. FUND RELATIONS

(As of October 31, 2010)

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

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

III. General Resources Account:	SDR Million	Percent Quota
Quota	823.00	100.00
Fund holdings of currency	7,620.79	925.98
Reserve position in Fund	170.86	20.76
IV. SDR Department:	SDR Million	Percent Allocation
Net cumulative allocation	782.36	100.00
Holdings	609.18	77.86
V. Outstanding Purchases and Loans:	SDR Million	Percent Quota
Stand-by Arrangements	6,968.6	846.73

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	6,968.60

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

	Forthcoming				
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Principal				1,471.81	3,484.30
Charges/Interest	<u>37.66</u>	<u>188.95</u>	<u>189.03</u>	<u>204.31</u>	<u>119.94</u>
Total	<u>37.66</u>	<u>188.95</u>	<u>189.03</u>	<u>1,676.12</u>	<u>3,604.24</u>

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 is being 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. 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 priority reforms	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	Revenue Administration: Design and implementation of the anti-evasion plan	July 2010
MCM	Implementation of financial sector components of the SBA program	September 2010
FAD*	Revenue administration: Implementation status of the anti-evasion plan	September 2010
FAD	Public Financial Management: Implementation status of priority reforms	September 2010
FAD	Revenue Administration: Progress on the anti-evasion plan and the medium term reform agenda	October 2010
STA	Monitoring of fiscal data for the program	September 2010

* With participation from LEG.

XII. Resident Representative:

Mr. Bob Traa (senior resident representative) and Mrs. Stephanie Eble (junior resident representative) assumed their positions in October 2010.

LETTER OF INTENT

Athens, December 8, 2010

Mr. Dominique Strauss-Kahn:
Managing Director
International Monetary Fund
Washington DC

Dear Mr. Strauss-Kahn:

In the attached update to the Memoranda of Economic and Financial Policies from May 3 and August 6, 2010 (MEFPs), we describe progress and policy steps towards meeting the objectives of the economic program of the Greek government which is being supported by a Stand By Arrangement. The policies of the government remain fully oriented toward securing fiscal sustainability, safeguarding the stability of the financial system, and boosting potential growth and competitiveness, while ensuring that the adjustment effort is fair and equitable.

We continue to make progress with our economic program:

- The end-September quantitative performance criteria have all been met. The fiscal program has continued to meet deficit and expenditure targets through the adoption of measures as foreseen in the program, and through a strategy of state budget under execution. This has addressed weak revenue collections, although there have been other problems with the implementation of our fiscal program, including arrears in non-central government agencies (deviating from the program indicative target). We believe that by reinforcing this approach we can meet the end-December deficit and spending targets, although the indicative target on arrears may continue to be missed. This and the revision of fiscal data by Eurostat, means that the headline ESA95 deficit target will almost certainly be missed. In the memorandum we focus on laying out a strong 2011 budget to support the delivery of our fiscal adjustment program, and achievement of our 2011 target.
- Underlying fiscal institutional reforms are broadly on track. Benchmarks have been met covering the establishment of revenue administration task forces (charged with formulating anti-evasion plans); the legal establishment of commitment controls (done with delay via a Presidential decree); the publication of general government reports on cash spending and arrears; and the publication of public enterprise financial data. Still, budget execution problems in 2010 underscore the challenges we face in these areas, and we have set out an ambitious schedule of next stage actions in the memorandum.

- The financial system remains stable, with our August legislation approving additional state guarantees supporting liquidity, and the FSF serving as a backstop to any capital needs that may arise. Our policies remain focused on preserving banking system liquidity and to addressing known weaknesses in banking entities in which the state has significant stakes, as discussed in the memorandum.
- Progress continues with structural reforms to improve the efficiency of the Greek economy. Of late, our focus has been on the transportation sector, and successes have included reforms to liberalize the trucking industry, and passage of the Greek Railways Law to restructure the railway system. With a first stage of reforms now behind us, we are working on an ambitious schedule of next stage reforms, as set out in the memorandum.

On this basis, we request completion of the second review under the Stand-By Arrangement, and the third purchase under this arrangement in the amount of SDR 2,162.7 million. As set out in Table 1, we request that ceilings and floors for the quantitative performance criteria under the arrangement be established for March 31, 2011 and June 30, 2011. Completion of the fourth and fifth reviews, scheduled for May 2011 and August 2011 will require observance of the quantitative performance criteria for end-March 2011 and end-June 2011 respectively. As detailed below, we also propose new structural benchmarks: in the fiscal area, to support stronger tax administration, foster better expenditure control, and complete the identification of remaining fiscal measures that will ensure that the deficit targets up to 2014 are achieved; in the financial sector area, to unbundle the HLCF; and in the structural area to support the completion of labor market reforms (Table 2).

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

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

/s/

/s/

George Papaconstantinou

George Provopoulos

Minister of Finance

Governor of the Bank of Greece

LETTER OF INTENT

Athens, November 22, 2010

Mr. Jean- Claude Juncker
President
Eurogroup
Brussels

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

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

Dear Messers. Juncker, Rehn and Trichet,

In the attached update to the Memoranda of Economic and Financial Policies (MEFP) and Memoranda of Understanding on Specific Economic Policy Conditionality (MoU) from May 3 and August 6, 2010, we describe progress and policy steps towards meeting the objectives of the economic programme of the Greek government which is being supported by financial assistance provided by the euro-area Member States in the context of the loan facility agreement. The policies of the government remain fully oriented toward securing fiscal sustainability, safeguarding the stability of the financial system, and boosting potential growth and competitiveness, while ensuring that the adjustment effort is fair and equitable.

We continue to make progress with our economic program:

- The end-September quantitative performance criteria have all been met. The fiscal program has continued to meet deficit and expenditure targets through the adoption of measures as foreseen in the program, and through a strategy of state budget under execution. This has addressed weak revenue collections, although there have been other problems with the implementation of our fiscal program, including arrears in non-central government agencies (deviating from the program indicative target). We believe that by reinforcing this approach we can meet the end-December deficit and

spending targets, although the indicative target on arrears may continue to be missed. This and the revision of fiscal data by Eurostat, means that the headline ESA95 deficit target will almost certainly be missed. In the memorandum we focus on laying out a strong 2011 budget to support the delivery of our fiscal adjustment program, and achievement of our 2011 target.

- Underlying fiscal institutional reforms are broadly on track. Benchmarks have been met covering the establishment of revenue administration task forces (charged with formulating anti-evasion plans); the legal establishment of commitment controls (done with delay via a Presidential decree); the publication of general government reports on cash spending and arrears; and the publication of public enterprise financial data. Still, budget execution problems in 2010 underscore the challenges we face in these areas, and we have set out an ambitious schedule of next stage actions in the memorandum.
- The financial system remains stable, with our August legislation approving additional state guarantees supporting liquidity, and the FSF serving as a backstop to any capital needs that may arise. Our policies remain focused on preserving banking system liquidity and to addressing known weaknesses in banking entities in which the state has significant stakes, as discussed in the memorandum.
- Progress continues with structural reforms to improve the efficiency of the Greek economy. Of late, our focus has been on the transportation sector, and successes have included reforms to liberalize the trucking industry, and passage of the Greek Railways Law to restructure the railway system. With a first stage of reforms now behind us, we are working on an ambitious schedule of next stage reforms, as set out in the memorandum.

On this basis, we request the disbursement of the third installment of financial assistance by the euro-area Member States, pooled by the European Commission in the amount of EUR 6 500 million, in line with the loan facility agreement. We are committed to respect the nominal deficit ceilings for 2011-2014 established by Article 1(2) of Council Decision 2010/320/EU, while we request that ceilings established in Article 1(3) for government debt are revised to reflect the recent revision of fiscal statistics on the occasion of the validation of our data by Eurostat. Moreover as set out in Table 1, we request that ceilings and floors for the quarterly quantitative performance criteria under the arrangement be established for March 31, 2011 and June 30, 2011. Completion of the fourth and fifth reviews, scheduled for May 2011 and August 2011 will require observance of the quantitative performance criteria for end-March 2011 and end-June 2011 respectively.

We believe that the policies set forth in the May 3, 2010 Letter of Intent, MEFP and MoU and subsequent update (including the one now attached), are adequate to achieve the objectives under the program. We stand ready to take any corrective actions that may become

appropriate for this purpose as circumstances change. We will consult with the European Commission and the ECB, as well as with the IMF on the adoption of any such actions and in advance of revisions to the policies contained in this letter.

This letter is being copied to Mr. Strauss-Khan.

/s/

/s/

George Papaconstantinou

Minister of Finance

George Provopoulos

Governor of the Bank of Greece

GREECE: MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

The Outlook

- 1. The government continues to expect the economy to begin to turn around in 2011.** Economic performance in 2010 has been slightly weaker than expected, and GDP is now projected to decline by 4.2 percent. In 2011, we expect a full year GDP decline of 3 percent, but the economy should bottom out during the first half of the year, with improvements in net exports supporting a gradual recovery, and an accelerated current account improvement.
- 2. Wage and price inflation are beginning to moderate, setting the stage for improvements in competitiveness.** Since the second quarter of 2010, inflation at constant tax rates has fallen below the euro area average, for the first time since Euro adoption. For the year as a whole inflation is expected to reach 4¾ percent on average, declining further to 2¼ percent in 2011. Meanwhile, moderate collective wage agreements and arbitration decisions in recent months have slowed unit labor cost growth in the business sector, and this should translate into stronger competitiveness vis-à-vis our major trading partners.
- 3. Revisions to historical Greek fiscal data have been completed, and debt dynamics remain broadly as projected.** Eurostat has published revised general government debt and deficit data for 2006-09, and has lifted all its reservations on the published statistics. The revisions have increased Greece's 2009 deficit to 15.4 percent of GDP, and debt to about 127 percent of GDP (compared to the earlier estimates of 13.6 and about 115 percent). To a large degree they reflect a broadening of the definition of general government to include consistently loss-making state enterprises. In this sense, the public sector balance sheet has been less affected, and we continue to expect debt to reach a firmly declining path by 2014 as projected in the program.
- 4. The objectives underpinning the government's program remain unchanged, and the present memorandum focuses on fleshing out the policies for 2011.** The key priorities remain restoring fiscal sustainability, safeguarding financial sector stability, and boosting competitiveness, to create conditions for sustained growth and reducing unemployment.

Fiscal Policies

- 5. While there are challenges to surmount, the government's fiscal policy remains anchored on reducing the general government deficit to below 3 percent of GDP by 2014.** More total adjustment will be needed to reach our medium-term general government deficit target, in light of revisions to 2009 fiscal data.
- 6. For 2010, the government intends to meet the program's cash fiscal targets.** We do expect a revenue shortfall of some €4 billion, due to the recession and lingering

weakness in tax collection. However, we expect to be able to fully offset this by under executing spending relative to the May program ceiling, while being able to reduce the stock of arrears that has accumulated within year. Still, this will not secure achievement of our ESA95 deficit target, which unlike the cash target, now incorporates the deficits of state enterprises, arrears and a variety of other cash-to-accrual adjustments. Thus, on an ESA95 basis we expect the deficit to decline to 9½ percent of GDP. However, the overall change in the deficit of 6 percent of GDP in 2010 remains unprecedented in Greece, and larger than the initially targeted change.

7. For 2011, the government’s fiscal policy has been set to deliver the program target of a €17 billion general government deficit. This would imply a deficit of about 7½ percent of GDP. Achieving this target will help to minimize our financing needs, support confidence in Greece’s adjustment program, and facilitate a resumption of market access. To offset negative cyclical and structural effects on revenue and expenditure from the recession, and reduce the deficit, some 6¼ percent of GDP in adjustment will be needed, to be delivered by the carry-over from measures implemented in 2010, the measures coming into effect for 2011 specified in the May program, and the effect of newly specified measures (2½ percent of GDP, discussed below). The state budget would deliver a primary cash deficit excluding guarantees of 1¾ percent of GDP, with revenues expected to amount to 26 percent of GDP. Transfers to the social security sector have been set consistent with the need to fully fund health and social benefits and reduce accounts payable. Stronger financial management arrangements (discussed below) should help prevent new arrears, and we will also stay current on our tax refunds. Arrears on lump sum payments to retiring civil servants will be gradually reduced in a manner consistent with our financing plan.

8. The design of the 2011 fiscal adjustment program has been guided by the need to preserve fairness, support the economy, and improve government efficiency. To preserve fairness, adjustment measures have been targeted at those best able to share the burden, and specific initiatives have been introduced to support the unemployed and the most vulnerable. To support the economy, reliance on new tax measures has been minimized in favor of base broadening initiatives (although there have been some refinements of earlier tax measures), and we have focused primarily on eliminating wasteful public sector spending:

- **Our primary emphasis has been on tackling two key structural problems, health spending and state enterprises.** These reforms will yield large benefits over the medium term, but will already deliver dividends in 2011:
 - *Health sector reforms (projected savings in 2011 of ½ percent of GDP).* Greece for too long has paid a higher than necessary price for the health services it receives. To rectify this, reforms were introduced in 2010, and these have already begun to yield noticeable dividends, particularly in the area of drug spending. The

near-term reform initiatives, to be phased in during the first half of 2011, follow three directions: (i) in the area of drug spending, extending electronic prescriptions to the main social security funds (by March 2011), and expanding the negative list of prescribed drugs; (ii) administrative reforms, including introducing electronic archiving of medical referrals to private centers (by March 2011), unifying packages of provisions across different funds (June 2011), and centralizing procurement in some of the largest funds; and (iii) reductions in net hospital operating expenses, realized through full applications and increases in co-pays, whole day operation, and reductions in utilities and supplies of services.

- *State enterprise reforms (projected savings in 2011 of 1/3 percent of GDP).* The government recently published state enterprise accounts, showing that costs, in particular wages, are well out of line with private sector and international norms. Low cost recovery from users of their services and over-employment further contribute to their losses. We have already made progress towards improving their balance sheets in 2010, in particular through the use of attrition to reduce over-employment and by reductions in wages. In 2011 we will continue to tackle excessive wages and cost recovery. Legislation will be enacted by end-February 2011 to on average reduce wages by 10 percent and limit allowances to 10 percent of basic pay. Tariffs will be increased in the public transportation area by at least 30 percent to improve cost recovery. We will also finalize the restructuring plan for loss-making railway enterprises to help them reach the breakeven point in 2011. But these actions are only a beginning, and further work will be needed, as discussed below.
- **Beyond these two significant reforms, there are a number of other initiatives towards realizing our intended adjustment objective and design:**
 - *Elimination of unproductive and untargeted spending (projected savings in 2011 of 1/3 percent of GDP).* Line ministries and public entities have been asked to cut spending by 5 percent on the basis of guidance from the Ministry of Finance. In the area of public employment we will further reduce short term contracts in the public sector by at least 15 percent (with monitoring by the Ministry of Interior and Ministry of Finance). Two costly universal household subsidies are to be better targeted to the needy, the fuel subsidy (which is also a source of tax fraud) and the family allowance.
 - *Better management and use of state assets, particularly in the collection of tax claims (projected gains in 2011 of 3/4 percent of GDP).* Special task forces are in place for the collection of fees, penalties, and arrears. Procedures for settling tax disputes will be accelerated, supported by our plan for tax administration reform (below) as well as reform of judicial processes. We will also realize some

resources through renewal of telecommunication licenses and through airport concessions.

- **Previously identified policy reforms for 2011 are on track for implementation.** Most prominently, by end-year we will table legislation to reform the VAT (increasing the reduced and low rates and broadening the base as planned, and with some other adjustments to VAT rates for hotel accommodation and pharmaceuticals). We will reduce net local government transfers to secure the savings realized by the Kallikratis reforms. And we will also continue implementing the 1:5 hiring rule for the public sector, with intra-public sector employee transfers accounted for within this envelope.

9. **The government will identify the remaining measures necessary to realize the 2014 deficit target in the March medium-term budget strategy paper.** Present estimates suggest a need to identify about 5 percent of GDP in additional structural measures to be implemented over 2012-14. The strategy paper will be accompanied by a plan to be discussed during the third review that will lay out a time bound action plan to realize the necessary fiscal reforms to close the medium-term fiscal gap (publication in April of the budget strategy paper and plan will be supported by a new program structural benchmark). The plan will address:

- Restructuring plans for large and/or loss-making state enterprises. Implementation of these plans will be targeted to commence in the second quarter of 2011.
- The closure of unnecessary public sector entities, for instance, extrabudgetary funds that have outlived their original purpose. Implementation of the plan will commence in the second quarter of 2011.
- Tax reform to improve the simplicity, efficiency and administration of the system. The necessary legislation will be enacted by end-2011.
- Reforms to public administration. The functional review which will inform this aspect of the plan is well underway. The reforms themselves will be implemented beginning in the context of the 2012 budget.
- The public wage bill, including the right-sizing of employment by cost efficient means and simplification of public sector remuneration schemes. Implementation of the plan will commence by mid-2011.
- Military spending, in particular to contain procurement expenses. Implementation of the plan will begin with the 2012 budget, without prejudice to national defense capabilities.

10. **To support fiscal adjustment, the government is intensifying the work towards strengthening fiscal institutions:**

- **Revenue administration reforms.** Improving tax administration and distributing the tax burden more equitably remains essential for fairness in the adjustment program. Task forces have been established (meeting an end-September structural benchmark) and these have drawn up an anti-evasion plan. Beyond the arrears collection measures noted above, the near-term institutional reform priorities are to implement the anti-evasion plan, address barriers to effective tax collection, and design medium-term reforms.
 - *Anti evasion plan.* Based on the work of the task forces, the government will launch the anti-evasion plan by January 2011, including with a public communications campaign. The plan will include quantitative performance indicators to hold the revenue administration accountable. Information about the achievements of the plan will be regularly published.
 - *Barriers to reform.* Legislation will be enacted to remove barriers by end-February 2011, and we propose that this be supported by a new program structural benchmark. The legislation will: (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 the prosecution of cases of breach of duty)..
 - *Designing medium-term reforms.* As a first step, the government will broaden the role of the anti-evasion steering committee to overview medium term reforms and will set up special taskforces for each key reform topic with the objective of articulating a plan by end-March 2011.
- **Public financial management reforms.** Improving PFM remains essential to strengthen budget implementation and to eliminate wasteful spending. Commitment registers have been introduced in all general government units in November; and the government has started to publish monthly reports on cash spending and arrears for general government entities (in both cases meeting program structural benchmarks). The next steps in the three pillars of our reform program include:
 - *Strengthening spending controls.* We will appoint financial accounting officers in all line ministries and major general government entities, with the responsibility to ensure sound financial controls (by end-March 2011). We propose that this be supported by a new program structural benchmark.

- *Increasing transparency.* We will publish on a monthly basis consolidated general government reports with revenue, expenditure, and intra-governmental transfers for each sub-sector of the general government (beginning in March 2011);
- *Enhancing budgeting.* Informed by the March budget strategy paper, we will prepare a full medium-term fiscal strategy for 2012-14, to be submitted to parliament in May. The strategy will include targets for the deficits of the general government and its subsectors, and will provide estimates for underlying measures.

11. **We anticipate completion of the pension reform in 2011, with full realization of projected savings.** The National Actuarial Authority will complete an assessment of the effect of the 2010 pension reform on the main pension funds by end-December and of the largest auxiliary pension funds by end-March (and we propose that the program structural benchmark be shifted to end-March). To ensure that both the main and auxiliary pension funds are sustainable (with the increase in total pension spending limited to 2½ percentage points of GDP over the period 2009-2060) we have already committed to adjust the parameters of the main pension system as necessary, and will separately reform the auxiliary pension and welfare funds. Any needed adjustments will be completed by end-June 2011, and implemented not later than end-2011, in consultation with pension experts from the Fund, the European Commission, and the ECB, as foreseen in Law 3863.

12. **Program financing remains in line with our needs, and we are taking steps to secure additional resources.** We have successfully conducted monthly auctions of 3 and 6 month T-bills, with yields improving from levels seen before the program, and renewed interest from foreign investors. We intend to gradually increase the size and maturity of our T-bill issuance program, as market conditions warrant, and introduce a bond targeted to expatriate Greeks. In addition, we are developing a comprehensive plan to divest some government assets (discussed below). With these resources we intend to build up our Treasury balance to €10 billion over time, with these resources to serve as a reserve buffer.

Financial sector policies

13. **The program has to date been successful in maintaining the stability of the financial sector, and the focus remains on fully securing the system's liquidity and solvency.** Private banks have had some success recently in raising capital in the markets. While the system remains under pressure from rising NPLs and ongoing losses, capital remains fully adequate. The challenge is to help the banks deleverage in an orderly fashion, and at a pace that will not exacerbate the recession, and to make sure capital support mechanisms are fully operative.

14. **The Bank of Greece will continue to safeguard banking system liquidity.** The legislation enabling a new tranche of government guaranteed bank bonds in the amount of EUR 25 billion was voted at the end of August, and Greek banks are now able to issue, if

needed, those additional securities. The Bank of Greece, in close cooperation with the ECB will continue close monitoring of the liquidity situation of the banking system and stands ready to take the appropriate measures to maintain sufficient system liquidity.

15. **The FSF is available to support bank capital as necessary.** The institution will be adequately staffed by end-January 2011, and to facilitate this, adjustments will be made to the terms and conditions of employment. The overall size of the FSF amounting to €10 billion is adequate to support the stability of the financial system. On current projections, banks are not expected to turn to the FSF in the near future. Concerning funding of the FSF, an account at the Bank of Greece has been opened into which €1.5 billion has already been disbursed. An additional €1 billion will be transferred by end-January to a dedicated government account opened by the General Accounting Office, available to be released to the FSF if program reviews of bank capital suggest that the resources are necessary.

16. **The government has devised a program to address the stability and efficiency of the banking entities under its control.** The strategic review and due diligences for these entities was completed in November. During implementation of the program, in depth restructuring plans for the banks will be finalized with the European Commission. These will, *inter alia*, mitigate the distortion of competition stemming from the receipt of state aid with a view to preserve financial stability and increase efficiency.

- **ATE Bank will be thoroughly restructured as a stand-alone institution.** Our priority for this bank is to transform it into a more efficient, leaner and well capitalized financial institution with reduced lending to public entities, and enhanced corporate governance. In parallel, the management will announce a rights issue by end November 2010. Without prejudice to the opinion of the supervisor, and in compliance with capital market regulations, an updated assessment of the capital needs of the bank will take place by the end of January 2011. This will be based on an additional review of the loan portfolio by an audit firm. The recapitalization of the bank will take place shortly thereafter. If necessary, the restructuring plan will be strengthened, so as to safeguard capital adequacy without increasing the need for further recapitalization. The government intends to keep this capital increase fiscally neutral, potentially by drawing from the resources available from the surplus of reserves within the Hellenic Loan and Consignment Fund (HLCF).
- **The HLCF will be unbundled.** Legislation, to be passed by end-March 2011, will separate the core consignment activity from the commercial activities (we propose this to be a new program structural benchmark).
- **The government will consider the disposal of its direct holding in Hellenic Postbank and its indirect holdings in Attica Bank.** These holdings would be sold when the government sees the conditions as appropriate, also taking into account prudential supervisory requirements in the selection of prospective buyers.

17. **The authorities will provide all banks with the flexibility needed for unavoidable reductions in their cost base.** By end-February 2011, the authorities will table legislative changes that will place all registered bank employees under the same private sector status, regardless of the bank ownership type. Broader reform of the system of collective bargaining (discussed below in paragraph 20) is expected to increase flexibility in setting wages and employment conditions in the financial sector as well.

18. **Banking supervision and insurance supervision are being strengthened.** Prudential supervision has performed well since the beginning of the global financial crisis, contributing to the preservation of financial stability in Greece. The Bank of Greece has now made preparations for a smooth take-over of responsibilities for the supervision of the insurance sector as of 1 December, 2010. The process of recruitment of additional supervisory staff has also been launched with a view to ensure full staffing by end-March. Meanwhile the Bank of Greece convened the Colleges of Supervisors for the four major domestic banks during October 2010. The understanding of the risk and liquidity situation of the banks involved and their branches or subsidiaries improved, and discussions are continuing on the sharing of confidential bank information.

Structural reform policies

19. **Securing Greece's competitiveness and reinvigorating growth remain key to our program strategy, and to this end the next wave of structural reforms is advancing.** We have successfully adopted some reforms recently, most notably with the deregulation of the trucking industry. However, much more remains to be done to encourage entrepreneurship, move away from regulation towards market principles, make the country a more attractive destination for investors, improve capacity to sell goods and services abroad, and create wealth for Greece's citizens. To these ends the government is determined to embed more flexible wage formation, ensure ease of access to markets, promote price competition, and facilitate investment.

20. **Labor market reforms are now reaching their completion stage.** The government will finalize and pass legislation to reform the arbitration system, in particular to introduce symmetric access to arbitration services and to secure the independence of the arbitration committee (OMED). At the same time draft legislation has been prepared 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. The tabling of this legislation in parliament, targeted for end-2010, will be supported by a new program structural benchmark. Once these changes have been made, we expect that wages will more closely align with firm level productivity, underpinning more robust competitiveness in the future.

21. **Deregulation of restricted professions and the wider service sector will be complete soon.** The government will prepare legislation, taking into account the opinion of the competition authority, to remove restrictions to competition, business and trade in restricted professions and comply with the European Union's services directive. The legislation, to be adopted by end-February 2011, will focus on high economic impact professions (including lawyers, notaries, engineers, architects, auditors, pharmacists, and other high economic impact services as appropriate). For other professions, the government will remove unnecessary restrictions in a legally robust manner. When making a determination about necessity, economic justifications will be favored and advocacy from the competition authority will be sought. The overall goal of the reform will be to move to EU best practice.

22. **The government remains committed to actions to unlock the potential in key industries:**

- **Tourism and retail trade.** The government has commissioned reports, due by year-end, analyzing the potential contribution of reforms in the tourism and retail trade sectors to GDP and employment growth, and to disinflation (that is, to the extent that the factor underlying wide price margins can be addressed). The government stands ready to follow up on the recommendations in the studies.
- **Privatization of state assets** The government has prepared a draft privatization plan for the divestment of state assets and enterprises. The plan, which will be adopted by end-year, identifies a number of state assets targeted for partial and full privatization, including real estate, with a view to raise at least €7 billion over the next three years with at least €1 billion in 2011. A full inventory of state property will be completed by mid-2011 to assess the potential for higher medium-term targets. The Special Secretariat for Privatization within the Ministry of Finance will be instructed to proceed using different methods, as justified by the type of asset involved, including direct sales, auctions and concession agreements.

23. **The government also remains committed to improvements in the business environment to unlock the potential for investment in Greece.** We expect to have these reforms in place by early 2011. In November, parliament approved fast-track investment legislation, which we expect to be an effective tool to accelerate procedures for large scale projects, and in particular FDI. To support investment more generally, we are amending legislation to accelerate licensing procedures for enterprises' physical establishments (in particular, by setting binding deadlines, and defining clear standards for applications). The government is also taking steps to eliminate key legal and technical hurdles to the full operation of one-stop-shops by end-March 2011, including adapting IT systems and ensuring compatibility of legislation across the government entities involved. Finally, to promote more competitive markets and help prevent future barriers to entry, the

government will table by end-year legislation aimed at reinforcing the independence and effectiveness of the competition authority.

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

	2010					2011			
	Jun-10		Sep-10		Dec-10	Mar-11	Jun-11	Sep-11	Dec-11
	Progr. 1/	Act. 6/	Progr. 1/	Act.	Progr. 1/	Progr. 2/	Progr. 2/	Progr. 2/ 7/	Progr. 2/ 7/
Performance Criteria (unless otherwise indicated)									
1. Floor on the modified general government primary cash balance	-5.0	-3.9	-4.0	-3.5	-5.7	-2.0	-4.3	-3.7	-3.2
2. Ceiling on State Budget primary spending	34	28	50	42	67	15	30	45	63
3. Ceiling on the overall stock of central government debt	342	317	342	328	342	394	394	394	394
4. Ceiling on the new guarantees granted by the central government	2.0	0.3	2.0	1.2	2.0	1.0	1.0	1.0	1.0
5. Ceiling on the accumulation of new external payments arrears on external debt contracted or guaranteed by general government 5/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indicative Targets									
6. Ceiling on the accumulation of new domestic arrears by the general government 5/	0.0	1.0	0.0	0.8	0.0	0.0	0.0	0.0	0.0

1/ Cumulatively from January 1, 2010 (unless otherwise indicated).

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

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

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

5/ Applies on a continuous basis from January 1, 2010 onward.

6/ Includes updated data on non-state balances, following reclassification of entities between non-state sectors, including reclassification between entities included and excluded in the program cash monitoring.

7/ Indicative targets.

Table 2. Greece: Structural Conditionality for 2010 and Proposed New Structural Conditionality

Measures	Macrocritical relevance	Status
End-September structural benchmarks		
1. 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 has been approved by parliament. An actuarial assessment including supplementary plans will evaluate the need for further adjustments to pensions to secure the full reduction in public pension spending, in order to deliver the full reduction to 2½ percent of GDP.
2. 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.	Commitment register established in some public sector entities. publishing of monthly data begun with delay
3. Publish 2009 financial statements of the ten largest loss-making public enterprises, audited by chartered accountants, on the official website of the Ministry of Finance.	Increases transparency of fiscal risks to fiscal sustainability.	Done with small delay
4. 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 sustainability of the consolidation by increasing burden sharing of the adjustment.	Done
End-December structural benchmarks		
1. Publish a detailed report by the ministry of finance 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.	Reduces wage escalation. Improves transparency of public sector employment.	Census of civil servants started in July. Report expected to be published in January
2. Adopt new Regulation of Statistical Obligations for the agencies participating in the Greek Statistical System.	Enhance confidence in fiscal reporting and support the formulation of fiscal policy.	MoUs between data-providing institutions and ELSTAT have been drafted and most are signed. These will form the basis for the regulation.
3. 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.	Privatization plan publicly announced. Authorities have decided to target a higher amount of €7 billion over three years, with at least €1 billion in 2011.
4. The National Actuarial Authority to produce a report to assess whether the parameters of the new system significantly strengthen long-term actuarial balance.	Reduces budgetary costs of ageing and improves long-term fiscal sustainability. Increases labor force participation.	Rescheduled from end-June 2010 to end-December for main social security funds, and end-March 2011 for remaining supplementary funds, in recognition of size of task and to allow more data collection.
Proposed structural conditionality for the upcoming 6 months		
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 (by end-December).	Increases the flexibility of the labor market.	
2. Pass 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) (by end-February)	Removes legal and administrative impediments to tax collection.	
3. Appointment of financial accounting officers in all line ministries and major general government entities (with the responsibility to ensure sound financial controls). (by end-March)	Improves control and transparency of budget expenditures.	
4. Pass legislation to separate the core consignment activity from the commercial activities of the HCLF (by end-March)	Fosters banking sector stability.	
5. The National Actuarial Authority to produce a report to assess whether the parameters of the new system significantly strengthen long-term actuarial balance. (by end-March)	Reduces budgetary costs of ageing and improves long-term fiscal sustainability. Increases labor force participation.	Shifted from end-December
6. 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 of public administration; (v) the public wage bill; and (vi) military spending. (by end-April)	Supports fiscal consolidation	

GREECE: TECHNICAL MEMORANDUM OF UNDERSTANDING

December 8, 2010

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

2. For program purposes, all foreign currency-related assets, liabilities, and flows will be evaluated at “program exchange rates” as defined below, with the exception of the items affecting government fiscal balances, which will be measured at current exchange rates. The program exchange rates are those that prevailed on April 30, 2010. In particular, the exchange rates for the purposes of the program are set $\text{€}1 = 1.3315$ U.S. dollar, $\text{€}1 = 125.81$ Japanese yen, $\text{€}1.135 = 1$ 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.
 - State enterprises included by the National Statistical Service (ELSTAT) under the definition of central government (ATTIKO METRO, ETHEL, ISAP, HLPAP, TRAM, ELGA, HELLENIC DEFENCE SYSTEMS S.A., OSE, TRAINOSE, ERT, ELECTROMECHANICA KYMI LTD, OPEKEPE, KEELPNO, EOT, ETERPS, INFORMATION SOCIETY IN GREECE, Unit for the Organization and Management of Development Projects S.A.).

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

- Local government comprising municipalities, prefectures, and regional governments including their basic and special budgets, including all agencies and institutions attached thereto, which are classified as local governments according to ESA 95.
- Social security funds comprising all funds that are established as social security funds in the registry of ELSTAT.
- Other extra budgetary entities included by ELSTAT under general government, which are not yet counted under central government.
- This definition of general (central) government also includes any new funds, or other special budgetary and extra budgetary programs that may be created during the program period to carry out operations of a fiscal nature. The government will inform IMF, European Commission and ECB staff of the creation of any such new funds, programs, or entities immediately. The general (central) government, as measured for purposes of the program monitoring in 2010, shall not include entities that are reclassified from outside general (central) government into general (central) government during the course of 2010. During the course of 2011, such reclassified entities will be included, as specified below. Entities that are reclassified during the course of 2011 from outside general (central) government into general (central) government will be excluded for the 2011 program monitoring.

4. **Supporting material:** The Ministry of Finance (MoF) will provide to the European Commission, ECB and IMF detailed information on monthly revenues and expenditures, domestic and foreign debt redemptions, new domestic and foreign debt issuance, change in the domestic and foreign cash balances of the central government at the central bank of Greece, all other sources of financing including capital transactions, and arrears of the general government. Data will be provided within four weeks after the closing of each month. 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.

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

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

5. **Definition:** The modified general government primary cash balance (MGGPCB) is defined as the modified general government cash balance (MGGCB) minus interest

payments by the state budget. The MGGCB is defined as the sum of the cash balances of the ordinary state budget, the cash balance of the public investment budget, minus the change in stock of arrears from line ministries, the change in net financial assets of local government, the change in net financial assets of social security funds, the change in net financial assets of ETERPS, and the change in net financial assets of reclassified public enterprises (RPEs). Privatization receipts and the proceeds from the sale of land and buildings will be excluded from cash receipts. Net lending operations by the state budget will be recorded as cash expenditures.

- **The cash balance of the ordinary state budget.** The cash balance of the ordinary state budget will be measured from above the line, based on ordinary budget revenues (recurrent revenue plus non-recurrent revenue, including NATO revenues, minus tax refunds) minus ordinary budget expenditures (ordinary budget expenditures will exclude amortization payments but include salaries and pensions; grants to social security funds, medical care and social protection; operational and other expenditure; returned resources; payments in exchange of claims of the insurance fund for the personnel working in the Public Electricity Company; interest payments; transfers for the settlement of past debt, payments for military equipment procurement on a cash basis; NATO expenses, capital transfers to social security funds or other entities by bonds; and called guarantees where the state or central government assumes payments on behalf of entities outside of the general government) of the ordinary state budget as published monthly on the official website of the General Accounting Office of the Ministry of Finance, and in line with the corresponding line items established in the ordinary state budget.
- **The cash balance of the public investment budget.** The cash balance of the public investment budget will be measured from above the line, based on investment budget revenues minus investment budget expenditures of the investment state budget as published monthly on the official website of the General Accounting Office of the Ministry of Finance, and in line with the corresponding line items established in the investment state budget.
- **The change in the stock of arrears from line ministries.** The change in stock will be measured on a cumulative basis, from January 1, 2011 onwards as the stock of arrears prevailing at the time of measurement of the PC minus the stock of arrears prevailing at end-December 2010. The stock at end-December 2010 will be adjusted for any arrears which were incurred before end-December 2010. The stock of arrears of line ministries or other spending bodies with a vote in the budget (including the Secretariat General of Information/Secretariat General of Communication, Secretariat General of Prefectures, Presidency of the Hellenic Republic, and the Hellenic Parliament) will include any arrears (as defined under subsection C) related to the activities of the ordinary and investment budgets. Data will be in line with the

monthly publications of state budget arrears, published on the Ministry of Finance website.

- **The change in net financial assets of local governments** is defined on a transactions basis, as the change in the total of financial assets minus financial liabilities of local authorities adjusted for valuation changes by the Bank of Greece.
 - Financial assets include (but are not limited to) deposits of local governments in the Bank of Greece and deposits of local governments in domestic credit institutions. Deposits will be measured at face value excluding accrued interest in line with recording for monetary survey data.
 - Financial liabilities include (but are not limited to) short and long term loans from domestic credit institutions to local governments, measured at face value, consistent with recording for monetary survey data.

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

- Financial liabilities include the short and long term loans from domestic credit institutions to the social security funds, measured consistently with monetary survey data.
- The change in the stock of arrears of public hospitals (NHS hospitals) to entities outside of the general government. Data on arrears of hospitals should be available within four weeks of the end of each month. The change in stock of arrears will be measured on a cumulative basis, from January 1, 2011 onwards as the stock of arrears prevailing at the time of measurement of the PC minus the stock of arrears prevailing at end-December 2010, and will exclude the 5.34 billion hospital arrears to pharmaceutical companies which were incurred by end-2009. The stock of arrears of public hospitals will include any arrears (as defined under subsection C) related to the activities of the 135 NHS hospitals. Data will be in line with the monthly publications of hospital arrears, published on the Ministry of Finance website.
- **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.
 - 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.

- 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.
 - 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, short and long term loans from the foreign banking system, as well as loans from the EIB or other official lenders.

6. **Other provisions.**

- For the purpose of the program, the primary expenditure of the central government that is monitored excludes payments related to bank support, when carried out under the program's banking sector support and restructuring strategy. Transactions that may be excluded from the balance include loans to financial institutions and investments in equity of financial institutions (requited recapitalization); unrequited recapitalization; and purchases of troubled assets. 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.
- For 2010, the change in the net financial assets of social security funds will be increased by the change in net financial assets of AKAGE (on a cumulative basis from January 1, 2010 onward, adjusted for valuation changes) in case these are not yet included in the net financial assets of social security funds.
- For 2010, the following items will be excluded from calculations:
 - Capital transfers to social security funds or other entities by bonds;

- Settlement of past debt;
 - Called guarantees;
 - Changes in the stock of arrears of public hospitals (NHS hospitals) to entities outside of the general government;
 - Change in net financial assets of ETERPS; and
 - Changes in the stock of arrears to line ministries.
- The change in net financial assets of RPEs will be excluded during 2010, as well as for the end-March and end-June PCs in 2011. However, for the measurement of the end-September and end-December 2011 PCs, the change in net financial assets of RPEs will be included, measured on a cumulative basis from January 1, 2011 onward.
 - Capital transfers to social security funds or other entities by bonds shall exclude bond issuance for settlement of end-2009 health related arrears, and the settlement related to the judiciary liabilities, and to the compensation for former Olympic Airways employees.

7. **Supporting material.**

- Data on cash balances of the ordinary and state budgets will be provided to the European Commission, ECB and IMF by the General Accounting Office in the Ministry of Finance within three weeks after the end of each month. Data will include detailed information on revenue and expenditure items, in line with monthly reports that are published since January 2010 on the official website of the Ministry of Finance. Data will also include data on capital transfers to social security funds or other entities in bonds, and called guarantees.
- Data on net financial assets of local authorities and social security funds, extra-budgetary funds including ETERPS, AKAGE, and reclassified public enterprises will be provided to the IMF, European Commission and ECB by the GAO in cooperation with the Statistics Department of the Bank of Greece within four weeks after the end of each month. Monthly data on arrears of public hospitals (NHS hospitals) will be provided by the Ministry of Health and arrears of line ministries by the Ministry of Finance within four weeks after the end of each month.

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

8. **Definition:** The state budget primary spending consists of state budget spending (spending of the ordinary state budget plus spending of the public investment budget)

minus interest expenditures paid by the state budget plus the change in the stock of the arrears of line ministries to entities outside the general government, in line with the definitions provided above. Primary expenditure of the central government that is monitored for the Performance Criterion excludes any cash payments related to bank restructuring, when carried out under the program's banking sector restructuring strategy. Costs that may be excluded from the balance include loans to financial institutions and investments in equity of listed and non-listed financial institutions (required 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. **Other provisions.** Capital transfers to social security funds by bonds and called guarantees from outside the general government will be excluded from primary spending during 2010. The change in the stock of arrears of line ministries will also be excluded during 2010 for the monitoring of the PC. However, for 2011 onward, such exclusion will no longer apply.

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 the General Government (Continuous Indicative Target)

11. **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 accumulation of arrears at the end of every month during which quarter the indicative target is being monitored for commitments that were entered into from January 1, 2010 onward. This does not include the arrears which are being accumulated by the Civil Servants' Welfare Fund.

12. **Supporting material.** The Ministry of Finance will provide consistent data on monthly expenditure arrears of the general government, as defined above. Data will be provided within four weeks after the end of each month and will also include accounts payable overdue for more than 30 and 60 days.

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

13. **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.

14. **Other provisions.** For 2010, the definition of central government debt will exclude the reclassified public enterprises, debts of extrabudgetary funds, and other ESA 95 adjustments.

15. **Adjusters.** For 2010, the ceiling on the overall stock of central government debt will be adjusted upward (downward) by the amount of any upward (downward) revision to the stock of end-December 2009 central government debt of 298.9 billion. 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 2009 ESA95 central government debt of 322.9 billion.

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

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

17. **Definition.** The ceiling on the new central government guarantees shall include new guarantees granted by the state, as well as new guarantees granted by any other entity that is classified under ESA95 under central government, but exclude guarantees to entities whose debt is covered under the ceiling on the stock of central government debt as defined in paragraph 13 and 14. The ceiling shall exclude guarantees to support banks and exclude

guarantees related to EIB financed loans. 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.

18. **Other provisions.** The end-September 2010 PC on new central government guarantees shall exclude any new guarantees extended by entities (including TEMPME) other than the state. For the end-December 2010 PC on new central government guarantees, these factors shall be included on a cumulative basis starting October 1, 2010.

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.

F. 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. 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 after the test date.

G. Overall Monitoring and Reporting Requirements

22. 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.

VII. MONITORING OF STRUCTURAL BENCHMARKS

23. **Pension reform.** Parliament adopted separate laws reforming pensions for the public and private sector in mid-July, ahead of the end-September deadline under the program. An actuarial evaluation of this law is currently underway. The National Actuarial Authority will complete an assessment of the effects of the reform on the main pension funds by the end of December 2010, which will be expanded to include the largest auxiliary pension funds (including ETEAM, TEADY, MTPY) by end of March 2011. This actuarial assessment will determine whether further adjustments to the pension system

would be needed to contain the increase in pension spending 2010-2060 at 2.5 percentage points of GDP. Any needed adjustments to the parameters of the main pensions and the reform of the auxiliary and welfare funds will be completed by end of June 2011 in consultation with the EC/IMF/ECB; and enacted by end of December 2011.

GREECE

Memorandum of Understanding
on
Specific Economic Policy Conditionality
(second update)

22 November 2010

The quarterly disbursements of bilateral financial assistance from euro area Member States are subject to quarterly reviews of conditionality for the duration of the arrangement. The release of the tranches will be based on observance of quantitative performance criteria and a positive evaluation of progress made with respect to policy criteria in the MEFP and in this Memorandum. These criteria have been updated and further specified during the November 2010 review.

Annex 1 on data provision is part of the Memorandum and its respect will be considered in the assessment of compliance.

The authorities commit to consult with the European Commission, the ECB and the IMF staff on adoption of policies falling within the scope of this Memorandum allowing sufficient time for review and in accordance with the government's established practices. They will also provide them with all requested information for monitoring progress during program implementation (Annex 1). Government provides quarterly a report in line with Article 4 of Council Decision 2010/320/EU.

1. Actions for the third review (actions to be completed by end Q4-2010)

i. Fiscal consolidation

Government achieves the quantitative performance criteria for 2010 (see Table 1 in MEFP) and endeavours to reach the government deficit target on an ESA95 basis.⁵

Parliament adopts the final budget for 2011 targeting a further reduction in the general government deficit, which in ESA95-based terms will not exceed EUR 17 065 million.

The final 2011 budget provides information and projections on the entire general government sector.

⁵ See Article 1 of Council Decision 2010/320/EU.

The final budget includes the following measures:

Carryovers into 2011 of measures adopted in May 2010:

Expenditure cuts

- Wage bill (seasonal bonuses and allowances): at least EUR 400 million;⁶
- Pensions (seasonal bonuses): EUR 500 million;
- Specific reduction in highest pensions: EUR 150 million;

Revenue increases

- VAT: at least EUR 750 million;
- Excises on fuel: at least EUR 250 million;
- Excises on tobacco: at least EUR 250 million;
- Excises on alcohol: at least EUR 50 million;
- Luxury good tax: at least EUR 50 million;
- Incentives to regularise land-use violations (Ημι-υπαίθριοι), yielding at least EUR 150 million and increased amounts in 2012 and 2013;

Measures previously agreed and legislated

Expenditure cuts

- Reduction in intermediate consumption by at least EUR 300 million compared to the actual 2010 level, on top of savings envisaged in the context of reforming public administration and the reorganisation of local government (see the next measure);
- Implement legislation reforming public administration and reorganising local government with the aim of reducing costs in comparison to current levels by at least EUR 1 500 million in 2013, of which at least EUR 500 million in 2011;
- Reduction in domestically-financed spending in investment by at least EUR 500 million compared to the actual 2010 level, while increasing revenue by giving priority to investment projects financed by EU structural and cohesion funds;
- Freeze in the indexation of pensions, with the aim of saving at least EUR 100 million;
- Reduction in the wage bill through fraud-reducing measures and the establishment of the single payment authority by at least EUR 100 million;
- Reduction in pharmaceutical expenditure by social security funds by EUR 500 million owing to a reduction in pre-tax drug prices; and by hospitals by at least EUR 350 million (see also below).

Revenue increases

⁶ This figure does not include carryovers from 2010 related to wage cuts in public enterprises.

- Temporary crisis levies on highly profitable firms, yielding at least EUR 1 000 million per year in 2011, 2012 and 2013;
- Enforce the presumptive taxation of professionals, with a yield of at least EUR 700 million in 2011 and increasing returns in 2012 and 2013;
- Start phasing in a green tax, with a yield of at least EUR 150 million in 2011;
- Expand the base of the real estate tax by updating asset values to yield at least EUR 270 million additional revenue;
- Collect revenue from the licensing of gaming: at least EUR 500 million in sales of licences and EUR 200 in annual royalties;
- Increase taxation of wages in kind, including by taxing car lease payments: at least EUR 150 million;
- Introduce book specification of income for tax purposes yielding at least EUR 50 million;
- Initiate the collection of a special tax on unauthorised establishments (Αυθαίρετα) (at least EUR 300 million per year);

New measures

Expenditure cuts

- Further reduction in operational expenditure by at least 5 percent yielding savings of at least EUR 100 million;
- Further reduction in transfers yielding savings for the government as a whole of at least EUR 100 million. The beneficiary public entities will ensure the concomitant reduction in expenditure so that there is no accumulation of arrears;
- Means-testing of family allowances from January 2011 on yielding savings of at least EUR 150 million (after deduction of the respective administrative costs) ;
- Reduction in deliveries of military equipment by at least EUR 500 million compared to the actual 2010 level;
- Further reduction in pharmaceutical expenditure by social security funds by EUR 900 million owing to a further reduction in drug prices and new procurement procedures; and by hospitals (also including expenditure in equipment) by at least EUR 350 million;
- Changes in the management, pricing and wages of public enterprises yielding savings of at least EUR 800 million (see below);

Revenue increases

- Equalisation of taxation on heating oil and diesel oil from 15 October 2011 on, with the aim of fighting fraud and yielding at least EUR 400 million in 2011 net of specific measures to protect the less prosperous population strata;
- Increase in the reduced rates of VAT from 5.5 to 6.5 percent and 11 to 13 percent, yielding at least EUR 880 million; and reduction in the VAT rate applicable to medicines

and hotel accommodation from 11 to 6.5 percent with a cost not exceeding EUR 250 million;⁷

- Intensification of the fight against smuggling on fuel (at least EUR 190 million);
- Increase in court trial fees (at least EUR 100 million);
- The implementation of an action plan to accelerate the collection of tax arrears (at least EUR 200 million);
- Speeding up tax penalty collection (at least EUR 400 million);
- Collection of revenue that results from the new framework of tax disputes and trials (at least EUR 300 million);
- Revenue from the renewal of telecommunication licences that are about to expire (at least EUR 350 million);
- Revenue from concession licences (at least EUR 250 million).

The final budget contains:

- Detailed expenditure ceilings for each line ministry, local governments, and social security funds consistent with the general government deficit target. For the medium-term fiscal framework for 2012-14, this will be specified in the March 2011 strategy paper;
- Information on monthly revenue per category, and expenditure per Ministry. Updated figures will be regularly made available online.

ii. Structural fiscal reforms

Fighting waste in public enterprises

Government adopts a restructuring plan for the Athens transport network (OASA). The objective of the plan is to reduce operational losses of the company and make it economically viable. State subsidies shall not exceed 40 percent of operational cost in conformity with EU practices. The plan includes cuts in operational expenditure of the company and tariffs increases. The required actions are implemented by end March 2011.

Government adopts an act that limits recruitment in the whole general government to a rule of not more than 1 recruitment for 5 exits, without sectoral exceptions.⁸ Government prepares a human resource plan in line with this rule. The rule also applies to staff transferred from public enterprises under restructuring to government entities.

Government prepares a detailed privatization plan for the divestment of state assets and enterprises with the aim of raising at least EUR 7 billion during the period 2011-2013, of which at least EUR 1

⁷ Net of savings for social security funds and hospitals that result from lower VAT rate on medicines.

⁸ This rule is monitored by the Ministries of Interior and Finance.

billion in 2011. The restructuring and privatization programme will span the state's holdings in rail, road transport, airports, ports, utilities, the gaming industry and real estate. Proceeds from privatisation are to be used to redeem debt and do not substitute fiscal consolidation efforts.

Accounting and control

Government ensures that the central registry for public enterprises is operational, and that public enterprises' financial statements are available on the website of the Ministry of Finance.

Government centralises the financial supervision of public enterprises at the Ministry of Finance – Special Secretariat for Public Enterprises. Operational supervision of public enterprises is ensured by the relevant ministries.

Military spending

The new EMPAE (National Medium-Term Military Procurement Programme), to be adopted by Government, plans for a reduction in expenditure in the medium term that durably contributes to fiscal consolidation, without prejudice to national defence capability.

To improve the fiscal framework

Government implements legislation to strengthen the fiscal framework. The following elements should be part of the reform:

- Introduce a medium-term fiscal framework based on rolling three-year expenditure ceilings for central government, social security and local governments;
- Strengthen the position of the Finance Minister vis-à-vis line ministries in both budget preparation and execution phases (giving him/her veto power on spending decisions and execution);
- Introduce a compulsory contingency reserve in the budget, corresponding to 5 percent of total appropriations of government departments other than wages, pensions and interest; the use of the contingency reserve will be decided by the Finance Minister;
- Parliament does not modify the overall size of the budget at the approval stage, and focuses on the composition of public expenditure and revenue, and reliability of projections for expenditure and revenue;
- Introduce stronger expenditure monitoring mechanisms, particularly by implementing an appropriate control of spending commitments, through which spending entities (line ministries, local authorities, social security funds, hospitals and other legal entities,) will report on a monthly basis to the Treasury on their outstanding expenditure commitments against their authorised appropriations in the budget law. To this end, the General Secretariat of Information Systems starts developing a special information system, to be complete by June 2011, interconnecting all public entities with the General Accounting Office (GAO), to provide real-time data;
- Introduce a revenue rule for the general government, according to which the allocation of higher-than-expected revenues should be specified *ex ante* in the budget;
- Creation of a budget office attached to Parliament providing independent advice and expert scrutiny on fiscal issues, and reporting publicly on the budgetary plans and execution of the spending entities of the general government, and on macroeconomic assumptions used in the budget.

To complete the pension reform

The National Actuarial Authority provides by 15 December 2010 interim long-term projections of pension expenditure up to 2060 under the July 2010 legislation covering the main pension schemes (IKA, OGA, OAEE and OPAD).

To modernise the health care system

Government adopts a comprehensive reform of the health care system and modifies the allocation of health-related tasks among ministries.

The overarching objective is to keep public health expenditure at or below 6 percent of GDP, while maintaining universal access and improving the quality of care delivery. In the short-term, the main focus should be on macro-level discipline and cost-control.

Regarding pharmaceuticals, the government implements measures yielding savings of at least EUR 2 billion relative to the 2010 level, at least EUR 1 billion of which would materialise already in 2011. This would bring average public spending on outpatient pharmaceuticals to about 1 percent of GDP (in line with the EU average) by the end of 2012. More specifically, the following measures are implemented by end of 2010:

- Ensure full implementation of a uniform e-prescribing system, by extending the system currently used by OAEE to all the social security funds providing health insurance;
- Define (through EOF) and publish prescription guidelines for physicians on the basis of international prescription guidelines;
- Social security funds establish a process to regularly assess the information obtained through the e-prescribing system and vis-à-vis prescription guidelines. Assessment will be done through a common dedicated unit under the authority of Health Benefit Coordination Council (SYSPY) with support of IDIKA. Relevant sanctions and penalties will be enforced as a follow up to the assessment and as foreseen by existing rules and legislation;
- A yearly report on medicine prescription is published and feedback is provided to each physician on a regular basis (at least annually). The report and feedback analysis look at prescription behaviour with reference to the most costly and mostly used medicines.
- Publish the complete price list for the medicines in the market, using the new pricing mechanism. This list will be published by December 2010 and replace the partial list introduced in September. It will be updated quarterly.
- Announce that caps to the price reductions used when the price list was first introduced in September 2010 will be lifted by March 2011.
- Apply the negative list of non-reimbursed medicines and the list of over-the-counter medicines prepared by the EOF.
- Finalise the new positive list of reimbursed medicines using the new reference price system.
- Using the information made available through e-prescribing and scanning, Government collect the agreed rebate from pharmaceutical companies.

- Introduces a monitoring mechanism allowing for developments in pharmaceutical expenditure to be assessed on a monthly basis.

If the implementation of the above measures is insufficient to achieve the targeted savings, both in 2011 and for the medium term, the government will implement additional measures, following discussions with the European Commission, the ECB and the IMF staff. An assessment of the impact of measures will be made in the context of programme reviews.

Government enforces the payment of existing co-payments for regular outpatient services in all public hospitals and health centres and extends the 'all day' functioning of hospitals (afternoon shift) in order to develop and improve health care services and increase revenue. Government increases and enforces the co-payment of outpatient services from EUR 3 to EUR 5 and extends co-payments to unwarranted visits to emergency departments.

Government ensures greater budgetary and operational oversight of health care spending by the Finance Minister, and the publication of audited accounts for hospitals and health centres.

Task force

Government creates an independent task force of health policy experts whose task is to produce, by end May 2011, a detailed report (*blue print*) for an overall reform of the health system to improve efficiency and effectiveness in the health system (both public and private). This task force has access to all available information and receives adequate administrative support. It will produce an interim report by March 2011.

iii. Financial sector regulation and supervision

The Hellenic Financial Stability Fund is fully operational and adequately staffed (by end January 2011). Staff is recruited under the fastest and most flexible existing recruitment procedure.

Government ensures that the EUR 25-billion extension of the government-guarantees on bank bonds is available by the end of November 2010.

ATE announces a rights issue before end-November 2010.

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

iv. Structural reforms

To strengthen labour market institutions

Government reforms the mechanism for collective bargaining at the firm level in close cooperation with social partners. The new law establishes that firm-level agreements prevail over those under sector and occupational agreements without undue restrictions (for this purpose, Law 1876/1990, Article 10 is amended). The conclusion of firm-level collective agreements should not be restricted by law, notably by requirements regarding the minimum size of firms entitled to engage in collective bargaining (for this purpose Law 1876/1990, Article 6.1.b is amended).

Government amends Law 1876/1990 (Articles 11.2 and 11.3) to eliminate the extension of sector and occupational agreements to parties not represented in negotiations.

Government adopts an act, in line with Article 73 of Law 3863/2010, revising the mediation and arbitration system and introducing symmetric access to arbitration if parties disagree with the proposal of the mediator without exceptions. The Mediation and Arbitration Organisation (OMED) shall be free from government influence; this shall be reflected in the composition of the board of directors. Its Chairman is elected by unanimity by the employers and employees representatives. The new act indicates that mediators and arbitrators pay due attention to cost competitiveness.

Government amends legislation to extend the probationary period for new jobs to one year (Law 3863/2010, Article 74.2).

Government eliminates temporal limits in the use of temporary working agencies. For this purpose, relevant laws are amended.

Government adopts legislation to remove impediments for greater use of fixed-term contracts.

Government eliminates the provision that establishes higher hourly remuneration to part-time workers. For this purpose Law 1892/1990, Article 38 is further amended.

Government amends current legislation (Law 3846/2010, Article 7) to allow for a more flexible working-time management, including part-time shift work (Article 2.3).

To reform and modernise public administration

Functional reviews

Government proceeds with two independent functional reviews of the public administration at central level and of all existing social programmes, which will be conducted by the OECD. The first review on public administration will be coordinated by the Ministry of Interior. The second review on social programmes will be coordinated by the Ministry of Labour. The review of the central administration involves all ministries (first phase) and key subordinated public entities (second phase). The review of all existing social programmes will be comprehensive and will affect all relevant ministries. The

terms of reference of both reviews, and a precise time schedule for the second phase of the central administration review, will be agreed between both ministries and the OECD after consultation with the European Commission, IMF and ECB staff.

The review on central administration will be merged with the Ministry of Interior's own reorganisation programme.⁹ The review will:

- take stock of the resource use (human resources and procurement) to carry out government functions;
- identify actions to rationalise the several departments, ensure efficiency and generate productivity gains, and
- quantify savings.

The review of existing social programmes will:

- assess the effectiveness and appropriateness of existing social and welfare programmes;
- identify the least effective programmes, and
- quantify savings.

Local administration

Government adopts the required decrees for the entry into force of the local administration reform (*Kallikrates* reform). The reform yields savings of EUR 500 million in 2011 and additional EUR 500 million per year in 2012 and 2013 for the general government as a whole.

Government adopts a decree disallowing local governments to run deficits at least until 2014. To ensure that savings contribute to the reduction in the government deficit. Government reduces transfers to local government in line with planned savings and transfers of competences to local government.

Public sector wages and human resource management

The Ministry of Finance together with the Ministry of Interior complete the establishment of a Single Payment Authority for the payment of wages in the public sector. The Ministry of Finance prepares a report (to be published by end January 2011), in collaboration with the Single Payment Authority, on the structure and levels of remuneration and the volume and dynamics of employment in the general government. The report presents plans for the allocation of human resources in the public sector for the period up to 2013. It specifies plans to reallocate qualified staff to the tax administration, GAO, the labour inspectorate, regulators and Hellenic Competition Commission.

⁹ This is done in the framework of the Administrative Reform Operational Programme, and more specifically the subproject II 'Mapping and Assessing Current Situation'. The OECD will guide the Ministry of Interior on the methodology and tools of the review. The second review on social programmes will be financed by the Human Resources Development Operational Programme.

Government establishes a process to simplify the remuneration system in the public sector. It shall apply to all public sector employees. This should lead to a system where remuneration reflects productivity and tasks. Government ensures that there is no increase in the wage bill in the public sector as a result of the reform.

ASEP accelerates staff selection-related procedures for the areas which are a priority in the implementation of this memorandum.

Public procurement

Government provides timetable and details for the development of *e-procurement* and signs the respective contract for the provision of IT platform.

To strengthen competition in open markets

Services directive

Government ensures that the point of single contact (PSC):

- provides relevant information on all sector-specific and cross-cutting formalities and procedures (such as company/trade registration and permits relating to the providers' premises);
- distinguishes between procedures applicable to service providers established in Greece and those applicable to cross-border providers (in particular for the regulated professions).¹⁰

Government:

- ensures adequate links between the PSC and other relevant authorities (including professional associations);
- allows the online completion of procedures covering at least, the procedures in the distribution services, tourism, education and construction sectors;
- allows for payment of administrative fees at a distance.¹¹

Government carries out a risk assessment of procedures focusing on priority service sectors with a view to adopting solutions for electronic identification, electronic signature and electronic documents in conformity with Commission Decision 2009/767/EC.

¹⁰ This will be done by the Ministry of Interior based on information provided by the relevant ministries.

¹¹ The PSC indicates an account to which the relevant fees can be transferred at a distance by any applicant.

Government presents a progress report outlining available online procedures, steps to be taken over the next two quarters to finalise the electronic completion of procedures, setting clear deadlines by service sector and procedure.

Government adopts changes to existing (sectoral) legislation in key services sectors such as tourism, retail and private education services. New legislation should:

- facilitate establishment by
 - abolishing or amending requirements which are prohibited by the Services Directive; and
 - significantly reducing 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.

Government specifies, for priority service sectors that are key for growth, a timetable for adopting sectoral legislation by end Q2 2011 that ensures compliance with the requirements of the Services Directive.

Restricted professions

Government proposes legislation to remove restrictions to competition, business and trade in restricted professions including:

- the legal profession, to remove unnecessary restrictions on fixed minimum tariffs, the effective ban on advertising, territorial restrictions on where lawyers can practice;
- the pharmacy profession, to promote more flexible opening hours and reduce minimum profit margins (see also measures to modernise the health care system);
- the notary profession, to reduce fixed tariffs and increase the number of notaries;
- architects, covering fixed minimum tariffs;
- engineers, covering fixed minimum tariffs;
- auditing services, covering fixed tariffs.

Government requests the Hellenic Competition Commission to issue an opinion on the proposed legislation.

Government ensures the effective implementation of EU rules on recognition of professional qualifications and compliance with ECJ rulings (including those related to franchised diplomas). It presents to the European Commission a list of pending applications and a timetable for dealing with these applications. In particular, pending applications for recognition of professional qualifications (in particular those related to franchised diplomas) should be immediately processed, with the first decisions on those applications to be submitted to the European Commission by the end of 2010.

Transport

Building on the recently adopted railway reform law (Law 3891/2010), Government adopts a business plan on the restructuring of the railways sector in a viable manner. By implementing the business plan, the train operator (TRAINOSE) and infrastructure manager (OSE) break even.

The restructuring measures envisaged in the business plan imply state aid in favour of OSE Group and TRAINOSE, which will be notified to the Commission by the end of 2010. The business plan will be adapted to ensure compliance with State aid rules. The next review will report on adaptations brought to the business plan to ensure its compatibility with State aid rules.

The business plan

- provides an overall fiscal impact analysis, including investment and debt;
- establishes monitoring and enforcement mechanisms that ensure prompt correction of deviations vis-à-vis the plan.

Sectoral growth drivers

Government presents a report analysing the potential contribution of the tourism sector to growth and jobs. It should identify legislative, administrative and other obstacles hindering competition and market entry to the realisation of sector potential.

Government presents a report analysing the potential contribution of the retail sector to price flexibility, growth and jobs. It should identify legislative, administrative and other obstacles hindering competition and market entry to the realisation of sector potential.

Business environment

Government adopts legislation to simplify and accelerate the process of licensing enterprises, industrial activities and professions. For this purpose, it revises *inter alia* Law 3325/2005, and makes the spatial plan and Law 3333/05 for business areas operational, with the subsequent issuance of the required ministerial decisions and presidential decrees in Q1-2011.

Government adopts an action plan for a business-friendly Greece with a timetable for the removal of 30 of the most important remaining restrictions to business activity, investment and innovation.

Government adopts a law modifying the existing institutional framework of the Hellenic Competition Commission (HCC) with the aim of abolishing the notification system for all agreements falling within the scope of Article 1 of Law 703/1977, to give the HCC the power to reject complaints, to increase the independence of HCC members, and to establish reasonable deadlines for the investigation and issuance of decisions.

Government makes the General Commercial Registry (GEMI) operational.¹²

Government accelerates the land registry and prepares a progress report and an action plan.

Energy

Government presents its detailed plans for the liberalisation of the energy market, including opening up lignite-fired electricity generation to third parties in line with EU law.

Government adopts a plan for phased transitory cost-based access to lignite-fired generation, taking into account the decommissioning of the power plants scheduled under the Government's Energy Plan to meet the 20-20-20 target. This access will remain in place until effective implementation of the liberalisation has taken place.

Government adopts a plan to either award the hydro reserves management to an independent body or to assign this role to the independent system operator.

Government adopts a mechanism to ensure that the energy component of regulated tariffs reflects, gradually and at the latest by June 2013, wholesale market prices, except for vulnerable consumers. Government adopts a revised definition of vulnerable consumers and a tariff for this category of consumers.

To ensure that network activities are unbundled from supply activities, as foreseen in the second and third energy liberalisation packages, Government identifies the assets and personnel associated with the electricity transmission system and the electricity distribution system.

To promote investments and exports

Government carries out an in-depth evaluation of all R&D and innovation actions, including in various operational programmes, in order to adjust the national strategy and limit the use of government subsidies and guarantees.

Government creates an external advisory council, to consider how to foster innovation, strengthen links between public research and Greek industries and the development of regional industrial clusters.

¹² By end December 2010: the data migration from the chambers' registries to the GEMI database is finalised; the joint ministerial decisions on procedures, conditions and technical modalities are adopted; the one-stop-shop services are provided by KEP's chambers of commerce and notaries. Any other required steps, including the automatisisation of one-stop-shop services, are finalised by March 2011.

Government takes measures to facilitate FDI and investment in innovation in strategic sectors (green industries, ICT, etc.) as well as measures to promote exports. These actions focus on removing rigidities and administrative constraints and must be in line with the fiscal consolidation requirements.

To raise the absorption rates of structural and cohesion funds

Government meets targets for payment claims in the absorption of structural and cohesion funds set down in the table below. Compliance with the targets shall be measured by certified data. In addition, Government achieves an annual target of submitting 10 major projects applications to the Commission. In meeting absorption rate targets, recourse to non-targeted *de minimis* state aid measures should be gradually reduced.

Government presents a report on the activities of the task force assessing progress in ensuring the rapid implementation and absorption of structural funds, and proposing improvements when necessary.

Table 1: Targets for payment claims in the absorption of Structural and Cohesion Funds (programming period 2007-2013) to be submitted between 2010 and 2013 (in EUR million)

	2010	2011	2012	2013
European Regional Fund and Cohesion Fund	2 330	2 600	2 850	3 000
European Social Fund	420	750	880	890
Target of first half of the year		1 105	1 231	1 284
Target of second half of the year		2 245	2 499	2 606
Total annual target	2 750	3 350	3 730	3 890

Without prejudice to the Greek Constitution, Government adopts legislation to tackle delays in the implementation of public works and investment projects in general. Legislation should:

- shorten and simplify judicial procedures challenging contract awards or land expropriation decisions;
- shorten deadlines to get permits by the Central Archaeological Council in Athens;
- simplify and shorten procedures to complete studies on environmental impact and to get the approval of environmental terms for infrastructure projects.

2. Actions for the fourth review (actions to be completed by end Q1-2011)

i. Fiscal consolidation

Government rigorously implements the budget for 2011 in line with this Memorandum.

The Ministry of Finance ensures tight supervision of expenditure commitments by the government departments, including state entities, the Public Investment Budget, social security funds, local governments and public enterprises, and effective tax collection, to secure the attainment of the programme deficit targets (see respectively Table 2 of the MEFP and Article 1 of Council Decision 2010/320/EU).

The Ministry of Finance releases 1/14 of the budgetary appropriation (excluding wages, pensions and interest) per month to the several departments. The remaining budgetary appropriations will not be released before September 2011, and may be cancelled by the Ministry of Finance, according to the need to respect the government deficit ceiling.

Government clears arrears accumulated in previous years.

Government prepares a budgetary strategy paper which identifies structural fiscal consolidation measures of at least 5 percent of GDP that will ensure the deficit targets up to 2014 are achieved. The strategy paper will be accompanied by a plan to be discussed during the review currently planned for February 2010. Relevant acts are adopted by May.

ii. Structural fiscal reforms

Revenue administration and public financial administration reforms

Government launches an anti-evasion plan. The plan includes quantitative performance indicators to hold revenue administration accountable.

Government adopts legislation to streamline the administrative tax dispute and judicial appeal processes; centralises filing enforcement and debt collection indirect audit methods and tax return processing, and adopts the required acts and procedures to better address misconduct, corruption and poor performance of tax officials, including prosecution in cases of breach of duty and a more flexible recruitment process to appoint and promote good performers (based on principles of meritocracy, objectivity and transparency).

Government appoints financial accounting officers, in accordance to Ministry of Finance rules, in all line ministries and major government entities with the responsibility to ensure sound financial controls.

Public sector wages and human resource management

Government presents a detailed action plan (by end February 2011) with a timeline to complete and implement the simplified remuneration system.

To complete the pension reform

The National Actuarial Authority submits comprehensive long-term projections of pension expenditure up to 2060 under the adopted reform; the projection will be peer-reviewed and validated by the EU Economic Policy Committee and the European Commission, IMF and ECB. The projections shall encompass the supplementary (auxiliary) schemes, based on comprehensive set of data collected and elaborated by the National Actuarial Authority.

Fighting waste in public enterprises

With the aim of fighting waste and mismanagement in state-owned companies, Government adopts an act by end February 2011 that:

- Cuts primary remuneration in public enterprises by at least 10 percent at company level;
- Limits secondary remuneration to 10 percent of primary remuneration at company level;
- Establishes a ceiling of EUR 4 000 per month for gross earnings (12 payments per year);
- Increases urban transport tariffs by at least 30 percent;
- Increases other tariffs;
- Establishes actions that reduce operating expenditure in public companies between 15 to 25 percent (according to the specific needs of enterprises).

These measures should be effective from January 2011 and yield fiscal savings of at least EUR 800 million.¹³

Government adopts an act for OASA (the Athens urban transport network) restructuring by the end of March 2011.

¹³ This yield will be assessed net of losses in social contribution and personal income tax that may result from those actions.

To modernise the health care system

Governance

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

- establishes new criteria and terms for the conclusions of contracts by social security funds (including OPAD) with all healthcare providers, and all other actions envisaged in Article 32 with the aim of achieving the targeted reduction in spending;
- initiates joint purchase of medical services and goods to achieve substantial expenditure reduction (of at least 25 percent compared to 2010) through price-volume agreements.

Comprehensive E-prescribing

Government ensures that the e-prescribing system for diagnostic tests currently piloted by OPAD is extended to all social security funds.

Government ensures that e-prescribing is extended to doctors' referrals to other doctors and to hospital care.

Each social security fund together with SYSPY establishes a process to regularly assess the information obtained through the e-prescribing system and produces regular reports (at least on a six-monthly basis) to be transmitted to the competent authorities in the Ministry of Labour, Ministry of Health and Ministry of Finance. Monitoring and assessment is done through a dedicated common unit under SYSPY. On the basis of the information available and the assessment conducted, a yearly report is published and feedback is provided to each physician. Sanctions and penalties will be enforced as a follow up to the assessment.

Hospital computerisation and monitoring system

The Ministry of Health completes the programme of hospital computerisation. In particular, it finalises the process of integration and consolidation of hospitals' IT systems and centralisation of information. The Ministry of Health creates a dedicated service/unit to collect data and produce regular quarterly reports and an annual report. A copy of these reports is transmitted to the competent authority in the Ministry of Finance.

Government takes measures to improve the accounting, book keeping (of medical supplies) and billing systems, through:

- finalising the introduction of double-entry accrual accounting systems in all hospitals;
- the use of the uniform coding system and a common registry for medical supplies developed by the Health Procurement Commission (EPY) and the National Centre for Medical Technology for the purpose of procuring medical supplies;
- the calculation of stocks and flows of medical supplies in all the hospitals using the uniform coding system for medical supplies;
- the collection of co-payments from patients in all NHS facilities;

- the timely invoicing of treatment costs (no later than 2 months) to Greek social security funds, other EU Member States and private health insurers for the treatment of non-nationals/non-residents.
- the use of e-prescribing for all medical acts (medicines, referrals, diagnostics, surgery) in all NHS facilities

Increasing use of generic medicines

Government takes measures to ensure that at least 50 percent of the volume of medicines used by public hospitals by end of 2011 is composed of generics and off-patent medicines, in particular by making compulsory that all public hospitals procure pharmaceutical products by active substance.

Pricing of medicines

Government

- Moves the responsibility of pricing medicines to EOF and all other aspects of pharmaceutical policy to the Ministry of Health, to rationalise licensing, pricing and reimbursement systems for medicines;
- Reduce the profit margin of pharmacies on retail prices directly to 15-20 percent, or indirectly by establishing a system of rebates for pharmacies with sales above a designated threshold. Starting from 2012, pharmacies profit margins should be calculated as a flat amount or flat fee combined with a small profit margin.
- Reduce the profit margin of wholesale companies distributing pharmaceuticals by at least one third, from January 2011.

Task force

The independent task force of health policy experts created at the end of 2010 produces, in cooperation with the European Commission, the ECB and the IMF, an interim policy report by March 2011, with initial indications on the necessary revisions to the policies implemented so far and the improvements for the years to come.

Accounting and control

Internal controllers are assigned to all major hospitals by Q2-2011.

By the end of February, Government starts publishing monthly data on healthcare expenditure by the main social security funds (IKA, OAEE, OGA and OPAD) with a lag of three weeks after the end of the respective quarter (see annex 1).

To fight waste in public enterprises

Government adopts an action plan for restructuring public enterprises¹⁴ and leading to the closure of non viable enterprises and extra-budgetary funds that have outlived their original purpose.

Government publishes monthly information on the accounts of public enterprises classified in general government with a lag of three weeks.

Government revises the framework law (Law 3429/2005) on state-owned corporate governance, with the aim of adopting management in accordance with international best practices. The new framework law requires auditing of the companies accounts at least with semi annual frequency (quarterly frequency for at least the ten largest state-owned enterprises by turnover) and the strengthening of enterprises' internal controlling, strengthens rules on asset management and introduces more flexibility in working practices.

iii. Financial sector regulation and supervision

Government transfers, by end January, EUR 1 000 million to a dedicated government account opened by the General Accounting Office at the Bank of Greece. Funds from this account are released to the Hellenic Financial Stability Fund if programme reviews of bank capital suggest that the resources are necessary. The release of the funds is subject to agreement by the European Commission, ECB and IMF staffs.

Government legislates with the aim of unbundling the core consignment activity of the Loan and Consignment Fund from deposit-taking and loan distribution activities.

Government tables legislation that places all registered banks employees under the same private sector status, regardless of the bank ownership.

iv. Structural reforms

To reform and modernise public administration

Public procurement

Government adopts legislation establishing the Single Public Procurement Authority with the mandate, objectives, competences, powers and schedule for entry into force in line with the Action Plan agreed with the Commission in November 2010. Government transmits the draft law to the European Commission by 1 February 2011 for review and an assessment of compliance with the Action Plan.

¹⁴ Priority will be given to public enterprises, which according to ESA95, are classified in general government.

Government undertakes a review identifying areas to increase the efficiency of the public procurement system outside the Single Public Procurement Authority as specified in the Action Plan. Government provides an update of progress regarding the development of the e-procurement system.

Better Regulation

Government adopts legislation and measures needed to implement the 'Better Regulation agenda', covering in particular the areas of codification, impact assessment, the reduction of administrative burdens and the 'Better Regulation' structure.

Reforms to improve the business environment

Restricted professions

Government adopts specific legislation on restricted professions including for the legal profession, the pharmacy profession, the notary profession, architects, engineers and auditing services.

Sectoral growth drivers

Government adopts legislation and takes other structural actions to implement the findings of the report analysing the potential contribution of the tourism sector to growth and jobs in the Greek economy.

Government adopts legislation and takes other structural actions to implement the findings of the report analysing the potential contribution of the retail sector to price flexibility, growth and jobs in the Greek economy.

To enhance competition in open markets

Services directive

Government adopts acts allowing the online completion of procedures covering other relevant sectors of the economy, such as food and beverage services, services of the regulated professions, real estate services, and business services.

As regards the cross-border provision of services, particular attention should be paid to declarations relating to the recognition of professional qualifications.

Energy

Government commences implementation of plan for opening up lignite-fired electricity generation to third parties.

Government implements its decision to either award the hydro reserves management to an independent body or to assign this role to the independent system operator.

Government starts to implement the mechanism to ensure that the energy component of regulated tariffs reflects, gradually and at the latest by June 2013, wholesale market prices, except for vulnerable consumers.

In order to ensure that network activities are unbundled from supply activities as foreseen in the second and third energy liberalisation packages, the following measures are implemented:

- Government adopts a Decision on the modalities of unbundling of the transmission system operator in line with the third energy liberalization package and adopts necessary legislation to ensure the creation of fully unbundled electricity and gas transmission system operators by March 2012.
- Government ensures the creation of an independent Distribution System Operator, in line with the third energy liberalisation package.

Government transfers to RAE (Regulatory Authority for Energy) all regulatory powers assigned to EU energy regulators in the third energy liberalisation package (licensing, network access, network charges, market monitoring, etc).

Government adopts measures to ensure the independence of RAE (impartial and transparent nomination of board, management authority with regard to budget and personnel, etc. in line with the third energy liberalisation package).

Transport

Government adopts a new regulatory framework to facilitate the conclusion of concession agreements for regional airports. The new regulatory framework should contribute to the development of the tourism sector and be mindful of preventing anticompetitive practices and foresee appropriate oversight of the allocation and operation of concessions, in full respect of state aid rules.

Government adopts a law that removes the current restrictions on the provision of services for occasional passenger transport by buses, coaches and limousines and which guarantees that any operator that meets clearly specified criteria related to professional capacity has unlimited access to the market. The cost for granting and renewing of licenses shall not exceed the administrative costs related to the licensing procedure and shall be levied in proportion to the number of vehicles licensed. The method for calculating the fees must be transparent and objective and shall not lead to over recovery of costs incurred.

To upgrade the education system

Government establishes, by end February 2011, an independent taskforce of education policy with purpose of increasing the efficiency of the public education system (primary, secondary and higher education) and reach a more efficient use of resources.¹⁵

¹⁵ This taskforce will be in contact with the already existing international advisory committee to the Greek government for higher education reform.

3. Actions for the fifth review (actions to be completed by end Q2-2011)

i. Fiscal consolidation

Government rigorously implements the budget for 2011 in line with this Memorandum, and the fiscal consolidation measures in the budget. Government stands ready to define and enact additional measures if needed to reach the budgetary targets.

ii. Structural fiscal reforms

To complete the pension reform

Government proceeds 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 should achieve:

- the stabilisation of the current spending, through appropriate adjustments to be made from 1 January 2012;
- the long-term sustainability of secondary schemes through a strict link between contributions and benefits.

This reform contributes to achieve the overarching target of reducing the overall (basic, contributory, supplementary and any other related scheme) increase of public sector pension spending, over the period 2009-2060, to under 2.5 percentage points of GDP.

The reform of the secondary (supplementary) schemes is designed in close consultation with European Commission, IMF and ECB 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.

If the projections by the National Actuarial Authority show that the projected increase in public pension expenditure would exceed the limit of 2.5 percentage points of GDP over 2009-60, Government revises also the main parameters of the pension system provided by Law 3863/2010. The revision is designed in close consultation with the European Commission, the IMF and the ECB staffs.

Government substantially revises the list of heavy and arduous professions, and reduces its coverage to no more than 10 percent of the labour force. The new list of Difficult and Hazardous Occupations shall apply with effect from 1 July 2011 to all current and future workers.

The Bank of Greece commits not to grant pension privileges to its staff and to revise the main parameters of its pension scheme to align them with those of IKA.

By the first quarter 2012, Government implements the reform of the secondary/supplementary pension schemes, by starting the calculation of benefits on the basis of the new notional defined-contribution system. Government freezes nominal supplementary pensions and reduces the replacement rates for accrued rights, based on the actuarial study prepared by the National Actuarial Authority. In case the actuarial study is not ready, replacement rates are reduced, starting from 1 January 2012, to avoid additional deficits.

Privatisation and better management of state assets

Government publishes a full inventory of commercial state-owned real-estate assets.

To modernise the health care system

Government takes additional measures to promote the use of generic medicines through:

- compulsory doctors' e-prescription by active substance;
- associating a lower cost-sharing rate to generic medicines that have a significantly lower price than the reference price (lower than 60 percent of the reference price) on the basis of the experience of other EU countries;
- setting the maximum price of generics to 60 percent of the branded medicine.

Government extends the use of capitation payment of physician, currently used by OAEE, to all contracts between social security funds and the doctors they contract. The new payment mechanism starts for each new contract renewed in 2011 and for all contracts from 2012. It defines a minimum number of patients per doctor, on the basis of the experience of other EU Member States.

Government moves towards greater equalisation across funds regarding contribution rates and minimum benefit packages, with the aim of full equalisation by 2012 building on Law 3655/2008.

To reduce costs and improve quality of care for patients, Government:

- adjusts public hospital provision by implementing joint management / joint operation between small scale hospitals and big hospitals within the same district and health region;
- revises the activity of small hospitals in a move towards specialisation in areas such as rehabilitation or cancer treatment where relevant;
- in districts with more than one hospital (excluding university hospitals) use a joint management / joint operation system;
- increases staff mobility within health regions.

The independent task force of health policy experts created at the end of 2010 produces, in cooperation with the European Commission, the ECB and the IMF, its final policy report by end May 2011, with specific recommendations on revisions to the policies implemented so far. The report and policies proposals will cover the following areas:

- Health system governance in order to reduce the fragmentation of the system;
- Financing: pooling, collection and distribution of funds;
- Harmonization of health packages across funds;

- Service provision and incentives for providers including:
 - integration between private and public provision;
 - primary care vis-à-vis specialist and hospital care;
 - efficiency in the provision of hospital services;
 - pharmaceutical consumption;
 - human resources;
- Public health priorities, health promotion and disease prevention;
- Data collection, health technology assessment and assessment of performance;
- Expenditure control mechanisms.

The report will provide quantitative targets in the fields above, in order to contribute to keep public expenditure on health as a proportion of GDP constant at, or below, 6 percent. On the basis of this report, the Government adopts an action plan by end June 2011, including a timetable for concrete actions.

Accounting and control

Government ensures that the programme of hospital computerisation allows for a measurement of hospital and health centres activity. To that end, the Government defines a core set of activity and expenditure indicators in line with Eurostat, OECD and WHO health databases.

Government ensures that the programme of hospital computerisation allows for the setting up of a basic system of patient electronic medical records.

By the end of May, Government starts publishing monthly data on healthcare expenditure by all social security funds with a lag of three weeks after the end of the respective quarter (see Annex 1).

iii. Structural reforms

To modernise public administration

Functional reviews

Government assesses the results of the first phase of the independent functional review of central administration, including operational policy recommendations. The functional review of existing social programmes is finalised.

Public sector wages and human resource management

Government adopts legislation establishing a simplified remuneration system covering basic wages and allowances that applies to all public sector employees ensuring that remuneration reflects productivity and tasks: this reform should be part of an overall reform of Human Resource management in the public sector.

Public procurement

Government undertakes a thorough review of the system of redress against award procedures and the role to confer to the Single Public Procurement Authority in agreement with the European Commission.

To upgrade the education system

The independent taskforce on education publishes a detailed blueprint for improvement of the efficiency in the use of resources in the public education system.

To strengthen labour market institutions

Government completes the reform to strengthen the Labour Inspectorate, which should be fully resourced with qualified staff. Quantitative targets on the number of controls to be executed should be set for the Labour Inspectorate.

Government adapts legislation on tackling undeclared work to require the registration of new employees before they start working.

To strengthen competition in open markets

Services Directive

Government adopts legislation on the priority service sectors. Government specifies, for these sectors, a timetable for adopting sectoral legislation by end Q4 2011 that ensures full compliance with the requirements of the Services Directive.

Business environment

Government presents an impact assessment evaluating Law 3853/2010 on simplification of procedures for the establishment of companies in terms of the savings in time and cost to set up a business.

Energy

Government removes regulated tariffs for customers except households and small enterprises (as defined in the second and third energy liberalisation packages).

To raise the absorption rates of Structural and Cohesion Funds

Government meets targets for payment claims in the absorption of EU structural and cohesion funds set down in Table 1. Compliance with the targets shall be measured by certified data.

4. Actions for the sixth review (to be completed by end Q3-2011)

i. Fiscal consolidation

Government rigorously implements the budget for 2011 in line with this Memorandum. Government stands ready to enact additional measures if needed to reach the budgetary targets.

Government adopts a draft budget for 2012 aiming at a further reduction of the general government deficit in line with the programme and including the detailed presentation of consolidation measures amounting to at least 2.2 percent of GDP, including the following measures (the yield of these measure will be reviewed in due course and, in exceptional circumstances, measures yielding comparable savings could be considered in close consultation with European Commission, IMF and ECB staffs):

- Reduce public employment on top of the rule of 1 recruitment for each 5 retirements in the public sector;¹⁶ the reduction in public employment on top of the 1-to-5 rule should allow savings of at least EUR 600 million;
- Establish excises for non alcoholic beverages, for a total amount of at least EUR 300 million;
- Continue the expansion of the base of the real estate tax by updating asset values to yield at least EUR 200 million additional revenue;
- Continue the reorganisation of local government, to generate at least EUR 500 million in savings;
- Nominal freeze in pensions yielding savings of at least EUR 250 million;¹⁷
- Continue to increase the effectiveness of the presumptive taxation of professionals, with the aim of collecting at least additional EUR 100 million;
- Reduction of transfers to public enterprises by at least EUR 800 million following their restructuring;
- Make unemployment benefits means-tested (aiming at savings of EUR 500 million);
- Collect further revenue from the licensing of gaming of at least EUR 225 million in one-off sales of licences and increase the annual yield from royalties by an addition EUR 400 million;
- Further broadening of VAT base with the aim of collecting at least additional EUR 300 million;
- Fully implement the green tax and increase its annual yield by least EUR 150 million;
- Increase the collection of a special tax on unauthorised establishments by an additional EUR 100 million;

¹⁶ The rule also applies to staff transferred from public enterprises under restructuring to government entities.

¹⁷ Adjustments may be needed in case of negative inflation.

- Reduction in domestically-finance spending in investment by at least EUR 500 million compared to the actual 2011 level, while increasing revenue by giving priority to investment projects financed by EU structural and cohesion funds.

ii. Fiscal structural reforms

To modernise the health care system

Government starts the implementation of the measures recommended by the independent task force on health care.

iii. Structural reforms

To modernise public administration

Government ensures full operation of the Better Regulation Agenda to reduce the administrative burden by 20 percent compared with 2008.

Government ensures that the e-procurement framework is fully operational, and creates a common website for the publishing of all procurement procedures and outcomes.

To improve the business environment

Government changes legislation to mitigate tax obstacles to mergers and acquisitions such as the non-transfer of accumulated losses, together with the company and the complex computation of 'excessive benefit' (Law 3522/2006, Article 11) in the transfer of private limited companies.

Government takes decisions to simplify the process to clear customs for exports and imports and give larger companies or industrial areas the possibility to be certified to clear cargo for the customs themselves; Government abolishes the requirement of registration with the exporter's registry of the chamber of commerce for obtaining a certificate of origin.

To strengthen competition in open markets

Services Directive

Government ensures that the PSC is fully operational and that the completion of procedures by electronic means is possible in *all* sectors covered by the Services Directive.

To upgrade the education system

Governments takes into account the measures recommended by the independent taskforce on education in the implementation of reforms.

5. Actions for the seventh review (actions to be completed by end Q4-2011)

i. Fiscal consolidation

Government achieves the target for the 2011 general government deficit of not more than EUR 17 065 million.

Parliament adopts the final budget for 2012 targeting a further reduction of the general government deficit which in ESA95-based terms, should not exceed EUR 14 916 million.

ii. Fiscal structural reforms

To modernise the health care system

Government defines a hospital case-based costing system to be used for budgeting purposes from 2013.

The independent task force of health policy experts produces an implementation report, revising the policies implemented so far.

iii. Structural reforms

To modernise public administration

Functional reviews

Government assesses the results of the second (final) phase of the independent functional review of central administration. Government adopts legislation and measures to implement the operational recommendations of the first phase of the functional review of public administration at central level and of the full review of existing social programmes.

Public procurement

Single Public Procurement Authority starts its operations with the necessary resources to fulfil its mandate, objectives, competences and powers as defined in the Action Plan.

To strengthen competition in open markets

Energy

Government removes regulated tariffs for customers except households and small enterprises (as defined in the second and third energy liberalisation packages).

Transport

Government privatises at least 49 percent of TRAINOSE equity and shares management with the new shareholders.

To raise the absorption rates of Structural and Cohesion Funds

Government meets targets for payment claims in the absorption of EU structural and cohesion funds set down in Table 1. Compliance with the targets shall be measured by certified data.

Government introduces web-based open-access monitoring tool of procedures for approval of project proposals and for implementation of public projects.

Government ensures that the managerial capacity of all Managing Authorities and Intermediate Bodies of operational programmes under the framework of the National Strategy Reference Framework 2007-2013 has been certified by the International Organization for Standardization according to the standard ISO 9001:2008 (quality management).

Government presents a report on the activities of the task force assessing progress in ensuring the rapid implementation absorption of structural funds, and proposing improvements when necessary.

Annex 1. Provision of data

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

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>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>
<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>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 on the basis of basic data from the Ministries of Interior, Health, Labour and Defence)</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</p>	<p>Quarterly, within 55 days after the end of each quarter.</p>

security, hospitals and legal entities. <i>(Data compiled by the Ministry of Finance on the basis of basic)</i>	
Data on public debt and new guarantees issued by the general government to public enterprises and the private sector. <i>(Data compiled by the Ministry of Finance)</i>	Monthly, within one month.
Data on public enterprises: revenue, costs, payroll, number of employees <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.
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 statements of the operations on the special account. <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 healthcare 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 IKA, OAEE, OGA and OPAD, and from April 2011 on for the other funds

To be provided by the Bank of Greece

Assets and liabilities of the Bank of Greece.	Weekly, next working day.
Assets and liabilities of the Greek banking system - aggregate	Monthly, 30 days after the end

monetary balance sheet of credit institutions.	of each month.
Evolution of the external funding provided by Greek banks to their subsidiaries abroad. ¹⁸	Monthly, 15 days after the end of each month.
External funding flows for the banking, corporate and government sector, including also expected developments in the 12 months ahead.	Monthly, 30 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, 15 days after the end of each quarter depending on data availability.

¹⁸ All forms of debt instruments and capital, as well as net deposits provided to subsidiaries abroad.

Report on results from the regular quarterly solvency stress tests.

Quarterly, 15 days after the end of each quarter depending on data availability.

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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December 17, 2010

International Monetary Fund
Washington, D.C. 20431 USA

IMF Completes Second Review Under Stand-By Arrangement for Greece, Approves €2.5 Billion Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the second review of Greece's economic performance under a program supported by a three-year Stand-By Arrangement (SBA) for Greece. The completion of the review enables the immediate disbursement of an amount equivalent to SDR 2.16 billion (about €2.5 billion), bringing total disbursements under the SBA to SDR 9.13 billion (about €10.58 billion).

The SBA, which was approved on May 9, 2010 (see [Press Release No. 10/187](#)), is part of a cooperative package of financing with Euro area member states amounting to €110 billion over three years. It entails exceptional access to IMF resources, amounting to more than 3,200 percent of Greece's quota, and was approved under the Fund's fast-track Emergency Financing Mechanism procedures.

Following the Executive Board's discussion, Mr. Murilo Portugal, Deputy Managing Director and Acting Chair, said:

“The Fund-supported program has continued to perform well, and the Greek authorities are to be commended for their determined implementation of difficult and ambitious macroeconomic policies and structural reforms. Inflation is falling and competitiveness improving. Given pressure points in the public sector and still unfavorable investor sentiment, comprehensive and timely reforms remain essential to secure renewed growth and sustainable public debt dynamics, while protecting vulnerable groups.

“The overall fiscal adjustment to date has been impressive. Arrears are a matter of concern, but continued budget under-execution should allow the end-year fiscal target to be met. The government's intention to stick to the original program target for 2011 means that the deficit impact of recent fiscal data revisions will be fully offset.

“It is important that fiscal structural reforms be forcefully advanced to ensure a lasting consolidation. Strengthened tax administration and public financial management remain

priorities, and comprehensive, time-bound action plans are needed to advance reforms in state enterprises, and in the health and other sectors.

“Acceleration of the broader structural reform agenda is equally important to spur a robust investment-led recovery. Crucial reform areas include second-stage labor market reforms, opening of closed professions, and deregulation of tourism and retail trade.

“Banks have enjoyed some recent success in bolstering their capital, and the authorities have the necessary tools to backstop capital and support system liquidity, if necessary. Their commitment to intensify efforts to reform the state bank sector is welcome.

“An arrangement for Greece under the Extended Fund Facility, which has longer repayment terms than the current Stand-By Arrangement, will be brought forward for consideration by the IMF’s Executive Board once understandings can be reached with the EU and European governments on a parallel extension of the maturity of their loans,” Mr. Portugal added.

**Statement by Mr. Roumeliotis on Greece
December 17, 2010**

We thank staff for the excellent report and for their crucial assistance to the Greek authorities in the implementation of the Stand-By Arrangement.

Greece has made impressive progress in addressing its fiscal imbalances and in initiating a very ambitious plan of structural reforms. Against a backdrop of a severe recession, the reduction in one year of the (headline accrual) fiscal deficit by 6 percentage points of GDP in 2010, larger than the initially-targeted 5.5 percentage points, is unprecedented by international standards. In addition, cash fiscal targets are being met, despite weaker-than-expected revenue growth partly due to macro factors.

Significant progress is being made in structural fiscal reforms aimed at broadening the tax bases and eliminating wasteful spending, particularly in the health sector, state enterprises, and local government. The measures supported by structural benchmarks have been implemented, with some delay only in the case of commitment registers in line ministries and other public entities. Financial policies are being strengthened, mainly by the activation of the euro 25 billion expansion of the government program to guarantee bank bonds, the establishment of the Financial Stability Fund (which is now available to provide support, if needed), and the enhancement of banking and insurance supervision. Landmark reforms have already been completed and are being implemented, including the pension and labor market reforms, as well as the liberalization of the trucking industry and the restructuring of the railway system.

The authorities have already started a second round of structural reforms, and are committed to the objectives of the program in the fiscal, financial, and structural reforms areas. A lower-than-projected growth constitutes the main risk to the program.

Economic Outlook

According to the new projections by the authorities and the European Commission, real GDP is expected to decline by 4.2% in 2010 and 3.0% in 2011, slightly higher than previously forecast. Positive growth is expected in 2012 (1.1%) and 2013 (2.1%).

Wage and price inflation are beginning to moderate, improving the competitiveness of the economy. With regard to wage and unit labor cost developments, the 3-year national general collective wage agreement provides for zero increases in minimum wages in 2010 and the first half of 2011. Taking also into account the newly envisaged labor market policies, the Bank of Greece projects negative growth of unit labor cost for the total economy (-3.0%) in 2010, owing to a fall in average earnings by 4.7% and a fall of 4.2% in compensation per employee.

According to the latest Bank of Greece projections, inflation is expected to reach 4.7% in 2010, 2.4% in 2011, and 1.4% in 2012. The acceleration in inflation in 2010 reflects, in order of importance, the increases in indirect taxation, the substantial rise in the world price of crude oil, the product recovery of prices of imported new-energy goods, and the depreciation of the euro.

Fiscal Policy

The authorities' strategy is anchored by the objective of reducing the fiscal deficit to below 3% of GDP by 2014. According to revised ELSTAT-EUROSTAT figures, the general government deficit was 15.4% of GDP in 2009. The revision and validation of the fiscal data through 2009 is a major step toward restoring transparency in fiscal management and eliminating controversies over the quality and the accuracy of Greece's fiscal statistics.

The 2010 deficit, resulting from the new revised figures and general government accounts (after the reclassification of state enterprises into general government, adjustment of accounts of social security funds and local government, and downward revision of GDP for 2009), is estimated to be 9.6% of GDP, a reduction in excess of 14 billion euro compared to 2009. It should be noted that despite the data revision, the debt-to-GDP ratio is still projected to peak in 2013 and to start declining afterwards.

For 2010, the authorities intend to meet the program's cash fiscal targets, mainly by under-executing spending relative to the budget, while being able to reduce the stock of arrears that has accumulated within the year.

The authorities have submitted a budget for 2011 that would fully offset the impact of fiscal data revision and would achieve the original 7.4 percent of GDP program target.

Additional measures (valued at 2 percent of GDP) necessary to deliver the 2011 target have been fully specified.

To support the medium-term fiscal adjustment, major institutional reforms are being implemented or planned in the areas of revenue administration, public financial management, and pensions.

The authorities' primary emphasis has been on tackling two key structural problems: health spending and state enterprises. In the health sector, reforms were introduced in 2010,

particularly in the area of drug spending and additional reforms in this area will be adopted in the first half of 2011.

The state enterprise reforms included: reductions of over-employment, wages, and allowances; tariff increases in the public transportation area as well as the restructuring plan for loss-making railway enterprises; and the closure of unnecessary public-sector entities. The bill on closing down/merging public-sector entities has been adopted by Parliament on December 1. The bill on wage cuts in Public enterprises and entities has been adopted by Parliament on December 14, 2010.

In addition, line ministries and public entities have been asked to cut spending by 5 percent. The authorities will continue to improve tax administration and distribute the tax burden more equitably. Task forces have been established (meeting an end-September structural benchmark) and have already drawn up a fully-fledged anti-evasion action plan that will be implemented in early 2011.

Measures to collect arrears have also been taken. Legislation is under discussion in the Parliament in order to streamline the administrative tax dispute and judicial appeal processes, and to address misconduct, corruption, and poor performance of tax officials.

The new program's structural benchmarks focus on strengthening spending controls (appointing financial accounting officers in all line ministries and major government entities) and increasing transparency (publishing consolidated monthly general government reports with revenues and expenditure). In addition, the authorities will anticipate completion of the pension reform in 2011.

A plan for fiscal adjustment in 2012-14 will be articulated by March 2011. It will include a detailed action plan for state enterprises.

Financial Sector Policies

In the financial sector, liquidity remains tight and solvency ratios are affected by the economic downturn. The Greek banking sector as a whole remains resilient. All banks remain in compliance (11.2%) with the minimum capital adequacy requirement of 8 percent. Private banks have had some success recently in raising capital in the markets. The activation of the euro 25 billion expansion of the authorities program to guarantee bank bonds, which was adopted in August, will contribute to supporting the liquidity position of Greek banks. The Bank of Greece, in close cooperation with the ECB, will continue monitoring the liquidity situation of the banking system.

The Greek banking system remains under pressure from ongoing losses due to the recession. However, the Financial Stability Fund is now available to provide support, if needed.

The authorities are aware of the need for a restructuring strategy for state-controlled banks. They have analyzed options and have devised a program to address the stability and

efficiency of state banks. In particular, the program includes restructuring ATE bank as well as Hellenic Loan and Consignment Fund.

The authorities will provide all banks with the flexibility needed for unavoidable reductions in their cost base, in particular by promoting reform of the system of collective bargaining. The Bank of Greece will continue its policy to strengthen banking supervision and insurance supervision.

Structural Policies and Competitiveness

The authorities are committed to making the country a more attractive destination for investors, and to improving its capacity to sell goods and services abroad. Structural reforms aim at improving the business environment and, ultimately, enhancing the economy's growth potential.

The authorities have made impressive progress in implementing the structural reform agenda, including the establishment of an independent statistical authority, an overhaul of the tax system, the fiscal management and responsibility act, public administration reform, pension reform, reform in the health area, labor market reforms, and deregulation of the trucking industry.

The next stage of reforms include: align wages more closely with productivity; reform the arbitration and the collective bargaining systems (the bill on reform of mediation-arbitration and increasing flexibility in wage setting has been adopted by Parliament on December 14, 2010); deregulate the protected professions (including lawyers, notaries, engineers, architects, auditors, and pharmacists); and open up the access to trades and services, and privatize state entities.

In November 2010, the Parliament approved investment fast-track legislation. Tax incentives that safeguard a stable taxation environment and reduction of corporate tax rate on non-distributed profits from 24% in 2010 to 20% in 2011 have also been promoted in order to stimulate growth.

Going forward, the authorities are fully committed to implementing further legislative and administrative measures aimed at promoting competition and market entry. The authorities are also committed to promoting the liberalization of the energy market, and facilitating investment in R&D and exports. They are also moving forward with policies able to raise the absorption rates of EU structural cohesion funds.