July 2011
IMF Country Report No. 11/175

Greece: Fourth Review Under the Stand-By Arrangement and Request for Modification and Waiver of Applicability of Performance Criteria

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 June 2, 2011 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 July 4, 2011. 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 Supplement
- A Press Release
- A Statement by the Executive Director for Greece

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

Letter of Intent*
Memorandum of Economic and Financial Policies*
Technical Memorandum of Understanding*
LOI & Memorandum of Understanding on Specific Economic Policy Conditionality (European Commission and European Central Bank)*

*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

Fourth Review Under the Stand-By Arrangement and Request for Modification and Waiver of Applicability of Performance Criteria

Prepared by the European Department in Consultation with Other Departments

Approved by Antonio Borges and Lorenzo Giorgianni

July 4, 2011

Stand-By Arrangement. On May 9, 2010, the Executive Board approved a three-year Stand-By Arrangement for Greece in the amount of SDR 26.4 billion (2,399.1 percent of quota). Purchases have been made at the time of program approval and upon completion of each of the first three reviews (in a total amount equivalent to SDR 12.7358 billion, or €14.6 billion). The fifth disbursement, subject to completion of this review, would be in an amount equivalent to SDR 2,883.6 million (about €3.3 billion). To date euro-area countries have disbursed €37.9 billion (of €80 billion committed), and will make available €8.8 billion with this review.

Recent Developments. Market sentiment has taken a sharp turn for the worse, fueled by expectations that Greece's debt will be restructured. Sharply lower market confidence and rising deposit outflows have put the financial system under added stress, but exceptional liquidity support from the ECB has preserved stability. Meanwhile, Greece's macroeconomic adjustment has continued, with deep recession and nominal wage declines driving the process of competitiveness improvements and rebalancing, and productivity gains not yet evident. Fiscal adjustment targets have been met through early 2011, although temporary factors have helped, and on an underlying basis the adjustment stalled. Structural reforms to enhance growth are being legislated, but implementation problems have slowed progress.

Program Status. Staff's overall assessment is that Greece has specified the policies necessary to overcome recent fiscal adjustment and structural reform implementation problems and deliver program objectives. The authorities have articulated a medium-term fiscal adjustment strategy to bring the deficit below 3 percent of GDP by 2014, laying out 10 percent of GDP in structural measures to this end (prior action). They have also approved a detailed privatization strategy to transfer resources to more productive uses and realize significant improvements in debt dynamics (prior action). In the financial sector, a process and timeline to raise capital buffers in banks has been agreed, along with changes to the support and resolution framework to make it more credible and effective. Concerning growth-enhancing structural reforms, policies were defined to better address the high tax wedge on labor and to tackle judicial reforms, while a management and technical assistance framework was established to support stronger implementation. Finally, a financing strategy was agreed with the authorities, EC, and ECB, which relies on a combination of voluntary private sector involvement and new official funding from euro-area member states to bridge projected delays in the restoration of Greek market access.

Discussions. See the Fund Relations Appendix

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

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I. BACKGROUND

1. **The review took place against a backdrop of deep divisions in Greece and in Europe over how to handle the challenges now confronting Greece.** Within Greece, opposition escalated to the reforms in the authorities' program. An effort to achieve broader consensus with the opposition political parties failed, but the government was able to secure internal consensus in the governing party, after a reshuffle of the cabinet (which included the replacement of the Minister of Finance). Within Europe, confidence in the authorities' resolve to implement the program waned, and strong opposition emerged to extending additional financing to Greece, leading to a very public discussion about options for private sector involvement (PSI). European leaders eventually reached a consensus in early July to continue supporting the authorities' program, after program prior actions had been met.

II. RECENT DEVELOPMENTS

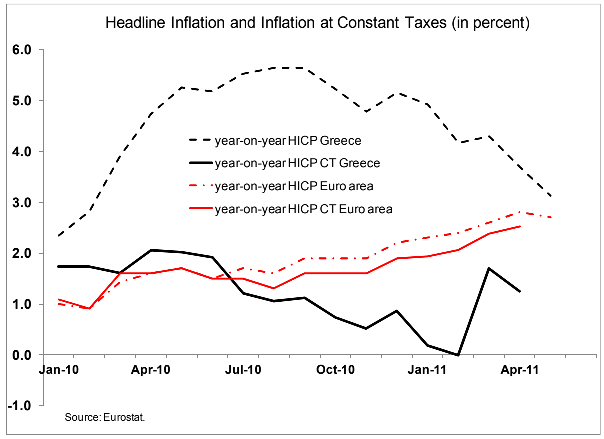
2. **Market sentiment has taken a sharp turn for the worse** (Figure 1). Open discussions of Greece's financing challenge and euro-zone countries' insistence on private sector involvement to resolve this have convinced markets that Greece will restructure its debt. The latest market surveys indeed suggest that about 95 percent of participants expect this outcome. As a consequence, since March, spreads on 2-year and 10-year debt over German bunds have soared to record highs, exceeding 2650 bps and 1400 bps, respectively. Rating agencies have at the same time downgraded Greece to near-default status, with current ratings now at CCC (Standard & Poors), Caa1 (Moody's), and B+ (Fitch).

3. **Greece is adjusting in macroeconomic terms, although the deep recession is driving the process, and productivity gains are not yet apparent** (Table 1):

- Indicators of **economic activity** suggest that the decline in domestic demand continued unabated in the first quarter of 2011. Improving net exports continue to offer some offset. The decline in output shows signs of moderating, but overall the drop amounts to some 7¾ percent from its 2008 peak. Unemployment has risen sharply, exceeding 16 percent in March 2011. Leading economic indicators have been mixed, with industrial turnover and new industrial orders from abroad as well as hotel bookings increasing slightly, while activity in the construction and services sectors is still on the decline and economic sentiment still deteriorating (Figure 2).

- **Competitiveness** is improving, as nominal wage declines outstrip a drop in productivity. Nominal labor costs (both wages and non-wage labor cost) continued to decline at a fast clip in the first quarter of 2011 (-6.8 percent year-on-year). But with output still falling faster than employment, productivity dropped by ¼ percent year-on-year. Overall, the ULC-total-economy-deflated REER improved by around 6 percent in 2010 from a point of significant overvaluation (Figure 3), and has continued to fall in the first quarter of 2011.

- **Headline inflation** (HICP) has been receding as the impact of early 2010 indirect tax increases dissipates. It reached 3.1 percent in May, a level very close to the Euro area average (2.8 percent). Core inflation declined to 1.7 percent (from 2.8 percent in March), while inflation at constant taxes—at 1.3 percent in April 2011—has been below the Euro area average since mid-2010.



- **The current account deficit continues to shrink gradually** (Figure 4). Data for the first quarter of 2011 show a year-over-year improvement of about 25 percent in euro terms (the trailing 12 month deficit now sits at 9½ percent of GDP). The contribution of exports has continued to grow (supported by receipts from manufactured products), while import reductions, although still sizeable, have been slowed down by rising oil prices. An increase in current transfers to the general government, mostly originating from the EU, has also been important.

4. **High spreads and accelerated deposit withdrawals have placed the banking system under renewed pressure** (Tables 2–3, Figure 5):

- **Liquidity needs are acute.** Steady deposit withdrawals, linked to the contracting economy, continued through April, but the pace has accelerated significantly since then, with depositor confidence undermined by the public discussions of PSI. Recent ratings downgrades have also led to a decrease of value on Greek collateral by the European Central Bank (ECB), necessitating banks to post additional collateral. Wholesale funding markets remain closed, and exceptional ECB liquidity support has grown.. Contrary to program expectations, the ECB Governing Council has not taken a decision on whether to accept as eligible collateral the proposed new €30 billion tranche of government guaranteed bank bonds.

- **Banks' financial profiles continue to weaken** (Table 4). Profitability is under strong pressure. The three largest Greek banks reported sharply lower net income for 2010 and the first quarter of 2011, with very weak domestic performance only partly counterbalanced by better profitability from operations in Southeastern Europe. Several smaller banks posted a net loss in 2010, including three partly state-owned banks and two large subsidiaries of foreign banks. Asset quality continues to deteriorate, with the system's nonperforming loan ratio having worsened from 10.4 percent at end-2010 to 11.5 percent in March 2011 (significantly above the

European average). Provisioning for bad loans increased 18 percent during Q1 2011, but notwithstanding this, provision coverage has fallen to a level below the average in a representative sample of large European banks (45 versus 57 percent). The stock of restructured loans also increased significantly, and now represents 3.7 percent of loans.

- **Banks have been reinforcing their capital levels, but their market value remains depressed due to their exposure to sovereign bonds.** Contrary to expectations, no bank has required public capital support since program inception. In the wake of successful rights offerings, all large private banks have raised their regulatory Tier I capital ratio above the 10 percent bar, and the system average now stands at 11 percent (in line with the European average). In the state banking sector, ATE bank has finalized a recapitalization, which will raise its Tier I capital ratio to 11 percent (with the government injecting about €420 million net). Still, banks' combined market value of €13 billion falls well-short of their reported Tier I capital of €30 billion, with markets discounting the value of Greek sovereign exposures in banks' held-to- maturity portfolios.
- **There remain fragilities among small banks.** One of the two small banks that was flagged as very fragile during the third review mission has been audited by external auditors and inspected by the Central Bank, has strengthened its capital to meet regulatory requirements, and is scheduled to increase it further within 12 months. Regarding the second one, its 4½ CAR falls well short of the 8 percent minimum, and it has been pursuing a merger with its major shareholder.

5. **Bank stress is being transmitted to the private sector.** Credit to households continued to contract in the first four months of 2011, while corporate credit growth has remained marginally positive, mainly for short-term trade credits. Lending spreads on new loans have continued to increase, in particular for households. While there is no evidence of an overly rapid deleveraging, weak economic activity is relentlessly dampening demand for loans, and there is evidence that banks are increasingly curtailing new lending and rollovers of maturing loans to deal with their liquidity stress.

6. **The fiscal position has stalled at a primary deficit of around 3½ percent, as progress with underlying reforms has lagged behind** (Table 5; Figure 6)

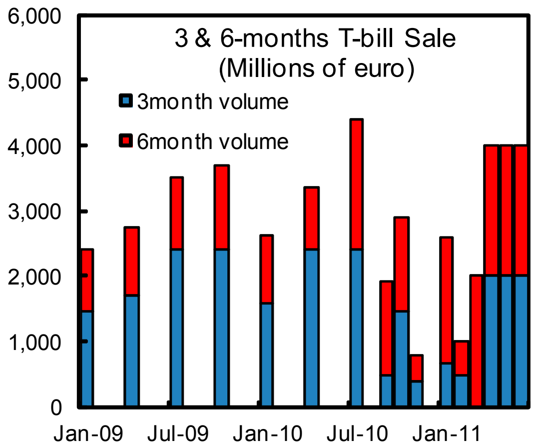
- **Final data suggest a 5 percent of GDP fiscal consolidation in 2010**. The ESA95 deficit appears to have settled at 10½ percent of GDP, ¾ percent of GDP higher than earlier estimated, but the adjustment is still impressive in the context of the recession. Accrual data, only available in March, show that ongoing weaknesses lie behind this outcome, in particular poor revenue collections for end-2010 and a weaker outturn in the social security sector. The end-2010 stock of arrears (excluding pre-2010 health arrears) reached 2.2 percent of GDP including about

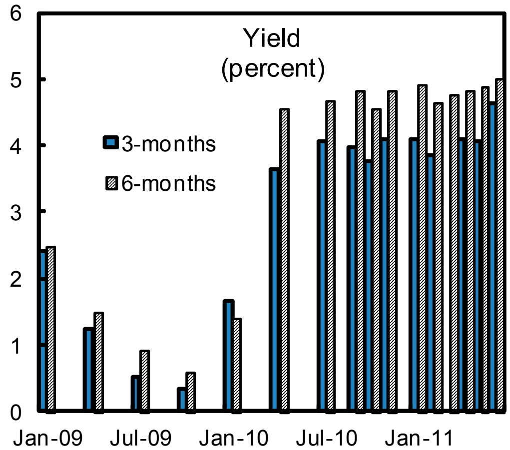
2 percent of GDP accumulated in 2010 (which is already captured in the ESA outcome estimate).

- **First quarter 2011 targets were met, with the help of temporary factors**. Cash revenue collections fell 0.6 percent of GDP short of expectations, reflecting weaker-than-expected retail sales. Arrears also continued to increase (to 2.6 percent of GDP excluding pre-2010 health arrears), offsetting state budget under execution of 0.6 percent of GDP. However, earlier-than-expected EU grant inflows (¼ percent of GDP) and better non-state balances—which benefited from delayed budget implementation in local governments following November elections—allowed the targets to be met. This pattern of performance has continued through end-May, with the budget running about 0.1 percent of GDP ahead of the program target.
- **Reforms of fiscal institutions are progressing, although results are materializing slowly** (Table 6). Parliament passed in March tax legislation to remove several legal and administrative obstacles to effective revenue administration, and in April, the Ministry of Finance published its first comprehensive anti-tax-evasion action plan (which subsumes and extends the plans and targets of the anti tax evasion task forces set early in the year). Concerning spending controls, accounting officers have been appointed in all general government entities, and, on an interim basis, in line ministries. Commitment controls have been introduced but have been slow to take hold (in March only 35 percent of line ministries appeared to be fully reporting results from the registers, and arrears continue to climb). Delays appear to be due to capacity and organizational constraints. Fiscal and arrears reporting coverage has improved with data now covering aggregate revenue and spending data for almost all general government units, after sanctions unlocked better response rates. However, the quality of data, particularly arrears data, remains to be improved.

7. **Short-term fiscal financing has become harder to arrange, but some progress is being made toward improving the longer-term funding profile**.

- **The authorities' access to Treasury-bill funding has tightened.** Banks have shown increasing reluctance to roll over the outstanding t-bill stock of €9 billion, and yields have edged upward in the latest auctions to 4.6 percent for 3-month bills and 5.0 percent for 6-month bills (from 3.9 and 4.6 percent respectively in February).





- **The euro area member states have agreed to extend maturities and lower interest rates on their loans**. An amendment to the Loan Facility Agreement was signed on June 14, allowing for a retroactive maturity extension to EFF-equivalent terms and a lowering of the spread over euribor rates by 100 bps, which would bring the current cost of borrowing to around 3.7 percent. By shifting the amortization profile, this would lower gross market financing needs by some €47 billion over 2012–15.

8. **Regarding growth-enhancing structural reforms, delays in implementation are being reduced, though so far not sufficiently fast to achieve the critical reform mass required to boost productivity growth** (Table 7, Figure 3). The 2010 labor market liberalization reforms have had mixed results, with firms taking advantage of more flexible contracts in 2011 but not yet fully embracing the newly introduced special firm-level collective bargaining agreements (with only 6 having been signed to date). Some progress has been achieved with reforms reducing red tape and spurring investment: one-stop shops for business start-ups have become operational after initial delays (with close to 1,400 new start ups registered through mid-June), and the new fast-track procedure for large investments has been implemented (three applications are currently under review). As to the liberalization of services, the authorities have published a list of professions subject to the new law (comprised of 136 professions, in addition to the high-impact professions of lawyer, notary, engineer, architect, and auditor), with requests for exemptions to be evaluated and implementation decisions finalized by July 2. Finally, legislation strengthening the competition authority was approved in March, and the law streamlining licensing procedures for technical professions and business parks was passed and published in June, with an accompanying environmental licensing law under preparation.

III. THE OUTLOOK

9. **The recession is expected to trend a little deeper and longer than expected, but the outlook is for continued competitiveness gains and slightly faster external adjustment** (MEFP ¶1–2) (Tables 8–9; Figure 7).

- **GDP** is now projected to contract by 3¾ instead of 3 percent in 2011 (an outlook broadly in line with that of other forecasters). The fiscal contraction necessary to achieve 2011 fiscal targets will be about 1 percent of GDP higher than originally programmed. Partly offsetting the impact of this and other factors on dom estic demand, external demand is projected to lend stronger support, judging by leading economic indicators (manufacturing orders and projected tourist arrivals). Overall, a return to positive quarter-on-quarter growth is now projected for the first half of 2012.

Greece--Comparison of Growth Projections
(percent change)

	2011	2012	2013	Vintage
EC/ECB/IMF	-3.8	0.6	2.1	Jun-11
OECD	-2.9	0.6		Jun-11
Ministry of Finance	-3.8	0.6	2.1	Jun-11
NBG	-3.5			Jan-11
Alpha	< -2.5			May-11
Eurobank	-3.2	1.1		May-11
Piraeus	-3.0 to -4.0			Feb-11
KEPE	-4.1			Apr-11
IOBE	-3.2			Apr-11
EIU	-4.0	-1.4	0.1	Jun-11
Average	-3.6	0.3	1.5	

Sources: Bank of Greece; publications of the various institutions.

- **Competitiveness should continue to gradually improve**. The impact of higher oil prices is expected to lead to higher average inflation (just under 3 instead of 2½ percent), but the inflation gap with the Euro zone is projected to gradually close and turn in Greece's favor in 2012. High and rising unemployment, in concert with more flexible collective bargaining arrangements, are expected to keep unit labor costs declining at a rate similar to 2010. This would be consistent with a 4 percent improvement in the ULC total-economy-deflated REER by 2012 (although this forecast comes with a wide confidence interval).

- **The current account deficit** is expected to contract to 8¼ percent of GDP in 2011. The downward growth revisions, the improvement in external demand for goods by trading partners, and positive prospects for tourism (with a double-digit increase in bookings for 2011) are contributing factors. Elevated oil prices and a widening income balance are expected to constrain a more rapid adjustment.

10. **Risks remain skewed to the downside in the near term.** Poor market sentiment and high spreads, if sustained, would hurt the banking sector (creating pressures for credit contraction). These factors could also directly affect business and consumer sentiment, accelerating the contraction of domestic demand. And a deeper private sector retrenchment, on top of the sharp fiscal contraction now underway, would lead to a much sharper recession than now projected in the program. There remains upside potential in the medium term, particularly given the gap between Greek and core euro-area productivity levels. But realizing this remains a matter of determined and timely structural reform implementation.

11. **The challenge posed by Greece's heavy debt burden has, from the time of program inception, been enormous.** Since program inception, balance sheet developments, including the realization of contingent liabilities, have pushed measured debt levels up and elevated the challenge further. Under the program baseline, debt should ultimately decline, but the scope for shortfalls in policy implementation or in macroeconomic outcomes is limited (Appendix I: Tables:1–2 and Figures:1–2):

- **Public debt.** If the authorities are able to implement their very ambitious fiscal and privatization programs, public debt would peak at 172 percent of GDP in 2012 and decline to 130 percent of GDP by end-2020 (compared with 159 and 130 percent of GDP at the third review). The higher peak relates to higher estimated upfront FSF funding needs. However, stress testing shows that full and timely program implementation is absolutely critical: incomplete fiscal adjustment, privatization shortfalls, or delays in structural reform implementation (producing a considerably slower economic recovery and fiscal adjustment) would see debt remain at very high and likely unsustainable levels through 2020. The analysis also shows that debt service needs will remain large in the medium term, creating uncertainty about the authorities' ability to obtain financing on reasonable terms, but provided market access is restored, the debt dynamics are not sensitive to minor variations in spreads. A tailored scenario capturing under performance across a range of program policy assumptions and macro projections shows an unsustainable increase in the debt.

- **External debt.** If the program is fully implemented, external debt would peak at 115 percent of GDP in 2012 and decline to 101 percent of GDP by 2016. However, stress testing shows a high sensitivity of external debt to delays in program implementation, (involving slower closure of the competitiveness gap), and to lower non-debt creating flows (e.g. from delays in the privatization program). The outlook also hinges on the pace at which the ECB withdraws its exceptional support to the Greek banking system. A pace inconsistent with the program's macroeconomic framework would lift spreads on external debt and lead to a significant reduction in growth (as bank credit contracts). This would ultimately feed through to lower prices, improved Greek competitiveness, and faster current account contraction, but debt ratios would initially soar alongside the plunge in GDP.

IV. Discussions

12. **The discussions focused on Greece's deeper medium-term policy needs and identifying ways to replace the expected market financing that is now likely no longer available** (MEFP ¶3). The authorities recognized the overarching policy challenges: (i) deeper fiscal reforms would be needed to prevent the fiscal deficit from becoming entrenched around 10 percent of GDP; (ii) a larger capital buffer and a stronger capital support framework would be needed to restore banks' access to wholesale markets; (iii) a significant transfer of state-owned assets to the private sector would be needed to propel

higher growth and bring down government debt ratios; and (iv) a critical mass of structural reforms would be needed to support a restoration of competitiveness and economic rebalancing through higher productivity. It was recognized that it will take time to realize all of these policy aims, with even more time required to restore market confidence. This pointed to a need to also indentify the financing to support program policies. Solutions were identified and agreed in each case, as discussed in what follows.

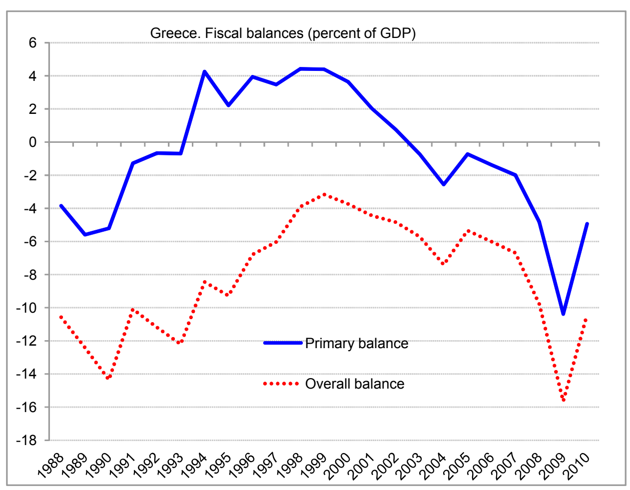
A. Fiscal Policy

13. **The authorities reiterated their commitment to the fiscal adjustment targets in the program** (MEFP ¶4) (Table 10). The targets would see Greece achieve a 7½ percent of GDP general government deficit in 2011, and a deficit below 3 percent of GDP by 2014. The tight financing situation and difficult debt dynamics would allow for only a minor variation from the consolidation path (if any), and the relief from any additional gradualism would be lost due to lower credibility, particularly vis-à-vis Greece's European partners. The targets were extended to 2015, with a small additional adjustment to a 1½ percent of GDP deficit foreseen, to contribute to stronger debt dynamics. At the end point, Greece would be targeting a primary surplus in the range of 6½ percent of GDP and would need to maintain this for the foreseeable future to reduce debt significantly. A surplus of 6½ percent is at the very high end of the range of international experience for sustained surpluses. It is also higher than the average 4 percent of GDP primary surplus achieved in Greece during the second half of the 1990s, but both these figures exceed the estimated debt stabilizing primary balance of about 3 percent of GDP. Going forward, there is a good motivation to switch the headline program targets to focus on primary balances, namely to insulate the fiscal assessment from the potential variability in interest payments, as private sector involvement in financing proceeds (see below) and as Greece eventually returns to market.

Persistence of Large (Cyclically Adjusted) Primary Balances

	CAPB between 5 and 10 percent of GDP	Number of countries total	Number of countries advanced countries
for 4 years	Panama (1989-92); Canada (1997-2000); Italy (1997-00); Tunesia (1986-89); Austria (1976-79)	5	3
for 5-7 years	Turkey (2000-06); Chile (2003-08); Jamaica (1983-88); New Zealand (1993-98); Barbados (1991-95); Denmark (1985-89)	6	2
for 8-10 years	Romania (1982-89); Egypt (1993-00)	2	0
for 11-13 years	Mexico (19833-95); Israel (1983-94)	2	0
for 14-15 years	Belgium (1990-04); Jamaica (1992-06); Bulgaria (1994-07)	3	1

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



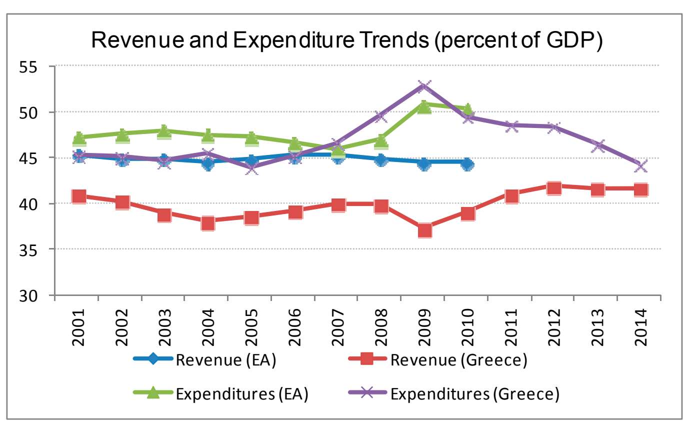
14. **The authorities recognized the significant challenge they would face to achieve their medium-term targets** (MEFP ¶5) (Table 11). The estimated total amount of necessary

measures was revised up to 10 percent of GDP (versus 8 percent of GDP at the time of the last review). The revision mainly reflects a reduction in expected medium-term revenues (owing to the worse than expected 2010 outcome), combined with macro and market interest rate factors. From a broader perspective, the large size of the adjustment owes itself to Greece's extraordinarily high pre-crisis deficit, which was largely structural, as temporary revenues associated with an unsustainable domestic demand based boom were fed into structural spending increases. The problems of public finance that Greece is confronting—a weak revenue administration, bloated public employment, untargeted social support, a fragmented and oversized public administration—are not easy to overcome, not least against the headwinds of a deep recession and rising interest payments. This explains the five year time path for the adjustment.

Fiscal Gap 2011-15 (percent of GDP)

	2011	2012	2013	2014	2015
Third Review	0.8	2.3	4.9	8.1	7.9
Fourth Review	3.0	5.1	7.0	10.0	11.6
Change	2.2	2.8	2.1	1.9	3.7
of which:					
Measures needed in 2011	2.2	2.2	2.2	2.2	2.2
2015 deficit target	0.0	0.0	0.0	0.0	0.6
Interest	0.2	0.6	0.7	1.1	1.8
Other	-0.2	0.0	-0.9	-1.5	-0.9

15. **The government has prepared a medium-term fiscal strategy (MTFS), which would achieve targets by making a permanent break with Greece's past fiscal problems** (MEFP ¶5). It is designed to permanently reduce the size of the Greek state: overall spending would decline from 49.5 in 2010 to 43.1 percent of GDP by 2015 (below the euro-area average). To this end, it includes actions to significantly reduce public employment, scale back the number of public sector entities, and scale back the number of benefits and access to them. The strategy is also designed to permanently expand the base of citizens in Greece who pay for the government: overall revenues would rise from 39 in 2010 to 41.6 percent of GDP by 2015 (approaching the euro-area average). In this context, the strategy includes policy measures to broaden the tax base and administrative measures to ensure that accurate tax assessments can be made and enforced. Box 1 provides a detailed discussion of the various changes. Staff did express concern that too much reliance is being placed on revenue measures, noting the lack of broad popular support in Greece for such an approach, and that this could work against efforts to improve tax administration. It was therefore agreed that tax reform would be on the agenda for the fall, with a view to broaden the base and reduce rates, and the



authorities indicated that they would also explore further expenditure rationalization measures to help fund this.

16. **The authorities indicated that they would implement the strategy in a front-loaded fashion** (MEFP ¶6–7)**.** This was, not least, to help secure achievement of the 2011 target. Thus key reforms, representing 45 percent of the required measures over the period and 80 percent of the required measures for 2011, have already been legislated in an implementation bill (as a **prior action** for the review). A second phase of implementation acts, representing 10 percent of the required measures, will take place in August (a **structural benchmark** under the program). Still, the scope of the reform effort poses implementation risks, which are magnified by the need to undertake a number of administratively more complex reforms for which yields and timing are inherently uncertain (for instance, revenue administration reforms or health and pension administration and IT-related reforms). In total such measures amount to almost one-quarter of the total package. To manage risks, the more complex reforms will be launched early in the adjustment period, while their yields have been conservatively incorporated into program forecasts. For instance, yields from tax administration reforms (which are already underway) have been systematically back loaded. For other complex reforms, there is a built-in tolerance for some problems: the projected 2012–13 yields from these measures would lead to over performance (the contingency margin they produce is equal to almost 10 percent of the total value of all measures in 2012–13). To help manage near-term risks related to meeting the 2011 target, the authorities have overwhelmingly targeted well-defined and well-costed policy changes to deliver the needed adjustment. Their implementation during the middle of 2011 will also have significant carry-over benefits for fiscal year 2012.

Greece: Medium Term Fiscal Strategy (MTFS), 2011-14
(in percent of GDP)

	2011	2012	2013	2014	2011-14
Total	3.0	3.0	2.1	2.4	10.4
Measures with a well-defined yield	2.9	2.8	1.0	1.2	8.0
Revenue measures	0.9	1.6	0.1	0.3	2.9
Rationalization of the public wage bill	0.3	0.2	0.1	0.1	0.8
Rationalization of social spending	0.5	0.5	0.4	0.3	1.7
Others	1.2	0.5	0.5	0.5	2.6
Measures with significant administrative complexity	0.1	0.2	1.0	1.2	2.5
Improvements in tax administration	0.0	0.0	0.5	0.5	1.0
Inprovements in social security administration	0.0	0.0	0.2	0.2	0.4
Central procurement system	0.0	0.0	0.0	0.1	0.1
Others	0.1	0.2	0.3	0.4	1.0

Source: Authorities and IMF staff calculations.

17. **Fiscal adjustment efforts will continue to be supported by institutional reforms** (MEFP ¶8)**.** Revenue administration and public financial management reforms are in both cases medium-term processes, and the review discussions focused on the next steps.

- **Revenue administration**. With work on a medium-term strategy complete, it was agreed that the focus of the work needed to shift from the planning and legislation phase to implementation and results (Table 12):

- To implement the tax law (which removed barriers to effective implementation), the authorities are setting up a more efficient framework to deal with tax disputes, with a new arbitration body, an independent fast-track administrative-dispute resolution process for large cases, and dedicated chambers for judicial appeals (see also ¶34). This should be in place by September 2011. Going forward, the authorities could usefully complement these steps with a more effective use of available anti-money laundering tools.

- To better link the anti-evasion action plan to immediate results, the authorities have developed a framework of quantitative performance indicators to monitor progress under the plan. These include intermediate targets (e.g. the number of risk-based audits for large taxpayers and non filers) and output and revenue related targets (e.g. collection from assessed taxes under the new audits and from tax arrears). The targets have been set to secure better performance relative to recent trends; achieving them would push revenue collections above revised program targets, all else equal. The targets will be supported under the program by a proposed new **structural benchmark**.

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

Indicator	Target to end-September	Target to end-December	Past Practice
Audits			
Number of full scope audits of large taxpayers	50	75	Very few full scope audits, mostly of large taxpayers, were made in the past. Audits were limited in scope and directed at verifying specific items in tax returns
Number of VAT audits of large taxpayers	150	225	
Number of VAT audits of non-filers	750	1,000	
Collection			
1. Collection of assessed taxes and penalties from new audits of large taxpayers			
Within 3 months	20 percent of assessed taxes	20 percent of assessed taxes	
Within 6 months	30 percent of assessed taxes	30 percent of assessed taxes	
2. Collection of assessed taxes and penalties from new audits of non-filers			Over the last three months, new filing enforcement procedures have led to an increase in VAT filing and payment rate of 11 percent
Within 3 months	20 percent of assessed taxes	20 percent of assessed taxes	
Within 6 months	30 percent of assessed taxes	30 percent of assessed taxes	
3. Collection of tax debt (5 percent of collectable debt)	€200 million	€400 million	Historically weak debt collection rates (e.g. less than 1 percent for fines and penalties)

- Finally, to begin implementing the strategic plan for medium-term reforms, the authorities will begin later this year a number of major institutional changes (creating a central directorate for debt collection, a large taxpayers unit, as well closing and merging several uneconomic and inefficient local tax offices).

Public Financial Management. The discussions focused on technical aspects of the MTFS (a major budgeting reform) and on how to handle complications in establishing better spending control and reporting mechanisms, towards stemming the continuing problem with arrears (Table 13):

- Concerning **budgeting**, the focus was on establishing a workable process for the MTFS (this was the first such exercise in Greece), and on technical issues such as the definition of expenditure ceilings. With the primary focus on identifying measures to close the fiscal gap, the process did suffer. In the next MTFS cycle (it will be updated each year on a rolling basis) some key priorities will be to stay within deadlines, better engage line ministries and, in terms of the documentation, to expand on the fiscal risk assessment and contingency planning.

- Regarding **spending controls**, it was agreed that greater efforts would be needed to build capacity in line ministries and general government entities. To this end, the authorities indicated they would accelerate the creation of general directorates of financial services and quickly appoint permanent accounting officers in line ministries. To address the near-term problems with operating commitment registers, the Ministry of Finance agreed to improve its technical support, and to this end, to undertake inspections in the line ministries and general government entities with the largest arrears.

- To address lingering **reporting** problems, the authorities indicated that an inter-ministerial committee will examine the sources and types of data submitted to the Ministry of Finance to identify discrepancies. New procedures will be introduced shortly to automate the reconciliation of data from the main bank account.

- Overall, in light of execution problems with the PFM strategy, it was agreed that the oversight of the process would need to be strengthened. To this end, the authorities intend to establish central coordinating committees in the three pillars of the PFM strategy (budgeting, controls and reporting). To help monitor progress, these committees will have performance targets and milestones against which to assess achievements. These would be expected to focus on specific issues such as the extent of (accurate) usage of commitment registers, the reporting rate from the registers, and the size of the discrepancy in fiscal reports.

B. Financial Sector Policies

18. **The authorities recognized a need to move more aggressively to secure financial stability** (MEFP ¶9)**.** Banks have been under significant stress. While completion of the review is expected to reduce uncertainty and deposit outflows, pressures will remain, and buffers will have to be rebuilt in a situation where delays in the government's return to market will likely also delay banks' return to wholesale markets. Banks must also build stronger capital buffers to manage their balance sheet risks and bolster confidence so as to

facilitate earlier access to wholesale funding markets. While their Tier I capital ratios (11.1 percent as of 2011Q1) are at the European average (11 percent), the market heavily discounts the value of banks' large government bond holdings, while the government's intention to seek private sector involvement to help fill its financing gap (below) may require banks to recognize losses on bonds (which are currently mostly carried in their held-to-maturity portfolios). Given the rising challenges in the banking system, it was agreed that a stronger support and resolution framework would need to be put into place.

19. **The government and the Bank of Greece (BoG) committed to preserve sufficient system liquidity, in consultation with the ECB** (MEFP ¶10):

- The pressure on liquidity is likely to remain very high for the remainder of 2011, due to deposit losses (as the recession continues), maturing bank bonds, and further possible loss of collateral eligibility (for instance, in the event of a downgrade of covered bonds). Significant baseline liquidity support could possibly be needed, and even more in the event of deposit instability.

- Liquidity support, if necessary, could be delivered via the previously agreed €30 billion tranche of government-guaranteed bank bonds and via direct support from the BoG, funded through emergency liquidity operations, mainly ELA (subject to the approval of the ECB Governing Council). The timeline for ECB approval of new government-guaranteed bonds is unknown, but the authorities have put into place the necessary technical preparations to enable ELA-related lending (which will also help manage any unexpected contingencies).

- Effectively, the system will remain heavily reliant on ECB support. If the next tranche of government-guaranteed bonds is fully disbursed, peak support could top €130 billion, or almost 60 percent of Greek GDP. Greek banks cannot by themselves rapidly reduce their existing level of ECB exposure, let alone peak exposure, without risking a severe credit crunch and economic collapse. And the uncertainty regarding the pace at which ECB support will be withdrawn is itself a negative factor for system stability and is almost certainly contributing to tight credit conditions. To ensure that exit from this support is orderly and at a pace consistent with the program's macroeconomic framework, it was agreed that banks should regularly update their medium-term funding plans, with the BoG providing guidance based on an assessment of the aggregate of the plans.

20. **There was agreement that banks would likely face significant additional capital needs, and a process is in place to clarify these needs (MEFP ¶11)**. Capital buffers must be large enough to reassure markets that banks can manage a further deterioration in their loan books and/or crystallization of potential losses on Greek government bond holdings. To remove uncertainty about the loan book, a single recognized international capital advisory firm (paid for by banks) will be commissioned by the BoG to perform a diagnostic of banks'

loan portfolios (as was done, for example, in Ireland). The work should be complete by December, and in the staff's view should be publicly disclosed. It will likely point to a need for higher provisions. Concerning government bonds, the government's PSI exercise (see below, ¶37) may require banks to recognize losses, while the EBA stress tests assume some loss of value on government bonds (given current credit rating valuations), and through this channel may point to higher capital needs.

21. **A core Tier I capital target and time line to achieve this were established** (MEFP ¶11)**.** Banks will be required to maintain core Tier 1 capital at a minimum 10 percent from the beginning of 2012. Under Pillar II requirements, additional capital buffers may be applied for individual banks, based on their specific risk profile. Banks will be required to present plans to the BoG by end-January 2012 detailing how they intend to reach the new CAR target by end-September 2012 through market solutions. This transition period is needed to pursue a market solution, given the number of banks likely to be simultaneously attempting to raise capital in a thin market, and the desirability of avoiding nationalizing the system. Some banks could be able to raise capital through market sources (e.g. through rights issues or the sale of non-core assets), and the government can directly inject capital into any bank it owns (if it cannot first privatize the banks). The authorities also committed to encourage banks to seek foreign merger partners (Greek banks do offer broader exposure to southeastern Europe). Still, Greece's difficult macroeconomic conjuncture and banks' funding difficulties and other balance sheet challenges will hamper full market solutions, and mergers will likely need to await a longer track record of program implementation.

22. **In light of the evolving situation, the authorities indicated they would strengthen the framework for supporting bank restructuring and resolution** (MEFP ¶12):

- **The Financial Stability Fund (FSF).** No near-term use of the fund is expected. However, as noted above, the planned third-party diagnostic of bank loan books, the expected outcome of EBA stress tests, and PSI-related changes in the value of banks' government bond holdings all suggest that banks may need to raise additional capital. Capital needs could rise if the market value of government bonds continues to fall and/or unexpected problems in loan books are revealed through the diagnostic exercise. For the FSF to remain a credible backstop for private banks—all the more important given the challenges banks are likely to face in raising capital—it must have adequate resources. At the same time, it was recognized that government resources for private banks would be limited by debt dynamics concerns. It was agreed that public sector commitments would be contained via new controls on the price at which the FSF would inject capital into a bank (to give banks a strong incentive to go to the market), and on the timeline for the FSF to dispose of any investments (to allow the fund to revolve faster). The amount of additional capital to be added to the FSF will be determined at the time of the next review, once capital needs are further clarified.

- **The resolution framework**. The BoG has broadly adequate powers to take remedial and early intervention measures (although not all have been used in the past). Upon certain triggers, it may appoint a commissioner with managerial powers to run a troubled bank; it may withdraw a bank license and then put the bank into liquidation; and it can impose a moratorium on a bank's claims. However, the Greek legal framework lacks specific bank resolution tools—used in other countries with more comprehensive frameworks—which can provide a more orderly framework for dealing with bank problems, towards lowering the cost of resolving banks. In particular, there are no techniques to allow the continuity of banking operations, including sustained depositor access (e.g. the ability to undertake a purchase and assumption and to conduct resolution through a bridge bank). Reforms are also needed to ensure that the deposit insurance fund can be used to fund such techniques, and to establish depositor preference over unsecured creditors to better ensure recovery of guarantee funds. The authorities have agreed to improve the framework, although as the changes involve complicated issues related to property rights, and the need to set up a mechanism to potentially fund bridge banks, it is expected to take until mid-September to pass new legislation (combined with changes to the FSF law, this is proposed as a new program **structural benchmark).**

- **Supervisory and oversight framework**. There is a need in Greece to clearly identify an agency with an overarching responsibility for resolution. The working relationship between the four existing agencies (MoF, BoG, FSF and Deposit Insurance Fund) is weak, partly due to insufficient resources, but also due insufficient efforts to collaborate closely. In the context of this review two steps were taken to begin rectifying this situation. Concerning coordination between the FSF and BoG, a Memorandum of Understanding between the two institutions will spell out an information sharing and confidentiality arrangement that will allow the FSF to receive information regarding the soundness of financial institutions (which will help the FSF rapidly evaluate the viability of plans provided by banks requesting capital assistance). Regarding staffing, for both the BoG and the FSF, the government’s centralized structure of public sector hiring has stood as an impediment to acquiring staff with adequate skills. To manage the situation in the BoG, well-qualified staff will be identified for transfer into the bank supervision department. The BoG is also considering long-term technical assistance from other European supervisory agencies.

23. **The authorities will take action concerning banks which have a capital base that now falls short of regulatory requirements** (MEFP ¶13). The authorities recognized that they could not wait for the new resolution framework to be in place to take action. They also ruled out use of the FSF. At the same time, market conditions—ongoing deposit withdrawals threatening financial stability—were deemed too problematic to allow for the immediate use of existing powers (e.g. liquidation). The supervisor has thus requested that undercapitalized banks meet regulatory requirements or find appropriate merger partners by end-September. In one instance, a merger with a state-owned bank (which already owns a significant share of

the bank in question) has been announced, conditional on an assessment of the financial impact on the state-owned bank.

24. **The authorities' plans concerning state-owned financial institutions have shifted towards early privatization** (MEFP ¶14). Hellenic Postbank is targeted to be sold by end year, ATE (the Agricultural bank) by early in 2012, and the HCLF's commercial activities within 12 months. Given market conditions, and the condition of banks' balance sheets (including exposures to the government), this timetable will be challenging. To prepare the ground for this, ATE has been recapitalized by the government, and a law to unbundle the core consignment function from the commercial activities of the HCLF has been passed. A restructuring plan for ATE has also been approved by the EC targeting a reduction in the bank's balance sheet by 26 percent by end-2013, although elements have been overtaken by events (in particular, with the Greek authorities set to seek voluntary rollovers of debt coming due, ATE may not be in a position to reduce its Greek government exposure, as called for in the restructuring plan agreed with the EC, and would need EC approval to maintain exposures). As an additional preparatory step for ATE sale, the government intends to establish equal treatment of agricultural land collateral across financial institutions (to ensure a level playing field between ATE and competing banks).

25. **The authorities noted that work to strengthen the insurance sector is underway** (MEFP ¶15). Weak institutions represent less than 7 percent of the industry, while subsidiaries of large foreign insurance companies along with the affiliates of Greek banks represent 80 percent of the market. Some nonviable insurance companies (representing 1.1 percent of insurance company assets) have already been closed, and the authorities report no negative reactions by market participants or customers. Other companies have successfully managed to raise capital, and the largest entity, representing one-fourth of the market, is now undertaking a capital-raising exercise. The supervisor is anticipating the outcome of the Euro-wide stress testing exercise for the insurance sector and will use its existing powers to address insurance companies which do not pass the stress test. This will include intensifying supervisory oversight, require institutions to raise capital within a certain time period or resolve them using other measures.

C. Privatization

26. **The authorities reiterated their commitment to a very ambitious transfer of assets to the private sector** (MEFP ¶16). Their targets would see some €15 billion in assets migrate to private sector control by end 2012, building to a total of €50 billion by end-2015. As noted in the third review report, this target is very ambitious by international standards, although not unprecedented. The authorities recognized two key benefits for Greece from successful execution of privatization plans. First, the asset transfer would create a basis for new investment and growth; indeed the state enterprises involved already represent about 15 percent of total Greek investment and 2-3 percent of value added, and new owners would have an incentive to make them more productive. Second, the proceeds from the transfers

will have a marked positive impact on public finances. The debt reduction of 18 percent of GDP through 2020 would save Greece 1–1½ percent of GDP per year in interest (net of the income previously earned by the assets). Having to pay the interest on 18 percent of GDP in debt would, for instance, require VAT rates to be 3-4 percent higher.

27. **The government has specified a comprehensive privatization and real estate development strategy** (MEFP ¶17), (Table 14). This has been approved by parliament as a **prior action** for the review. The strategy covers the assets to be privatized, as well as the timeline (including the intermediate steps to be taken):

- **Scope**. The authorities have made a good start in identifying and valuing the assets to be sold. The assets have been drawn from three categories: (i) listed state enterprises, (about €5 billion, based on present market values); (ii) non-listed state enterprises (about €2 billion, based on a heavily discounted book value); (iii) concessions and rights, generally to public infrastructure (about €9 billion, based on estimates of future discounted cash flow); and (iii) the various real estate assets held in KED, the public real estate management firm (at least €35 billion, according to a study based on legal values of commercial land with clear legal title). The estimated value of real estate is subject to the most uncertainty and, to overcome this (and maximize returns) the authorities are committed to assign a land use to the plots targeted for sale. In any event, there are extra margins which the authorities can draw on to meet their targets: (i) about €1½ billion in state-enterprise assets are not included in the current portfolio (for now the authorities want to maintain minority rights in critical network industries and strategic infrastructure); and (ii) estimates of the maximum value of the real estate portfolio extend as high as €50 billion, and the portfolio does not yet include properties held by the Ministry of Tourism.

- **Timeline.** The authorities have set an ambitious timeline, including the key intermediate steps they must take to realize outcomes. The timeline prioritizes first those companies that are ready for sale (listed state enterprises) and establishes a path for others based on expected completion of intermediate steps. Thus assets requiring steps such as incorporation, extension of concessions, and the deregulation of the industry will be sold in 2012–2013. And most real estate assets will be sold only in 2014–2015 to give time to address title and land use issues and transform the land into valuable investment portfolios. The authorities are already ahead of schedule on a variety of intermediate steps: advisors have been appointed for all transactions in 2011–12 and laws on land use, surface rights, and the establishment of leaseholds have already been passed in the MTFS implementation bill (they were originally targeted for late

Privatization Targets (Euro million)

Date		Floor on Privatization Receipts	Est. Value of Assets incl. in Plan
2011	end-July	390	443
	Q3	1,700	2,070
	Q4	5,000	8,317
2012	Q1	7,000	10,181
	Q2	9,000	11,387
	Q3	11,000	13,407
	Q4	15,000	19,366
2013	Q1	17,000	19,446
	Q2	18,000	19,780
	Q3	20,000	21,696
	Q4	22,000	24,418
2014		35,000	38,993
2015		50,000	53,567

Source: Government of Greece.

in the third quarter). Still, for the timetable to hold, market demand must exist. This is a significant risk which the authorities can manage by ensuring that foreign investors can participate, and by establishing a track record of even-handed and timely execution of transactions (to demonstrate to bidders they have a real chance to acquire the assets). Strong implementation of the overall program can also help put a floor under asset prices. Given the importance of implementing the asset sales to overall program objectives (particularly debt dynamics), it was agreed that the privatization timeline will be supported by a quarterly **performance criterion**. In view of the residual market factors beyond the authorities' control, at each test date, the target is backed up by multiple options to avoid reducing the authorities' leverage in any one particular transaction (and for financing purposes, the program is more conservative about the path).

28. **The authorities agreed to establish a Privatization Fund to facilitate execution of their privatization and real estate development program** (MEFP ¶18–19). Legislation has been passed (as a prior action for the review) to create a private law vehicle into which privatizable assets will be transferred, with the sole task to sell them over a given time period and return the proceeds to the State. The design closely follows the German *Treuhandanstalt* model (an institution which successfully disposed, over a 4 year period beginning in 1990, some €60 billion in assets acquired by the German state in the context of reunification):

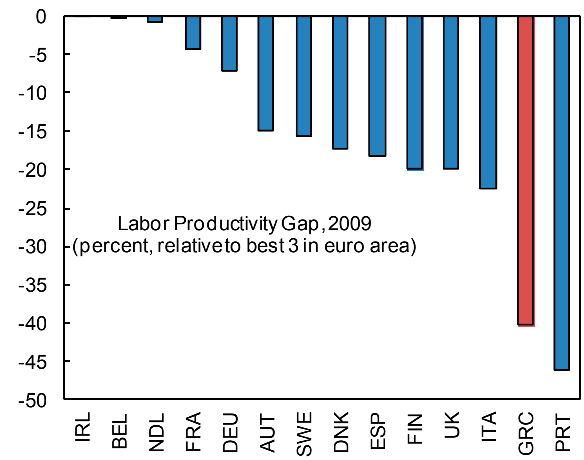
- Apart from the legal framework and mandate for the Fund, its focus will be reinforced by features such as: (i) requirements for an Advisory Board with international experience, and EC and Eurogroup-appointed observers; (ii) requirements that restrict its ability to subsidize or invest in the assets it controls; and (iii) legal protection for the Board and staff from civil liability and indemnification in defending legal proceedings (this would address a past problem with the privatization experience in Greece). All of its expenditures will fall within the program's general government fiscal target.

- There was some discussion regarding the extent to which the Fund should be allowed to borrow. It was agreed that it was desirable to allow it to do so (in coordination with the debt management agency), in order to realize upfront proceeds from concessions, but also to allow it to bring forward resources to ultimately be realized from assets which will take longer to sell. Borrowing against collateral in a manner that would impede the Fund's ability to fully sell assets in a timely and effective manner was ruled out.

- The Fund is expected to be operational by end-July. At that time, initial assets will be transferred (expected to amount to an estimated €25–30 billion), leaving remaining assets, mainly real estate, to be transferred over time as portfolios are prepared.

D. Structural Reform Policies

29. **The authorities acknowledged a need for continued ambitious reforms, starting with efforts to secure full implementation of earlier legislative initiatives** (MEFP ¶20) (Table 15). Since EU accession, Greece has failed to take advantage of the single market, and large upside potential exists to boost its competitiveness and growth performance. The structural reform program launched in mid-2010—aimed at promoting employment, investment, and market efficiency—can address Greece's large productivity gap. Success, however, will require sufficiently comprehensive reforms. In this context, it was agreed that the structural agenda would need to tackle yet untouched issues, such as the high labor tax wedge, additional sectoral barriers to growth, and inefficiencies in the judicial system. Success will also require appropriate sequencing and timely implementation, to take advantage of synergies among reforms (Box 2). To this end, the authorities acknowledged that they needed to improve their reform implementation. The discussions built on these two themes.



30. **The authorities reiterated their commitment to secure a well-functioning labor market** (MEFP ¶21) (Figure8). Relatively high labor costs in Greece (on a ULC-adjusted basis), sharply rising unemployment, and low participation rates pointed to deep problems. Securing higher productivity through the various other reforms remained the cornerstone of the program strategy, but a less rigid labor market was also needed to help firms manage otherwise. It was agreed that the focus should in general remain on market-based solutions, with the government establishing a framework for firms to flexibly manage their labor costs. However, it was also agreed that the government should look for opportunities to reduce Greece's high labor tax wedge (to improve competitiveness) and to increase the labor participation rate:

- **Facilitating collective bargaining and market flexibility.** The authorities noted that firms had been managing their labor costs through several channels, including the use of more flexible contracts, including part-time and intermittent employment (actions facilitated by earlier reforms under the program), as well as through negotiations of firm-level and individual contracts. Still, it was a matter of concern that these mechanisms would ultimately drive wages down to sectoral floors, at which point an unwanted nominal rigidity would be introduced into the adjustment process. Special firm-level collective agreements, introduced in late 2010, would allow for wage reductions below sectoral minima (to the nationally-agreed floor) within the formal bargaining framework, thus overcoming this rigidity, but had been used little to date. It was agreed that this situation needed to remain under review, and that if the framework proved too cumbersome, the legislation would need to be further simplified. The authorities were working on other tools to help firms manage costs, and, at end-June 2011, passed legislation providing for more flexibility in working-time management and in the use of fixed-term contracts, as well as for an introduction of youth term contracts at sub-minimum wages (these reforms will also help to boost the low labor participation rate for women and youth).

- **Cutting the labor tax wedge**. A lower tax wedge could help to significantly boost employment and reduce incentives to work in the informal economy (e.g. Bouis and Duval (2011) estimate a 1½–3½ percentage point employment gain from tax wedge reforms in Greece over a 5–10 year period).[1] However, fiscal consolidation needs constrain possible avenues for funding such a reduction (e.g. consumption taxes are already being increased to support adjustment). It was thus agreed to focus on broadening the contribution base (by gradually raising the income ceilings for social contributions) and on improving collections (by strengthening the effectiveness of the labor inspectorate in combating the informal economy, including by launching an electronic labor card pilot project evaluating how incentives could encourage stronger compliance). A wider contribution base alone—for instance via an elimination of the income ceilings for social contributions—could allow for an estimated 6 percentage point reduction in the wedge (although an adjustment may be needed in pension schemes to ensure this does not lead to new pension spending obligations). It is expected that a first step towards reducing the wedge could be taken in 2012.

31. **The government emphasized its continued commitment to remove barriers to investment and exports** (MEFP ¶22) (Figure9). With domestic consumption expected to remain subdued, it will be crucial for Greece to boost investment and exports to unlock demand in the context of the needed transformation of the economy. Both have significant upside potential once reforms to remove barriers are fully implemented. In this context, the authorities acknowledged that fast-track procedures for large investment projects had yet to be tested, with a number of applications in the pipeline but no concrete outcomes. They indicated that to get the system working they would take one project through by September, and that once the framework was functional, the qualification thresholds would be lowered and generalized. Finally, the authorities noted that they are on track to remove administrative

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[1] Buis R, and R. Duval, 2011, "Raising Potential Growth after the Crisis: a Quantitative Assessment of the Potential Gains from Various Structural Reforms in the OECD Area and beyond", OECD Working paper No. 835.

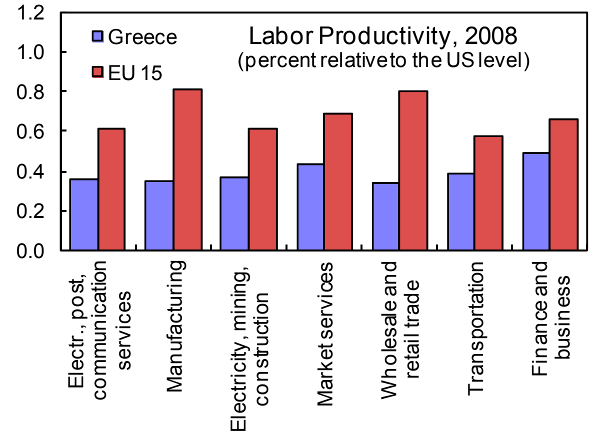
barriers to exports—including customs procedures—by September (to this end, a working group had been established to identify specific needs and draft legislation, and plans were underway to develop a single window for trade to facilitate information dissemination).

32. **The authorities' reforms to liberalize the service sector are ongoing** (MEFP ¶23). These reforms have focused on intermediate inputs—such as professional services, transportation, and electricity—which are expected to lower costs and improve total factor productivity. Academic research highlights the potential: Buis and Duval (2011) estimate that reforms easing restrictive regulations in intermediate sectors of production can lead to an increase in multifactor productivity in Greece of about 3–7 percent in 5–10 years, while Burles et. al (2010) put the multifactor productivity gains from such reforms at about 8 percent.[2] The reforms should also open up opportunities for higher investment. The discussions focused on securing the next implementation steps:

- Regarding the implementation of the law liberalizing **closed professions,** the authorities reaffirmed their intention to strictly limit any reintroduction of restrictions and to finalize implementing decrees for high-impact professions by July 2nd. Thereafter, they committed to screen existing specific legislation and integrate needed changes, in order to conform the specific legislation to the new law.
- Concerning the **transportation sector**, liberalization is ongoing. The authorities detailed a number of initiatives underway, including: the next steps towards road freight liberalization (a second decree on official license prices will be issued by end-December); deregulation steps for taxi services; and implementation of the agreed restructuring plans for public transportation entities.
- In the **energy sector**, the discussion centered on the new energy law to be passed by end-July 2011. This will strengthen the power of the regulatory authority, provide for consumer protection, and allow for unbundling electricity and gas transmission. The authorities also underlined their continued efforts to improve competition, as well as foster privatization and investment in this sector.

[2] Bourles, R, Cette G., Lopez J., Mairesse, J. and G. Nicoletti, 2010, "Do *Product Market Regulations in Upstream Sectors Curb Productivity Growth ? Panel Data Evidence for OECD Countries*," NBER Working Paper 16520.

33. **The authorities agreed to undertake a deeper diagnosis of obstacles to restarting growth in sectors that are crucial for Greece's economic transformation** (MEFP ¶24). As a first step, the external study of the tourism sector—accounting for 15 percent direct and indirect impact on output—has been completed. It points to a need to develop and upgrade infrastructure, ports and marinas, facilitate investment in integrated resorts and vacation home complexes, and increase flight connectivity with high-growth markets. The new fast-track investment law and the licensing law, along with planned sales of publicly-owned real estate, and laws in progress on land use, tourism (vacation homes and integrated resorts), and liberalization of tourist coaches, will support achievement of these objectives. Beyond tourism, labor productivity gaps exist in most sectors of activity relative to the euro area average—especially manufacturing, wholesale and retail trade, and market services—in part also due to small business size and lack of economies of scale. The authorities have commissioned external studies analyzing both cross-sectoral and sector-specific barriers to growth, with the aim of providing specific recommendations for the retail sector by end-September, and for other sectors (including wholesale trade, manufacturing and energy) by end-year.



34. **A medium-term reform of the judicial system will be a new element of the program going forward** (MEFP ¶25). The Greek judicial system is inefficient, with lengthy court procedures, cases that are often postponed, cumbersome execution of court decisions, and lack of transparency. These weaknesses—reflected in scores below the OECD and world averages on both contract enforcement and investor protection indices—have negatively affected private investment, FDI, entrepreneurship, exports, and fiscal performance. Looking over the next few years, the authorities agreed to: (i) further simplify procedures for fiscal cases, including by fully implementing specialized tax chambers in the large courts (to improve revenue collection); (ii) develop an action plan with concrete targets and deadlines for clearing the existing large case backlog in courts (e.g. to help recover overdue tax revenues); and (iii) adopt additional efficiency measures to reduce the processing time of court cases (to remove obstacles to entrepreneurship). The authorities were open to formulating a framework for more comprehensive reform over the medium-term, and agreed, as a first step, to

	Investor Protection (de jure)				Contract Enforcement	
	Disclosure Index	Anti-director Rights	Shareholders Rights	Composite Index	Number Procedures	Time-Days
Greece	1	4	5	3.3	39	819
OECD	6	5.2	6.8	6	31.2	517.5
World	5.3	4.4	5.7	5.1	38.1	605.1
Sub-Saharan Africa	4.8	3.4	5	4.4	39.1	639
East Asia & Pacific	5.2	4.5	6.3	5.3	37.3	531.8
Eastern Europe & Central Asia	6.3	4	6.2	5.5	37.3	402.2
Latin America & Caribbean	4.1	5.3	6	5.1	39.8	707
Middle East & North Africa	6.3	4.6	3.4	4.8	43.9	664.1
South Asia	4.4	4.4	6.3	5	43.5	1,052.90

establish task forces that will review the code of civil procedures and design a performance and accountability framework for courts.

35. **The authorities agreed to strengthen the management of the structural reform effort** (MEFP ¶26). Overall, reform implementation has lagged since the structural program was launched a year ago, reflecting capacity constraints, but also a lack of a management oversight mechanism as well as an absence of a monitoring system to track reform outcomes. In this context, the authorities recognized the need to establish a committee to oversee the structural reform work, identify areas where more capacity and technical assistance are required, and propose any required adjustments to the reform strategy, to better deliver the growth objective. Project managers will be appointed for each reform initiative, establishing clear lines of responsibility and accountability. Finally, staff is closely collaborating with the authorities to develop and update a set of monitoring indicators to track the implementation status of reforms and their outcomes.

E. External Financing

36. **The authorities recognized a need for additional external financing to support implementation of their policy program** (MEFP ¶27) (Tables 16–18). In light of the current difficult financing circumstances, Greece would be unlikely to regain private market access by early 2012, as initially envisaged under the program. While the authorities' significant privatization effort would help to reduce financing needs, a residual gap of about €70 billion would remain through the end of the program period (mid-2013). (This could rise perhaps to a total of €104 billion through mid-2014 if market access is further delayed by a need to demonstrate a more advanced state of fiscal and macroeconomic adjustment). The additional needed amounts are spread across the program period, but some front loading is likely due to the additional estimated funding needs for the FSF.

Greece: Quarterly profile of financing needs
(in billions of euro)

	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013
Total gross financing needs 1/	**20.0**	**29.7**	**19.9**	**15.7**	**15.0**	**3.5**	**8.1**	**16.0**
Deficit	4.9	4.0	3.3	4.1	6.5	0.9	2.5	3.2
Amortization	16.3	3.1	14.7	9.7	8.3	2.4	6.1	13.3
T-bills (net)	10.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Existing MLT debt	6.3	3.1	14.7	9.7	8.3	2.4	6.1	13.3
Official financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities	0.5	0.5	0.4	0.4	0.4	0.4	0.5	0.5
Clearance of domestic arrears	0.0	1.4	0.5	0.5	0.5	0.5	0.4	0.4
FSF	0.0	19.5	1.3	1.3	0.8	0.8	0.0	0.0
Privatization	-1.7	-1.3	-1.5	-1.5	-2.3	-2.3	-2.3	-2.3
Build-up of deposits	0.0	2.5	1.3	1.3	0.8	0.8	0.8	0.8
Memo item:								
Not yet disbursed from Euro 110 billion package (flow)	20.0	5.0	10.0	6.0	6.0	2.0	6.0	2.0
Net (fresh) official financing (net of undisbursed) and financing from voluntary rollovers	**0.0**	**24.7**	**9.9**	**9.7**	**9.0**	**1.5**	**2.1**	**14.0**

1/ Net of privatization.

37. **A strategy to address the financing gap was agreed with the authorities and euro area member states** (MEFP ¶28–29). The gap will be filled through private sector involvement (PSI), with additional official support from euro area member states covering amounts not provided for by PSI. An orderly, pre-emptive and comprehensive PSI operation

can improve Greece's debt service profile and prospects to return to the market. The approach may, however, crystallize losses on Greek banks' balance sheets, necessitating extra funding for the FSF (as discussed in ¶20 above). The design of a debt operation must also confront the need to preserve Greek banks' eligibility for ECB refinance and minimize spillovers. These factors have led European policymakers to seek a voluntary scheme that would not involve a credit event or a ratings downgrade to selective default (although it may not be possible to avoid the latter on a temporary basis).

38. **The financing strategy is expected to be fully fleshed out by the time of the next review** (MEFP ¶28–29). The authorities have hired a legal adviser and intend to soon hire a financial advisor to help design the framework for voluntary rollover commitments by the private sector. The scope of the PSI operation is under discussion, but would likely extend through at least mid-2014 and aim to draw in wide participation by the private sector to deliver a substantial reduction in Greece's funding needs. Staff has cautioned against offering any incentives for creditor participation that would negatively impact on Greece's already-difficult debt dynamics and has pointed to a need to allow time to develop and flesh out proposals with creditors. Box 3 considers international experience with PSI.

F. Program Modalities

39. **Key program targets have been met** (Tables 1–2, Letter of Intent):

- All end-March **quantitative performance criteria** were met, as well as the continuous performance criterion (PC) on external arrears for end-June. However, the end-March indicative target on the accumulation of new domestic arrears by the general government was again missed in March. A waiver of applicability is being requested for end-June performance criteria (except concerning external arrears). Final data are not yet available to assess observance, but the partial data that is available do not provide any clear evidence that the criterion will be missed. In any event, the policies agreed offer assurance that the program will be successfully implemented.

- The end-March **structural benchmarks** (covering fiscal institutional reform, pension reform follow-up work, bank restructuring, and provision of new liquidity to banks) and the end-April structural benchmark (on the publication of the MTFS draft) were all met, although with delays. The end-May structural benchmark on the submission of banks' medium-term funding plans to the ECB and the BoG was also observed. The end-June structural benchmarks on completion of the strategic plan for revenue administration, fiscal data publication, and on the single pay scale have not yet been observed, but are expected to be implemented with a delay by end-July (in the latter case as part of the new proposed structural benchmark for the implementation of the second stage of the MTFS).

40. **The authorities completed four prior actions for the review** (Letter of Intent and MEFP Table 2). To reassure about their ability to overcome political opposition and implement the ambitious fiscal and privatization policies necessary to make debt sustainable, the authorities secured passage by Parliament of: (i) the medium-term fiscal strategy (detailing how deficits will be brought under 3 percent of GDP by 2014); (ii) the first stage MTFS implementation legislation (covering 45 percent of the measures by value in the MTFS); (iii) the agreed privatization and real estate development strategy (detailing the objects and timeline for privatization); and (iv) the legislation establishing the privatization agency (the tool to secure timely implementation of the privatization plan).

41. **New and updated elements for program monitoring have been put into place**.

- **Quantitative performance criteria.** End-July 2011 performance criteria have been proposed, and completion of the fifth review will be conditioned on their being met. At the same time, fiscal targets for September and December 2011 have been reset to capture the phasing of the newly approved measures under the MTFS (MEFP Table 1). The definitions of the fiscal performance criteria are proposed to be maintained, although the staff retains a bias towards broadening these at future reviews to capture additional accrual elements (but only with evidence of progress with data reporting). Finally, a new quarterly performance criterion on cumulative privatization proceeds is proposed to support monitoring of progress with the authorities' privatization strategy (MEFP Table 1 and TMU). Timely execution of the strategy is considered critical to ensure the program remains fully financed, and to ensure that Greek debt levels decline.
- **Structural benchmarks.** Several new benchmarks are proposed in support of program objectives. First, to support the achievement of fiscal adjustment targets, a benchmark has been specified covering passage of legislation to implement second-stage pension reforms, the new civil service wage grid, and the closure of extra-budgetary funds (MEFP ¶ 7). Second, to support the macro-critical goals of combating entrenched tax evasion and improving tax collection, a benchmark will cover the achievement of the targets set in the anti-tax evasion action plan (MEFP ¶ 8). Third, to support timely, orderly, and effective bank intervention and resolution, a benchmark will cover legislation to strengthen the FSF operating framework and bank resolution framework (MEFP ¶ 12).

42. **The authorities indicated that they would expand their use of technical assistance to support timely and effective implementation of the program** (MEFP ¶30). Technical assistance from the Fund covering revenue administration, public financial management, and banking issues is expected to continue (Appendix II). It will be complemented with new assistance from EU member states in areas tightly linked to the execution of the authorities' fiscal policy and structural reform initiatives. The areas targeted include: health and social security reforms (e.g. e-procurement, e-prescription, and IT systems); state enterprise reforms (e.g. performance reviews); and growth enhancing

structural reforms (e.g. labor training). They also include: fiscal management reforms (e.g. administrative reorganization and budget monitoring systems); and taxation reforms (e.g. anti-corruption reforms and audit techniques). Discussions are underway to ensure coordination with Fund TA.

43. **The substantive criteria for exceptional access continue to be observed.**

- *Exceptional balance of payments pressure*. Capital account pressures in Greece remain acute, and Greece continues to face extremely high spreads, with large rollover requirements generating financing needs well beyond normal Fund limits.

- *Debt sustainability on a forward looking basis*.[3] The very significant uncertainty around the baseline projection does not allow the staff to deem debt to be sustainable with high probability (see discussion in ¶11 and Appendix I). However, meeting the high probability test is not required under the revised exceptional access policy when there is a risk of international systemic spillover effects, as is now the case in Greece (see Box 4). Nonetheless, in light of the uncertainties about the debt situation, Greece, the Fund and euro area member states are considering the modalities of a strategy to place debt on a more sustainable path, including the involvement of the private sector and/or stronger official sector support. Useful steps from this perspective are the recent interactions with creditors and the hiring of advisors by the Greek authorities.

- *Prospects to regain market access*. At present, markets attach a high probability that Greek debt will be restructured and, until this risk abates, market access will not be possible, let alone on the scale necessary to repay Fund resources. However, the program gives Greece time to change markets' perceptions and, in particular, to demonstrate that the country can implement the fiscal adjustment and privatization plans (within a broader strategy to place debt on a more sustainable path). With this as backdrop, once Greece restores growth and the debt ratio begins to fall, market access should resume. The continuing commitment of euro area member states to backstop Greece over the coming years is also expected to help reassure market sentiment and support a smooth return to market access within a timeframe and on a scale that would allow Greece to meet its obligations to the Fund.

- *Capacity to deliver the program*. Political and social pressures have been exceptionally high in Greece of late and, of course, the country also suffers from significant administrative capacity constraints. Notwithstanding this, the authorities have completed a first year of adjustment with significant fiscal and structural

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[3] This criterion involves a probabilistic assessment that debt is sustainable in the medium term taking into account all facts and circumstances. See Access Policy, Decision No. 14064-(08/18), Feb 22, 2008, as amended (BUFF/10/56, May 9, 2010 and 14716-(10/83), August 30, 2010).

achievements to show for it. Moreover, successful completion of the prior actions for this review has reaffirmed the government's commitment to the program and the political capacity to achieve its goals. Regarding institutional capacity, the authorities' deepened commitment to technical assistance in macro-critical areas provides reassurance about their technical capacity to implement the program.

44. **Financing assurances are in place for the review**. Euro-area member states have agreed to ensure that required program financing is in place, after accounting for PSI, as announced by the Eurogroup on July 2. The amount of official support will depend on the success of the PSI initiative (a purely voluntary rollover scheme may yield very little). Euro area member states have also noted that they are prepared on the basis of Greece's policy commitments and a revised financing strategy involving PSI to launch a new medium-term program to support Greece's adjustment efforts. This should secure medium-term balance of payments viability. The allocation of financing between PSI and official sector commit will be determined at the time of the next review, once the PSI process is clarified.

45. **The authorities have the capacity to repay the Fund under the program baseline**. Indicators of Fund exposure are elevated but have improved since the last review given the change in the terms of EC loans (Table 19). Still, it remains the case that in the baseline repayment to the Fund depends on restoring market access. Risks to the Fund are also mitigated by the Fund's long-standing preferred creditor status in relation to other private and official bilateral creditors.

46. **Risks to the program remain substantial but have shifted in nature in light of events**:

- *Policy implementation delays*. The authorities have demonstrated the political commitment to pass reforms despite considerable social unrest and political pressures. With medium-term reforms passed and elections still distant, this risk has receded, but remains significant given popular dissatisfaction with reforms. However, delays due to capacity problems or bureaucratic resistance to reforms have grown in potential importance, especially given the complexity of some of the measures targeted in the MTFS. Tightly monitored front loaded implementation of measures and the now deeper technical assistance in the program are critical to reducing this risk.
- *Macroeconomic downside risks*. The growing pressure on the banking system raises the prospect of a debilitating credit crunch, leading to depressed economic activity and mounting fiscal revenue shortfalls. To mitigate this risk, it is critical that the ECB withdraw its exceptional liquidity support to the banking sector at a pace consistent with the program's macroeconomic framework (as envisioned in the context of banks' medium-term funding plans).
- *Financing risks*. The risk of delayed market access has materialized, and while an alternative financing strategy has been specified, it is not without risks. Private sector

involvement may well generate a selected default rating for Greece, although perhaps only for a short period of time. Continued eurosystem liquidity support for the banking system would be critical in this context to contain the risks. European policymakers can also contribute to mitigate this risk by establishing in advance how liquidity support would be made available.

V. Staff Appraisal

47. **The program is delivering some important results**. The macro-economy is rebalancing, with demand shifting from domestic to external sources, and competitiveness gradually improving. While Greece's deep recession continues, the fiscal deficit is being reduced.

48. **Greece has nonetheless been confronting a critical juncture in its reform efforts**. The fiscal adjustment has run somewhat ahead of underlying structural and institutional changes, macro rebalancing has not yet benefited from structural-reform led productivity improvements (creating a deeper recession), and market confidence in Greece has dropped sharply, putting pressure on the financial system.

49. **The authorities have defined the policies to move the program beyond its crossroads.** A medium-term fiscal strategy has set out policy reforms to secure the targeted consolidation, an ambitious privatization plan has been approved that will transfer assets to the private sector and reduce government financing needs, and the financial sector strategy has been adjusted to more aggressively confront vulnerabilities. Additional financing to support program policies has also been identified.

50. **The authorities should be commended for launching the new medium-term fiscal strategy**. It is a major undertaking for any government to define 10 percent of GDP in measures—the amount necessary in this instance to deliver a general government deficit under 3 percent of GDP by 2014. To do this, the Greek authorities have had to confront what previously were taboos in Greece—the generous terms of public employment, the resistance to closing public entities or rationalizing programs, and the reluctance to broaden the tax base, to name a few. But in doing this the government has taken a key step towards stabilizing and ultimately reducing Greece's massive debt burden.

51. **The government's privatization strategy is also welcome**. Greece has considerable public assets, and the government decision to transfer a notable portion of them to private sector control will bring benefits for both investment and growth, and for Greece's debt and interest burden. The target—to sell €50 billion in assets by end-2015—is ambitious by past international standards, but the plan has specified the intermediate actions necessary to sell the assets and has established upfront a Privatization Fund to help insulate the process from political influence.

52. **For the program to succeed, it is essential that the authorities implement their fiscal and privatization agenda in a timely and determined manner**. The debt dynamics show little scope for deviation. The prior actions implemented ahead of this review are a good start, but implementation risks are high, and achieving targets—even in the near-term—will be a challenge. The authorities must continue to strengthen the capacity of Greek institutions to deliver the reforms. The establishment of a privatization agency is a key step, but on the fiscal policy side there is still considerable work to be done to improve the revenue administration and public financial management. Stronger oversight of these fiscal institutional reforms, supported by continued technical assistance, is needed. Staff is also concerned about the shallow support shown for elements of these reforms during parliamentary debate. It is imperative for the government to develop broader support for these key reforms, not least through careful public explanation of their necessity.

53. **Greece must tackle structural reforms more vigorously to strengthen competitiveness and help the country better integrate into the euro area**. Timing and sequencing are crucial to realize synergies; for instance, realizing the macro benefits of privatization will require that the red tape holding up investment and exports be reduced. A critical mass is also important to success, reflected in the authorities' efforts to introduce new measures to address Greece's high labor tax wedge and weak judicial system. Against this backdrop, staff has been concerned about the authorities' capacity to manage the reform effort and welcomes the new management process and technical assistance to be introduced.

54. **The authorities must encourage banks to raise their capital buffer, but the government must also strengthen the support and resolution framework**. Higher capital can help banks better manage their balance sheet risks, and the authorities' efforts to force banks to do as much as possible on their own can help limit potential use of scarce government resources. Still, Greece's difficult macroeconomic circumstances will make it a challenge for banks to collective raise the capital they need. An adequate safety net and framework to effectively manage any problems—including a wider menu of resolution tools—are needed, and should be put into place by the time of the next review.

55. **Continued exceptional liquidity support from the ECB remains critical to program success**. Greek banks cannot fully extricate themselves from such support until the sovereign's own market access problems have been resolved. Clarifying that exceptional support will remain in place, in the context of agreed medium-term funding plans for banks, will be crucial to reduce uncertainty, enable market-based solutions to recapitalization, and attenuate risks of a deep credit crunch. To manage near-term liquidity risks, expeditious approval by the ECB's Governing Council of the use of new government-guaranteed bonds would be very helpful. The Bank of Greece must also be prepared to utilize its whole toolkit of options, including ELA.

56. **Greece will take longer to regain capital market access, necessitating additional external support**. Euro area member states have agreed to provide this. Still, the very public

debate in Europe over this issue—and about the role of PSI—has been a major problem for securing confidence around the program. It will be important for euro area member states to decide how they fundamentally wish to support Greece, and then put in place the mechanisms needed to deliver this support. In this context, comprehensive private sector involvement is appropriate, given the scale of financing needs and the desirability of burden sharing. And Greece's debt service capacity may also need to be bolstered by combining appropriate PSI and official support going forward. However, given the impact PSI could have on Greece's credit rating, it is imperative for euro area member states to put in place mechanisms to guarantee liquidity support to Greece's banking system while a PSI operation is undertaken.

57. **In conclusion, Greece has specified the policies necessary to overcome recent inertia and deliver program objectives**. The authorities now need to move to vigorously implement these policies in a timely manner. Implementation will be the key subject for future reviews. This program does face significant implementation risks going forward, but it represents the best option to resolve Greece's challenges and avoid broader contagion in Europe. On the basis of the authorities' policy and financial undertakings and the commitment by our European partners to continue supporting Greece going forward, staff supports the completion of the 4th review, the waiver of applicability of performance criteria, and the modification of performance criteria.

Box 1. The Medium Term Fiscal Strategy (MTFS), 2011–14

The key fiscal structural reforms underpinning the MTFS include:

- **Reforms to reduce the wage bill** (0.8 percent of GDP). The public wage bill in Greece (at 13 percent of GDP in 2009) is high by several norms. It is above the Euro area average wage bill (10.5 percent of GDP, over 1995–2009) and higher than what the wage bill should have been if it had evolved in line with potential GDP (i.e. abstracting from cyclical developments) or in line with prevailing prices in peer Euro area countries (i.e. if there were no real appreciation and no loss of competitiveness), after the adoption of the euro. These macroeconomic norms also suggest that the public wage bill in Greece should be around 9-10 percent of GDP, close to the level prevailing before the adoption of the Euro, but lower than the OECD average (11 percent of GDP, 2009). The MTEF builds on last year reforms and aims to bring the wage bill in line with macroeconomic norms (around 9 percent of GDP) through employment retrenchment and lower compensations.

    - **Retrenchment of public employment** (0.3 percent of GDP). Public employment would be reduced by about 20 percent by 2015, using reductions in contract employment (0.2 percent of GDP), attrition policies (0.1 percent of GDP), and involuntary redundancies (0.1 percent of GDP, in addition to redundancies for closure of public entities, see below). The plans would bring the public wage bill and the ratio of public employment to labor force below the OECD average (14.4 percent, 2005).

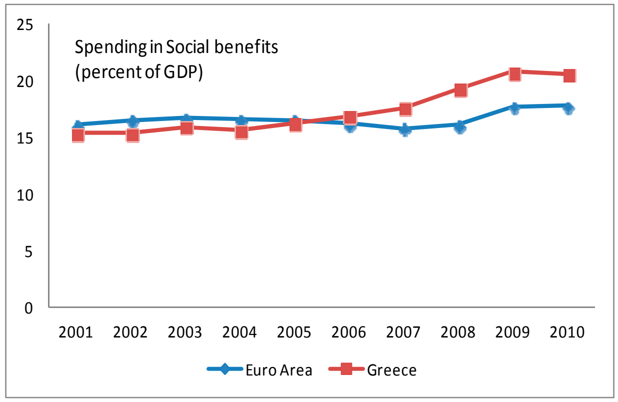
    - **Adjustments in public employee compensation** (0.6 percent of GDP). The wage structure will be brought closer to private sector norms. According to some analysis, before the 2010 reform, the public sector wage premium over the private sector was about 11 percent, after controlling for employees' and jobs' characteristics (education, genders, age, etc); the premium was 32 percent without controls. While the 2010 wage reductions have contributed to reduce these premiums, they have not fully disappeared.

- **Closure of non-essential public entities** (0.5 percent of GDP). There are about 6,000 public entities ranging from large university, research centers, non-profit associations, museums, and foundations (around 1,500 of these are in the central government, although the precise number is unknown). Their functions have never been reviewed (with only a handful of them being merged or closed in 2010), but their spending implications are significant. Focusing on just 300 autonomous agencies classified by Elstat as entities of the general government total spending is about 1.2 percent of GDP, mostly concentrated in wages and other operational spending (60 percent of the total). The MTFS aims at reducing these costs:

    - Immediately (with legislation to be passed in July), 12 large entities will be closed, merged or downsized, including large public real estate management companies (to be closed), several research centers (merged), and the public broadcasting corporation (downsized). Several smaller entities will also be closed or their functions rationalized.

    - At the same time, a stock taking exercise (to be completed in October) will identify other entities and provide detailed information to inform further closures and mergers in the context of the 2012 budget.

- **Streamlining and targeting pension and social benefits (1.9 percent of GDP).** After the 2010 reform of the main pension funds, the main supplementary and lump sum pension funds remain in deficit, disability pensions are almost 50 percent higher than the other EU countries as are pensions for arduous professions. Total social spending (see chart) is about 3 percent of GDP higher than in the rest of the Euro area, and has been accelerating since 2006. Moreover, social benefits are provided by several funds with the result that they are complex, unequally distributed (e.g. depending on the fund, some benefits may not even be provided or provided differently), and poorly targeted (e.g. seasonal and other unemployment benefits could overlap, pension income from different funds is not considered as whole when accessing targeted benefits). The MTFS reforms begin to tackle these problems:



  - They extend the pension reform to supplementary (0.3 percent of GDP), lump sum (0.2 percent of GDP), disability and arduous profession pensions (0.2 percent of GDP).
  - They start addressing some of the most evident inequities and abuses of social benefits by improving the targeting of selected benefits (e.g. unemployment benefits).
  - Since ample room remains to simplify the institutional structure, rationalize benefits across the population and different funds, and improve their targeting, a social spending review is in progress and will inform further actions (costed under the MTFS) to curtain unnecessary services, and improve targeting.

- **Broadening the tax base (2.9 percent of GDP)**. Widespread exemptions and preferential treatments undermine yields from the main taxes. The MTFS reforms aim to capture about half of these losses (a reform planned for fall 2011 will aim to further broaden the bases):

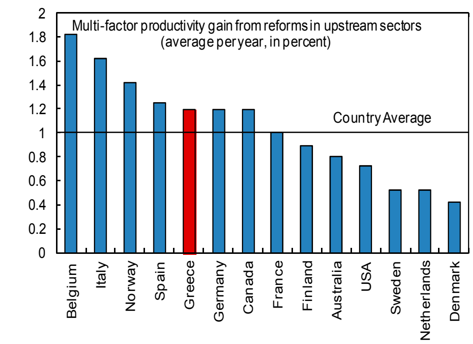
  - Under the PIT, noncore tax deductions and credits lead to revenue losses of about 0.7 percent of GDP and to one of the lowest revenue making PIT among OECD countries (4.8 percent of GDP, about half of the OECD average). The PIT base will be broadened by capping tax deductions, reducing the tax free threshold, and introducing a broad-based low rate charge on personal incomes.
  - For the property tax, with yields at 0.2 percent of GDP, Greece ranks as one of the lowest among OECD countries. This is due to a high tax free threshold, low tax rates, an outdated evaluation system, and delays in collection. Property tax revenue will be boosted by reducing the tax free threshold and increasing minimum rates.
  - VAT reduced rates and administration leakages produce a very low VAT efficiency in Greece, with potential revenue losses of about 2 percent of GDP. Selected VAT rates—(e.g. on food and beverages sold by restaurants, bars etc.)—will be raised to recover 0.4 percent of GDP.

Box 2: Greece: Structural Reform Synergies

An ambitious implementation of Greece's comprehensive structural reform agenda is key to maximize the reforms' effects, including by leveraging growth synergies among reforms. Specifically:

- ***Greece could gain from simultaneous implementation of product and labor market reforms.*** Intuitively, deregulation of product markets stimulates competition and increases firms' elasticity of labor demand, thus magnifying the effects of labor market deregulation on employment and overall output. Berger and Danninger (2005) quantify empirically the interaction effects between product and labor market reforms in the average OECD country, showing that the added benefit from policy coordination increases the reforms' employment effect by up to 40 percent if reforms are sufficiently ambitious (or 20 percent under a more modest effort). Conversely, a partial deregulation effort in one market alone, at high levels of regulation in another market, weakens and may even result in negative overall effects. Relatedly, Blanchard and Giavazzi (2003) have argued that deregulation in product markets, by reducing rents, increases acceptance of more competitive wage setting in the labor market.

- ***Sectoral product and service market reforms can have spill-over productivity effects in other sectors through input-output linkages***. For example, entry barriers and other restrictions in upstream sectors (such as transport services) can reduce competition downstream if access to downstream markets requires intermediate inputs produced upstream (i.e. the development of efficient and open distribution channels). Moreover, a higher bargaining power of intermediate goods suppliers reduces incentives for downstream firms to improve efficiency (as they would need to share rents with suppliers). Bourles et. al. (2010) estimate that, for Greece, total multifactor productivity gains in downstream sectors from adopting best practices in upstream sectors would be around 1.2 percent per year, with most gains to be obtained from deregulation of wholesale and retail trade, transportation and storage, and renting of material and equipment and other business activities.



- ***There are complementarities between regulatory reforms and privatization***. In addition to its contribution to the fiscal debt-reduction effort, privatization of state-owned enterprises is expected to increase economic efficiency, raise investment, and attract FDI and new technologies (Nellis and Kikeri, 2002, Meggison and Netter, 2011). However, for these benefits to materialize, a change in ownership alone is not sufficient: establishing independent regulatory agencies (i.e. in energy), strengthening the competition authority, and promoting investor protection and corporate governance are also required (Choi and Nam, 2006). In addition, in Greece's case, to attract more investment, including FDI, it will be paramount to reduce red tape by reducing barriers to starting up a business, streamlining licensing and land use legislation, simplifying export procedures, codifying the existing body of legislation and regulations, and facilitating fast-track investment procedures. Finally, ensuring a well functioning judicial system is key to boosting investor confidence by protecting rights and lowering corruption.

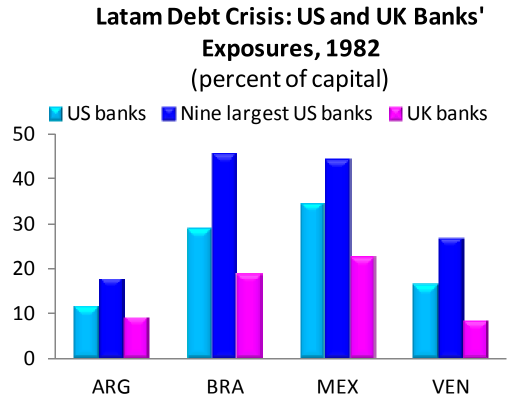
- ***Finally, fiscal and financial reforms also help to reinforce efforts in the structural area***. Achieving wage moderation in the economy—important in the context of Greece's large competitiveness gap— requires both reforms of private labor markets and fiscal reforms reducing the government's wage bill. Moreover, measures to reduce the tax wedge that are needed to spur employment should occur in the context of broader social security reforms limiting entitlements and enhancing tax bases. More broadly, fiscal reforms aimed at reducing the deficit and debt, reducing uncertainty and increasing the efficiency of taxation complement reforms spurring private investment. Finally, financial reforms protecting the stability of the system are essential to ensure that firms will have access to adequate financing.

- See Berger, H. and S. Danniger, 2005 "*Labor and Product Market Deregulation: Partial, Sequential, or Simultaneous Reform*?" IMF WP/05/227; Blanchard O. and Giavazzi, F., 2003, "*The Macroeconomic Effects of Regulation and Deregulation in Goods and Labor Markets*," Quarterly Journal of Economics 118; Bourles, R, Cette G., Lopez J., Mairesse, J. and G. Nicoletti, 2010, "*Do Product Market Regulations in Upstream Sectors Curb Productivity Growth ? Panel Data Evidence for OECD Countries*," NBER Working Paper 16520; John Nellis and Sunita Kikeri, 2002, "Privatization in Competitive Sectors: The Record to Date," World Bank Policy Research Working Paper No. 2860; William L. Megginson and Jeffry M. Netter , 2001, "From State to Market: A Survey of Empirical Studies on Privatization," Journal of Economic Literature; Choi, S. and S. Nam, 2006, "The Long-Run Stock Performance of Privatization IPOs," Multinational Finance Journal, vol. 10 no. 3-4.

Box 3. Experience with Private Sector Involvement

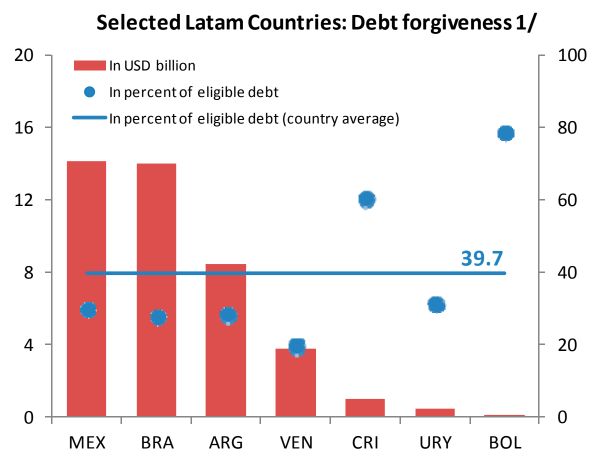
Private sector involvement (PSI) in past cases has taken various forms, ranging from formal commitments by banks in terms of continued exposure to the economy to participation in debt operations:

- The Latin American debt crisis. The first phase of the debt crisis—triggered by the Mexican default in 1982—saw extensive private sector involvement in the form of voluntary rollovers of existing claims and capitalization of interest payments by foreign banks, mostly US banks with sizable exposures threatening their own solvency. Participation was high (with average rollovers of 90 percent for major debtors). A key element underpinning the initial success of the initiative was the favorable regulatory treatment in the US that allowed banks to hold the debt at face value until they were able to start provisioning for losses.[1]



Source: Cline (1995).

- In the late 1980s and early 1990s, most countries entered into Brady deals with their creditors. The debt operations involved a combination of principal haircuts and long extensions of maturities at par with reduced interest rates or at discount with market rates. The Brady plans were successful in addressing the debt overhang problem afflicting these countries, allowing a return to market access after a decade. Participation was high, with haircuts averaging 40 percent of eligible debt. Lengthy litigations were largely avoided thanks to the quasi-voluntary structure of the plans, facilitated by the menu of different options offered to creditors— including new money—to fit their risk-return and accounting preferences. Moreover, among different enhancements, debtors were able to offer principal and interest guarantees of new bonds, as the high market rates on zero-coupon AAA assets allowed effective use of Fund and WB resources to purchase collateral at cheap face value.

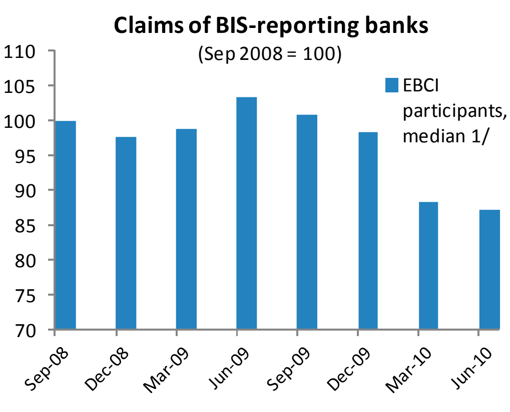


Source: Cline (1995)
1/ Reduction in face value of original debt and in present value of interest reductions, less amount spent on buybacks (as per Brady agreements, 1990-1994).

[1] See also Cline, W.R. (1995), *International Debt Reexamined*, Washington, DC: Institute for International Economics.

- **Debt operations**. In the 1990s and more recent years, several emerging market countries were involved in debt operations.[2] Most debt restructurings (e.g. Ukraine, Pakistan, Uruguay, the Dominican Republic, and Jamaica) were conducted on a preemptive basis through debt exchanges involving maturity extensions at pre-crisis interest rates. NPV reductions reflected individual country situations but on average tended to be larger in post-default debt restructuring cases (e.g. Ecuador, Russia, and Seychelles). Although debt restructurings involved in many cases a significant share of total debt and multiple debt instruments, creditor participation rates generally exceeded 90 percent, with no significant litigation and debt workouts completed in less than 2 years (with the notable exception of Argentina). In most cases, the PSI strategy relied on a mix of incentives and coercion, with the limited availability of official financing providing a credible threat of default. Other key factors included an effective communication strategy with bondholders (especially when faced with fiduciary responsibilities), minimum participation thresholds and exit consents, the presence of collective action clauses (especially in all recently restructured debt), and other forms of incentives to minimize coordination problems.

- **Voluntary debt rollover initiatives**. During the Asian crisis, PSI was mainly in the form of voluntary rollover of short-term debt and interbank claims by banks. In Korea, rolled over holdings of short-term debt were eventually converted into sovereign bonds with maturities ranging between one and three years.[3] However, in Thailand, commitments by Japanese groups to maintain their exposure to their subsidiaries were short-lived, as undermined by emerging problems in the parent banks back home.[4] During the 2008 global crisis, a number of program countries in Eastern Europe successfully sought voluntary commitments by foreign banks to keep their subsidiaries adequately capitalized and liquid.[5] The overall success of the European Bank Coordination Initiative (informally known as the Vienna Initiative)—with rollover rates on average exceeding 100 percent in the first year of the crisis—largely depended on effective coordination between home and host authorities, with financial and technical support from the Fund, EC, EIB, and other major IFIs. Success was also due to specific features such as the limited number of banks involved (which simplified coordination), the parent-subsidiary relationships involved, the lack of other lending opportunities for banks during the global crisis, satisfactory loan performances in the banks' branches and subsidiaries, and adequate liquidity for the banks at a consolidated level. Indeed, as market conditions eased in the region, demand and supply factors have led to gradual reductions in exposures, notably by parent banks in Greece and other parts of the euro area periphery facing liquidity pressures at home.



Source: BIS, and staff own estimates.
1/ Dates of committments under EBCI vary by country.

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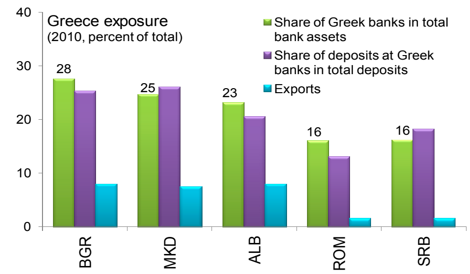
[2] See also Sturzenegger, F. and J. Zettelmeyer (2006), *Debt Defaults and Lessons from a Decade of Crises*, Cambridge, Massachusetts: The MIT Press.
[3] IEO (2003), IMF and Recent Capital Account Crises: Indonesia, Korea, Brazil, Evaluation Report.
[4] See Lane, T. D., A.R. Ghosh, at al. (1999), IMF-Supported Programs in Indonesia, Korea and Thailand, IMF Occasional Paper No. 178.
[5] See also Box 10 in IMF (2009), Review of Recent Crisis Programs, IMF Staff Paper, September.

Box 4. Greece: Spillover and Contagion Risks

The direct spillovers of a Greek debt operation can remain manageable, provided that necessary safeguards (liquidity and capital backstops) and an effective communication strategy are put in place. Direct spillovers arise through two key channels:

- The countries most exposed to direct spillovers from Greece are those hosting Greek bank subsidiaries. These are concentrated in Southern Eastern Europe, with Greek banks accounting for over 20 percent of total bank assets and deposits in Bulgaria, FYR of Macedonia, and Albania. Although, signs of regional contagion have so far been limited, with relatively stable CDS spreads and no reported bank problems, fast deleveraging by Greek parent banks or deposit pressures in their subsidiaries could have significant macro-financial spillovers to these countries.

SEE: Links to Greece



Source: National authorities, DTS, and staff estimates.

- Foreign holders of Greek government bonds (GGBs) would also face direct impacts from a Greek debt operation. The foreign holdings of GGBs, estimated at about €180 billion as of end-May 2011, tend to be concentrated in European countries, notably in German and French banks (with some of the latter also exposed to private sector debt via their Greek subsidiaries). Exposures appear manageable when compared to the size of the affected economies, averaging around 1½ percent of GDP, although exposure relative to bank equity is higher, and there are some concentrations of exposure in individual banks. Beyond individual Euro area exposures, the ECB could also be directly affected by a broad debt operation in Greece, as a result of losses on its holding of Greek securities and its lending to Greek banks.

Foreign banks' holdings of GGBs, 2010 1/

Country	Billion of euro	Percent of GDP	Percent of equity capital
Germany	17.1	0.7	5.2
France	11.3	0.6	3.7
UK	2.6	0.2	0.5
Italy	1.8	0.1	0.8
Belgium	1.3	0.4	2.5
USA	1.1	0.0	0.1
Switzerland	0.5	0.1	0.4
Spain	0.4	0.0	0.2
Others	4.7	...	...
Total	**40.8**	...	...

Source: December 2010 BIS data, ECB, central bank w ebsites, WEO, and staff estimates.

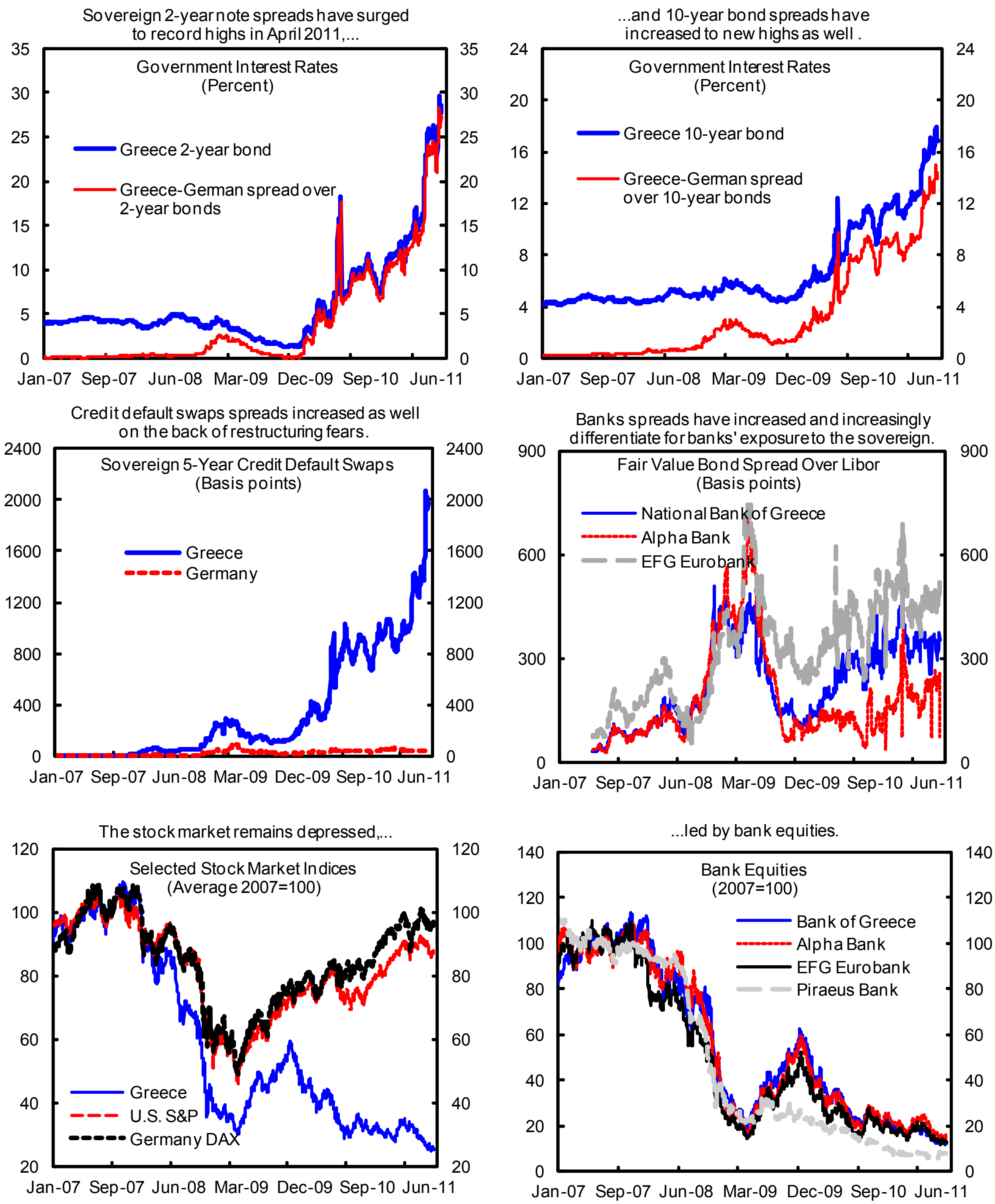
1/ BIS reporting banks, December 2010.

However, risks could escalate dramatically under a poorly implemented debt operation without adequate safeguards, or under a disorderly default scenario. These instances could threaten stability in the euro area, with substantial spillovers to the global financial system. The spillover channels in this instance would be largely indirect:

- Markets could assess a change in the "rules of the game", in particular that Europe was willing to tolerate defaults. Risks would be repriced accordingly, with market pressures propagating to countries in the euro area with high debt-to-GDP ratios and growth/competitiveness problems.
- Markets could also doubt the adequacy of the European safety net to deal with the emergence of generalized sovereign funding disruptions and sizable credit losses in the banking system. This could trigger deposit runs, and liquidity problems in the European banking system, which remains relatively highly leveraged (both in absolute terms and compared to the U.S. and U.K), and dependent on wholesale market funding. (See also the Staff Report for 2011 Euro Area Policies Article IV Consultation.[1])
- Given the financial interconnectedness of the affected countries with the rest of the world, these shocks could quickly spread across the globe and generate heightened capital flow volatility.

[1] Euro Area Policies: 2011 Article IV Consultation-Staff Report, forthcoming.

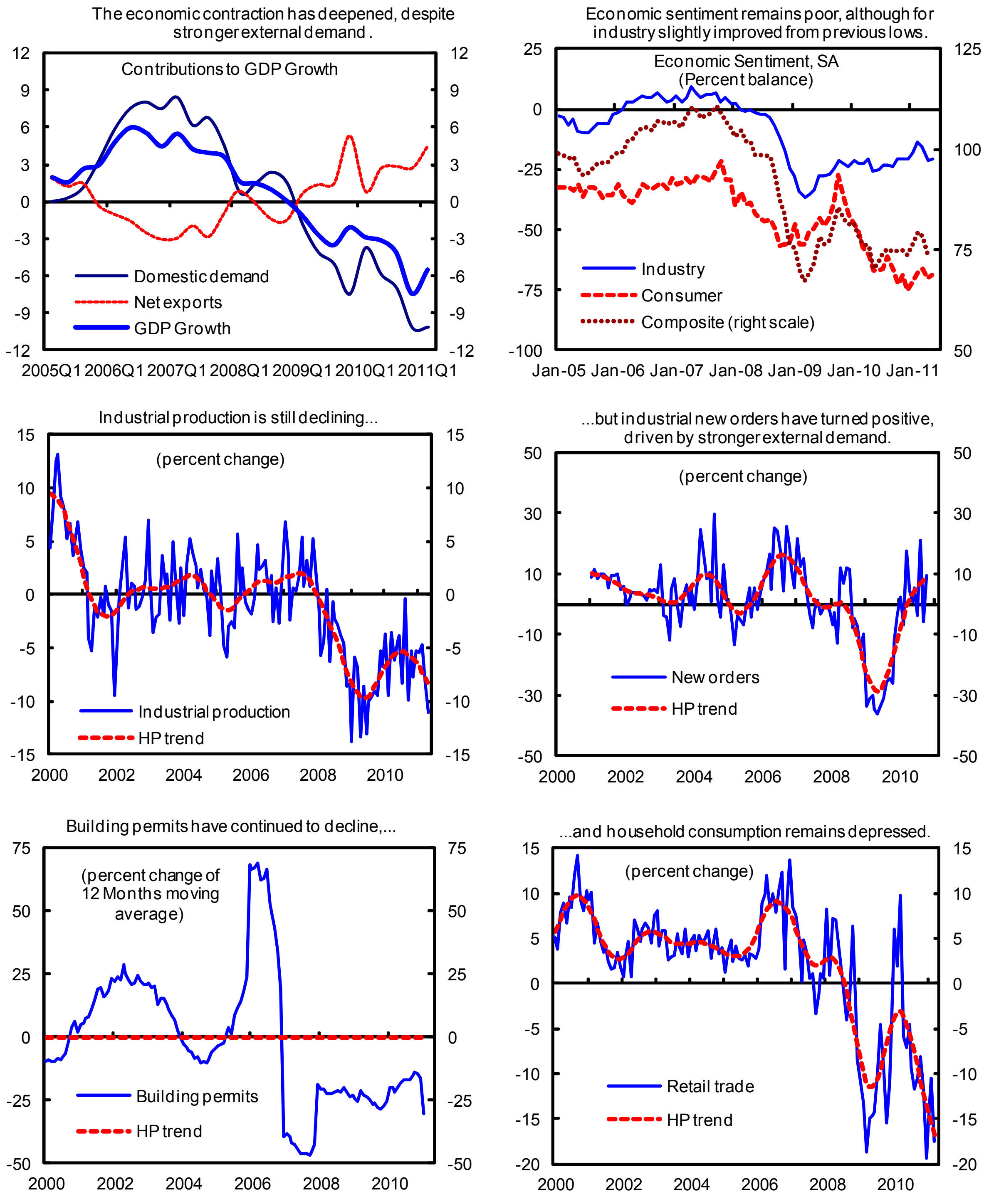
Figure 1: Greece: Financial Indicators



Sources: Bloomberg; and Moody's Creditedge.

Figure 2. Greece: Selected Indicators

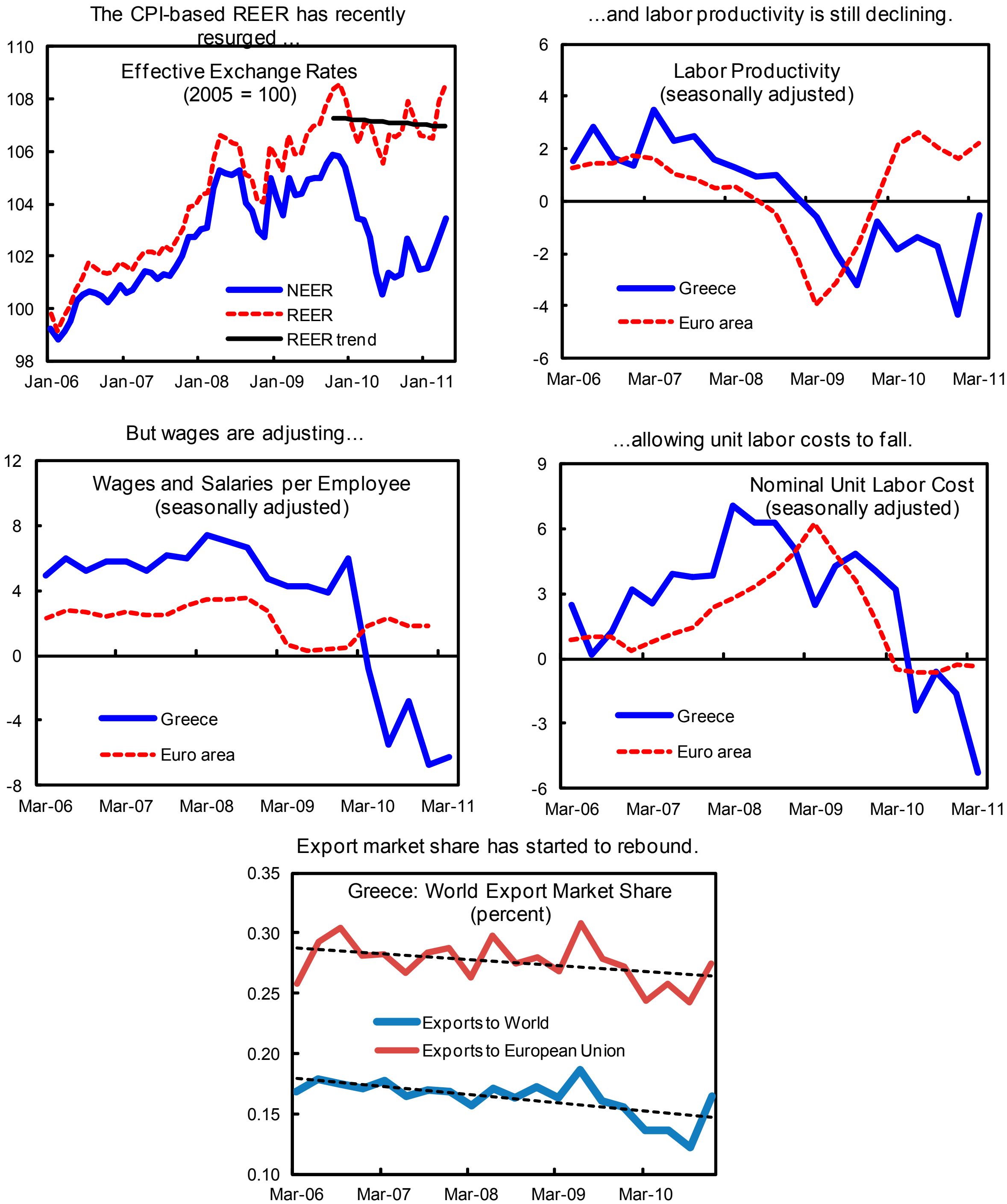
(Year-on-year percent change, unless otherwise indicated)



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

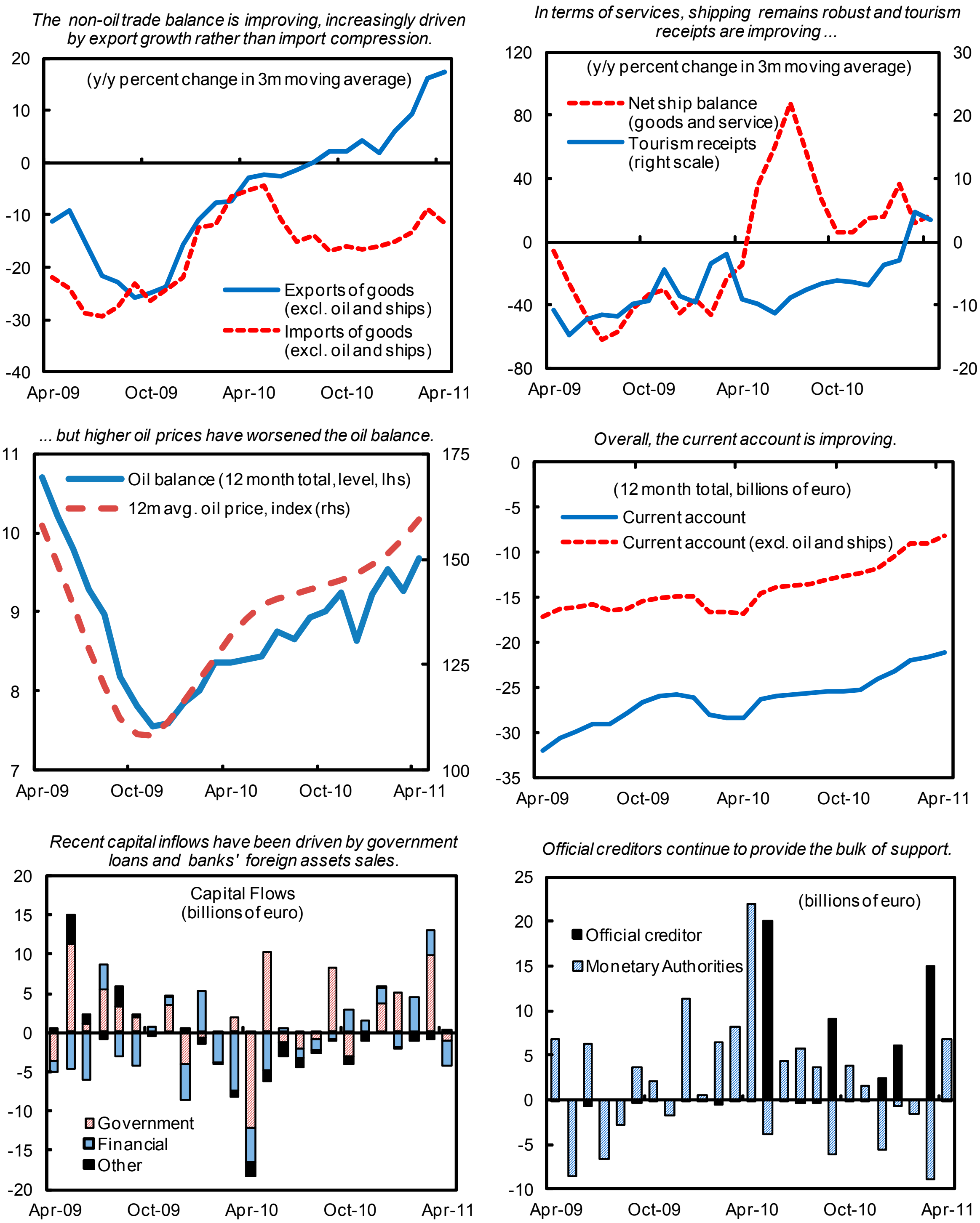
Figure 3. Greece: Competitiveness Indicators

(Year-on-year percent change, unless otherwise indicated)



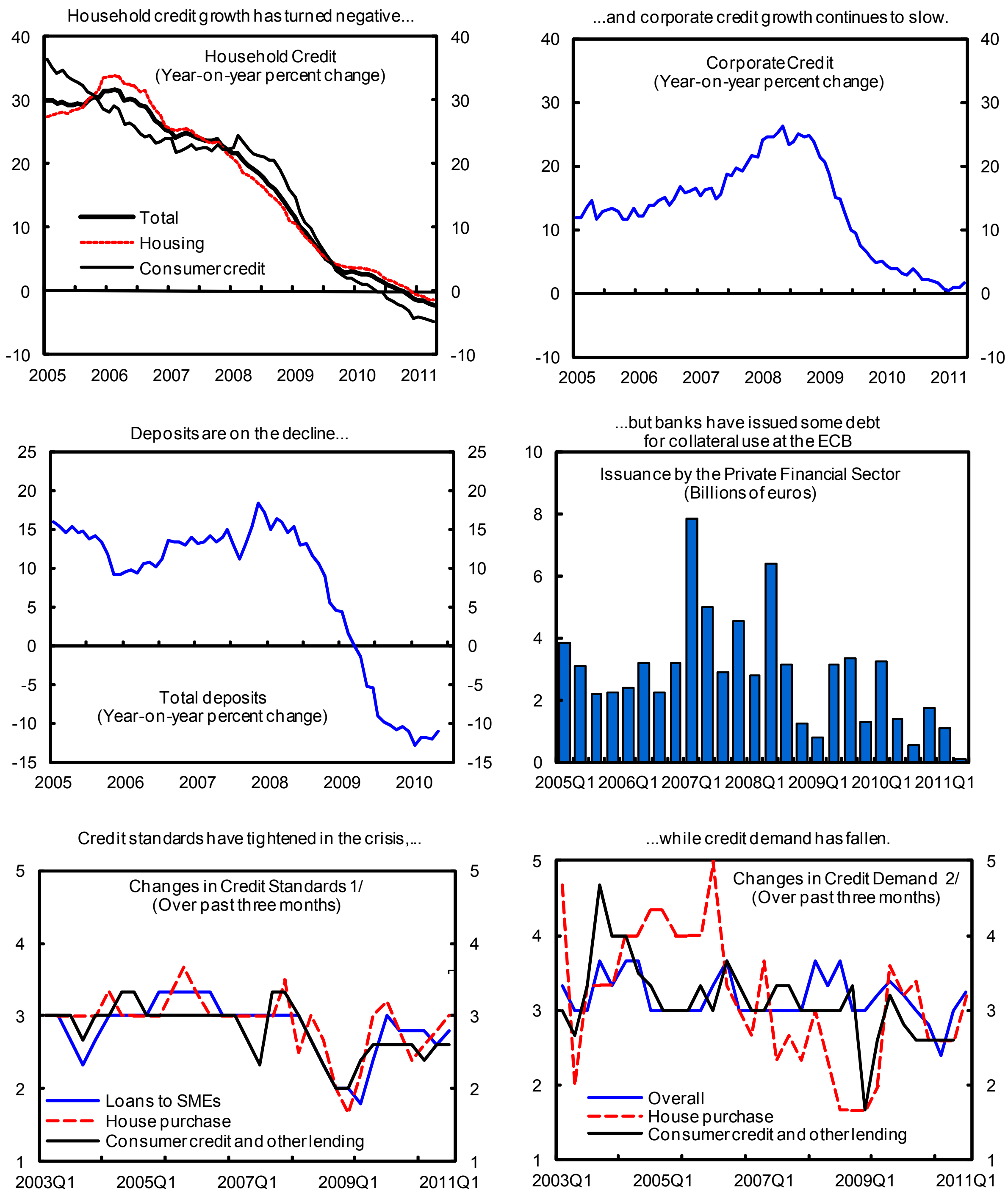
Sources: Eurostat; World Economic Forum; and IMF staff calculations.
1/ Includes 184 countries, estimated for 1973-2009.

Figure 4: Greece: Balance of Payments



Sources: Bank of Greece; and IMF staff calculations.

Figure 5. Greece: Money and Banking Indicators

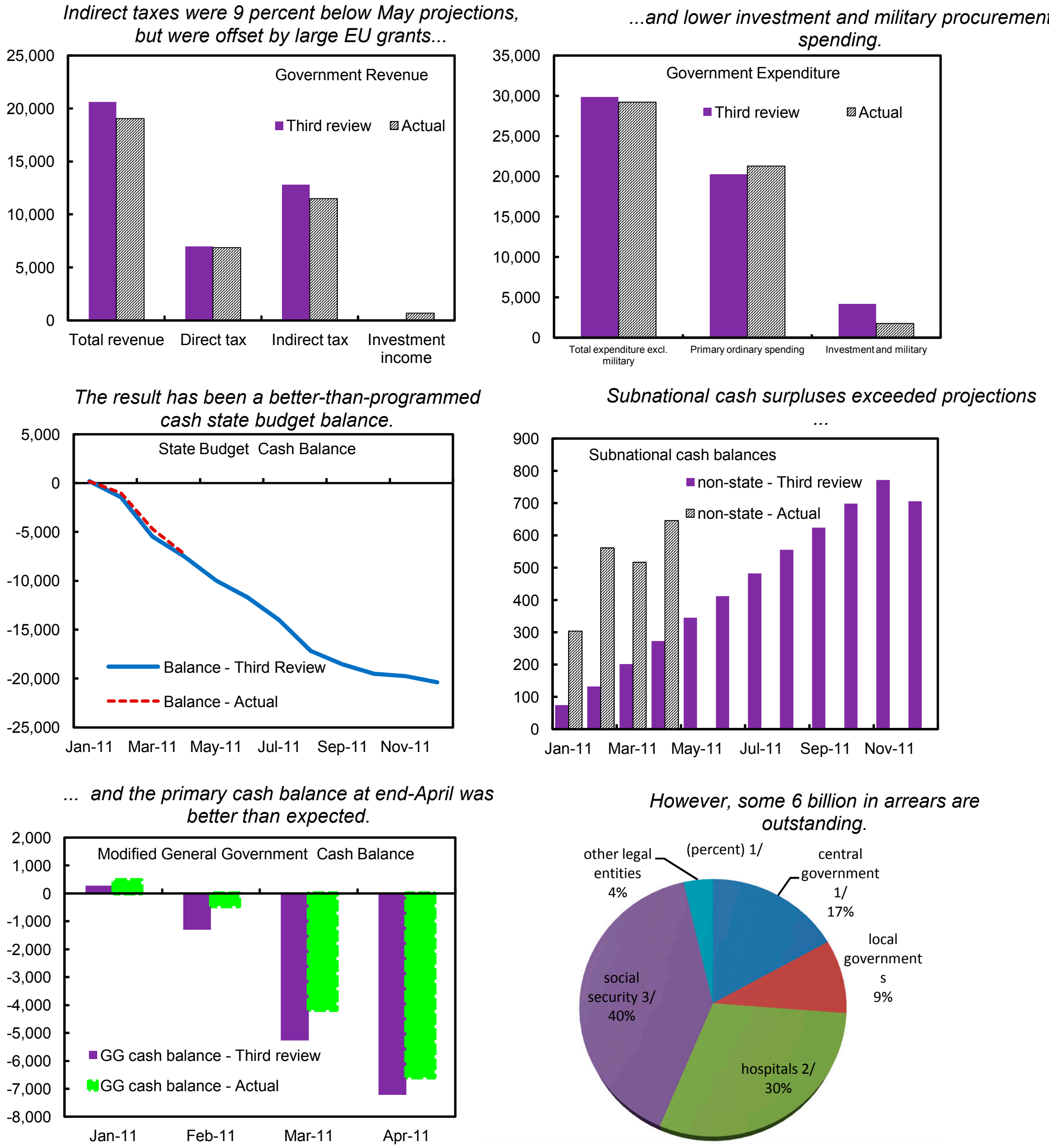


Sources: National Statistical Service; Bank of Greece; Bloomberg; ECB; and IMF staff calculations.

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

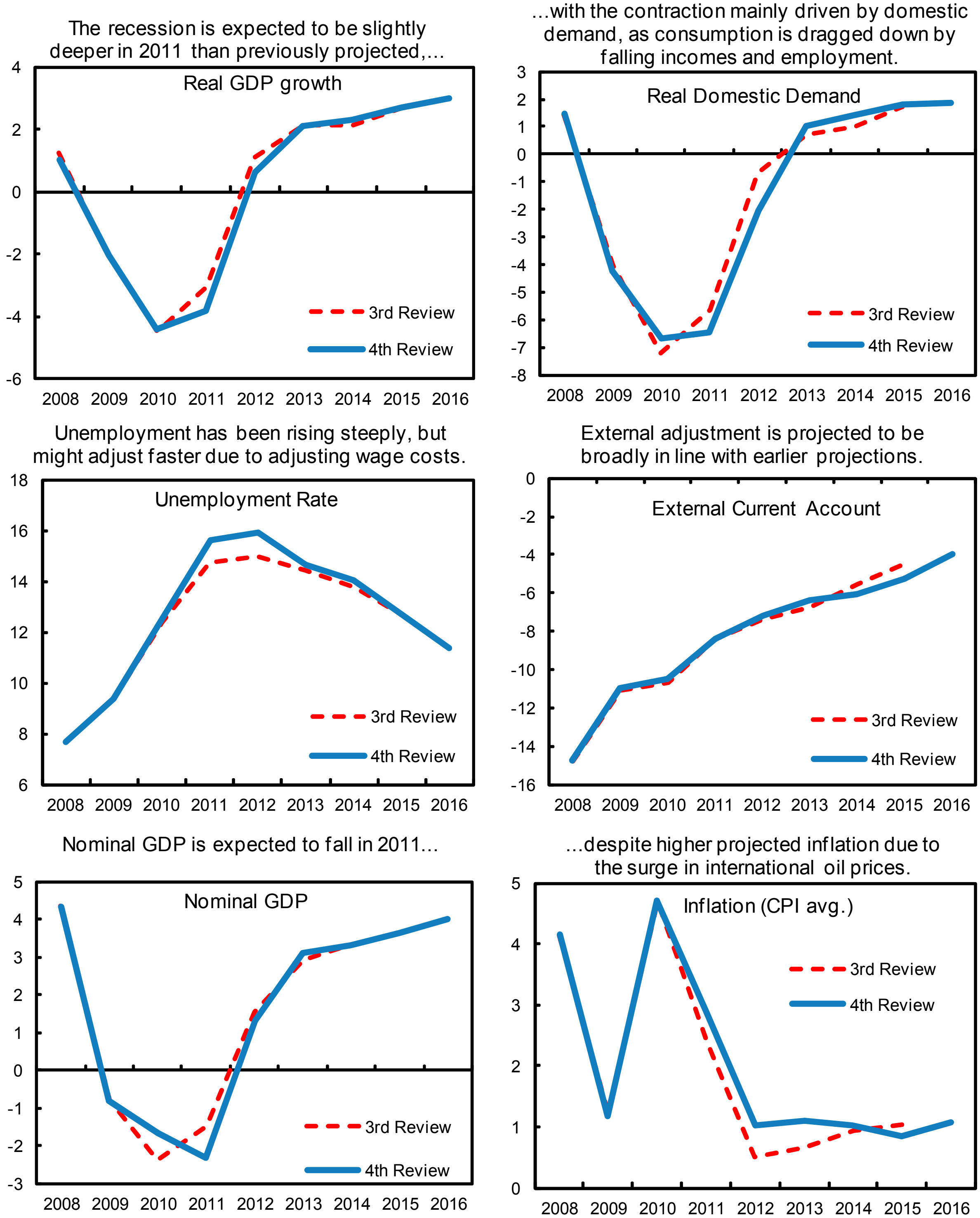
2/ 1= decreased considerably; 2= decreased somewhat; 3=remain unchanged; 4=increased somewhat;
5= increased considerably

Figure 6. Greece: Budget Execution up to end-May 2011



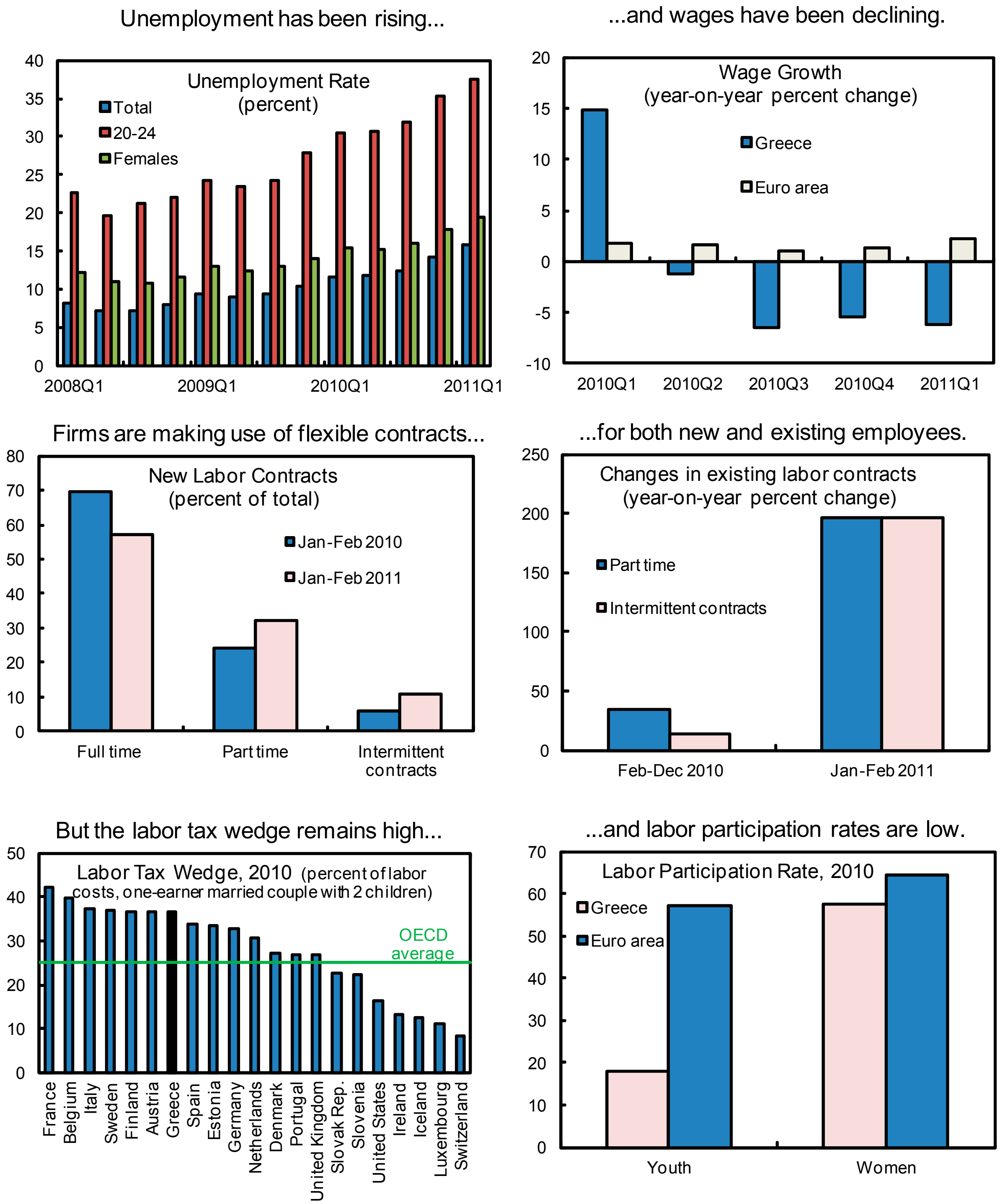
Sources: National authorities; and IMF staff calculations.
1/ Survey results. Data refer to end-April 2011 and include arrears predating 2010 (pure stock data). 2/ Hospital arrears include 0.1 billion of arrears not yet settled out of the total stock of 5.3 billion of arrears to suppliers known at end-2009. 3/ Social security arrears include 0.9 billion of arrears on lump sum payments to civil servant pensioners related to 2009 and 2010.

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



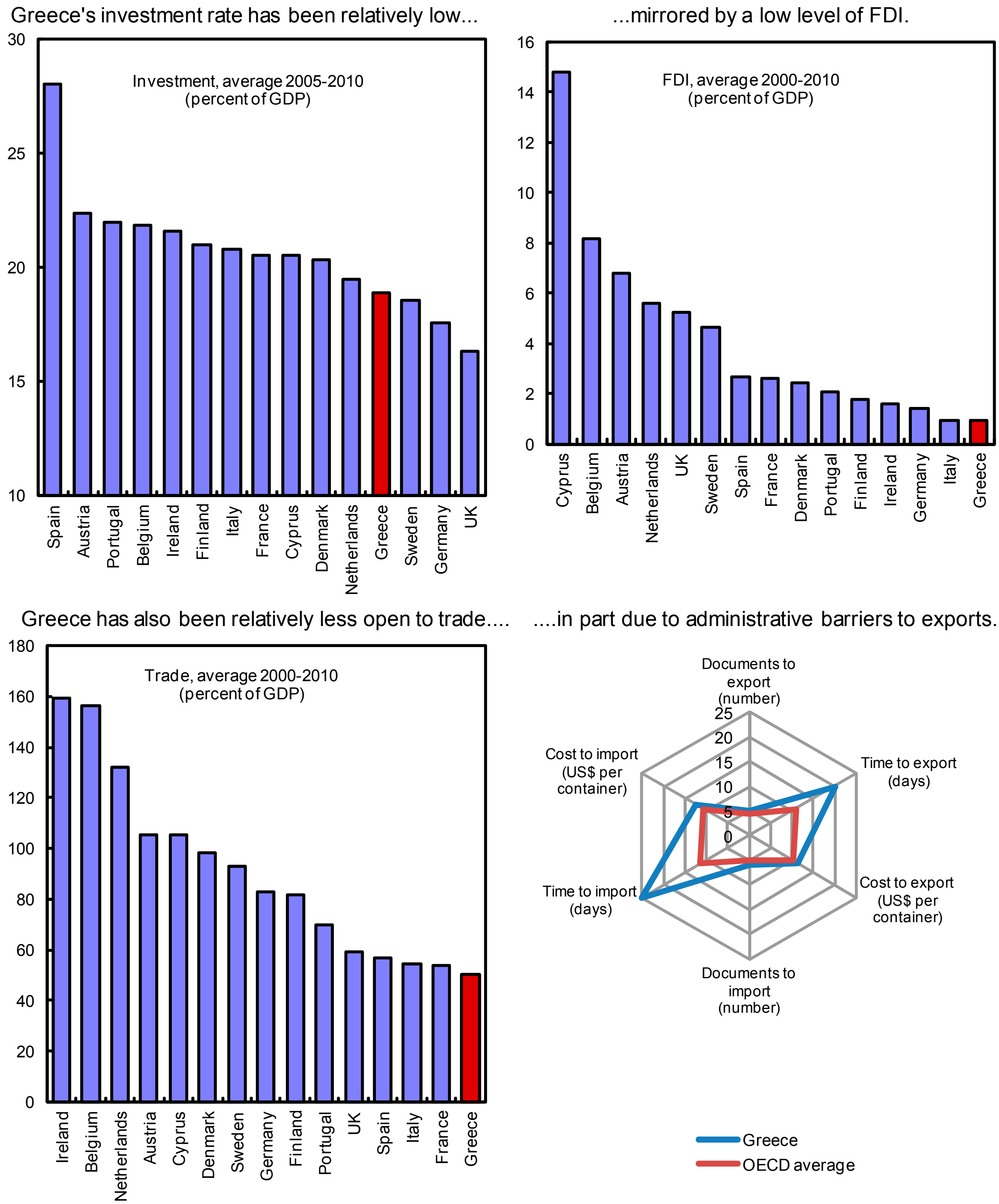
Sources: National authorities; and IMF staff projections.

Figure 8. Greece: Recent Labor Market Developments



Sources: Eurostat; OECD; and Bank of Greece.

Figure 9. Greece: Investment and Export Performance



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

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

	2006	2007	2008	2009	2010	2011	2011
						Prog.	Proj.
	(Percentage change, unless otherwise indicated)						
Domestic economy							
Real GDP	5.2	4.3	1.0	-2.0	-4.5	-3.0	-3.9
Output gap (percent of pot. output)	5.1	7.8	7.6	4.2	0.1	-3.1	-3.4
Total domestic demand	6.4	5.7	1.4	-4.0	-5.9	-5.6	-6.0
Private consumption	5.2	2.8	3.2	-1.8	-4.6	-4.6	-4.9
Public consumption	8.8	8.2	1.5	10.3	-8.3	-8.5	-8.4
Gross fixed capital formation	10.6	5.5	-7.5	-11.2	-16.5	-7.5	-8.8
Change in stocks (contribution)	0.4	0.8	1.1	-2.8	1.6	0.1	0.1
Foreign balance (contribution)	-1.8	-1.2	0.9	2.2	2.3	3.1	2.7
Exports of goods and services	5.3	5.8	4.0	-20.1	3.8	6.3	6.4
Imports of goods and services	9.7	9.9	4.0	-18.6	-4.8	-6.0	-4.2
Unemployment rate (percent) 1/	8.9	8.3	7.7	9.4	12.5	14.8	15.8
Employment 1/	1.9	1.2	1.1	-1.0	-2.7	-2.5	-3.3
Hourly wage (manufacturing)	2.1	3.4	2.4	5.3	-1.0	…	…
Consumer prices (HICP), end of period	3.2	3.9	2.2	2.6	5.2	1.2	2.1
Consumer prices (HICP), period average	3.3	3.0	4.2	1.3	4.7	2.4	2.9
Core prices, period average 1/	2.4	3.1	3.1	2.3	2.2	...	...
GDP deflator	3.1	3.1	3.3	1.3	2.3	1.6	1.7
	(Percent of GDP)						
Balance of payments							
Current account	-11.2	-14.4	-14.7	-11.0	-10.4	-8.2	-8.2
Trade balance	-9.4	-11.0	-11.4	-7.7	-6.5	-3.9	-4.2
Export of goods and services	21.1	21.5	22.7	18.1	19.8	22.1	22.3
Imports of goods and services	30.5	32.5	34.1	25.8	26.3	26.0	26.5
Total transfers	1.6	0.7	1.2	0.6	0.1	0.5	0.4
Net income receipts	-3.4	-4.1	-4.5	-3.8	-4.0	-4.8	-4.4
Net international investment position	-84.3	-94.4	-75.6	-86.9	-97.9	-106.4	-107.0
Public finances (general government)							
Total revenues	39.0	40.0	39.8	37.3	39.0	42.3	40.9
Total expenditures	45.2	46.6	49.6	52.8	49.4	50.6	48.5
Primary expenditures	40.5	41.9	44.7	47.6	44.0	44.0	41.7
Measures (unidentified)	…	…	…	…	…	0.8	0.0
Overall balance	-6.1	-6.7	-9.8	-15.5	-10.4	-7.5	-7.6
Primary balance	-1.5	-2.0	-4.8	-10.3	-4.9	-0.9	-0.8
Gross debt	106	105	111	127	143	153	166
Interest rates and credit							
Lending rate 2/	6.3	7.0	7.4	5.7	8.2	...	...
Private credit growth 3/	21.1	21.5	15.9	4.1	-0.2	...	...
Exchange rates							
Nominal effective exchange rate	1.8	1.9	2.1	0.4	-3.8	...	...
Real effective exchange rate (CPI-based)	2.4	2.1	2.2	1.6	-1.3	...	...
Real effective exchange rate (man. ULC-based)	5.0	-0.7	-1.7	4.2	-1.1	...	...
Memorandum item:							
Nominal GDP (billions of euros)	211	227	237	234	230	226	225
Nominal GDP (percentage change)	8.5	7.5	4.3	-1.1	-1.7	-1.5	-2.3

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 (Eurostat).
2/ Loans to corporations, up to 1 year. 2010 as of November.
3/ Domestic credit growth of households and enterprises.

Table 2. Greece: Monetary Survey

	2006	2007	2008	2009	2010				2011			
					Mar-10	Jun-10	Sep-10	Dec-10	Mar-11 proj.	Jun-11 proj.	Sep-11 proj.	Dec-11 proj.
					(in billions of euro)							
Aggregated Balance Sheet of Monetary Financial Institutions (MFIs)												
Total assets	356.5	434.6	536.1	579.2	603.9	677.8	662.0	654.6	624.8	636.9	619.4	596.2
Cash (held by credit institutions)	2.6	2.7	2.7	2.5	2.3	2.2	2.1	2.1	2.1	2.0	2.0	2.0
Claims on Bank of Greece	4.6	7.2	7.9	8.2	4.7	10.1	9.1	10.6	9.9	6.5	6.3	6.1
Claims on other MFIs	51.3	76.8	130.3	163.2	187.7	211.4	199.0	186.0	167	184	175	165
Claims (Loans) on non MFIs	182.2	213.7	234.6	222.7	224.3	289.4	286.9	289.0	280.6	277.6	274.5	272.1
Domestic	177.4	205.6	222.0	209.7	210.5	282.4	280.1	282.5	274.5	271.5	268.4	266.0
General government	20.5	21.8	21.6	20.3	21.5	24.0	23.6	26.3	21.1	20.8	20.3	20.0
Other sectors 1/	156.9	183.7	200.4	189.3	188.9	258.4	256.6	256.2	253	251	248	246
Other countries	4.8	8.2	12.6	13.0	13.8	7.0	6.8	6.5	6.2	6.1	6.0	6.1
Securities 2/	73.5	83.6	95.9	116.0	116.2	99.1	99.1	101.2	99.5	102.3	97.9	88.1
Other assets	36.7	45.3	59.5	61.2	64.0	60.8	60.9	60.7	61.3	59.8	58.9	58.4
Fixed assets	5.6	5.2	5.2	5.4	4.6	4.9	4.9	5.0	4.9	4.8	4.9	4.9
Total Liabilities	356.5	434.6	536.1	579.2	603.9	677.8	662.0	654.6	624.8	636.9	619.4	596.2
Liabilities to Bank of Greece	4.9	8.8	40.6	49.7	67.1	94.3	94.5	97.8	88.0	109.3	106.2	100.9
Liabilities to other MFIs	57.9	88.0	121.9	149.4	159.5	170.9	171.5	164.7	161.2	177.5	169.7	160.4
Deposits and repos of non MFIs	212.8	249.7	281.7	280.1	273.6	295.5	290.9	282.5	275.7	250.0	243.6	234.2
Domestic	181.8	206.1	237.4	246.7	240.4	230.9	230.8	225.1	218.2	194.2	189.6	181.3
Other countries	31.0	43.6	44.3	33.4	33.2	64.6	60.1	57.4	57.5	55.8	54.0	52.9
Capital and reserves	26.3	30.6	30.0	41.6	42.5	42.6	44.4	46.7	46.7	46.5	46.4	47.0
Banknotes and coins in circulation	16.0	16.9	19.0	21.6	21.4	21.8	21.8	22.5	22.0	21.8	21.7	21.7
Other liabilities	38.7	40.5	42.8	36.7	39.9	52.8	39.0	40.3	31.2	31.9	31.8	32.0
Money and credit												
Broad money	193.6	219.9	251.4	261.1	248.2	240.0	236.2	232.9	223.2	212.8	204.7	201.3
Credit to the private sector 3/	179.2	215.1	249.3	249.3	250.7	260.0	258.1	257.5	253.4	250.7	248.2	246.0
Credit to government 3/	40.7	36.5	36.7	50.7	57.5	57.5	60.6	63.0	58.8	64.6	62.1	53.7
					(annual percent change)							
Broad money 4/	11.5	13.8	12.4	4.1	-2.2	-9.4	-10.3	-11.2	-10.1	-11.4	-13.3	-13.5
Domestic deposits 5/	9.1	13.4	15.2	3.9	1.2	-6.3	-11.0	-11.7	-9.2	-15.9	-17.9	-19.5
Credit to the private sector 5/	21.1	21.5	15.9	4.1	3.8	3.0	1.2	-0.1	-0.4	-1.6	-2.9	-3.6
Credit to government 6/	-5.3	-10.4	0.6	38.3	22	15.3	34.0	24.3	2.3	12.3	2.4	-14.9
					(in percent of GDP)							
Broad money 4/	91.6	96.9	106.1	111.4	106.1	102.6	102.4	101.0	99.7	98.6	97.9	98.3
Domestic deposits 5/	86.1	90.8	100.2	105.3	102.7	98.7	98.9	97.7	95.9	86.4	84.9	80.9
Credit to the private sector 5/	84.8	94.7	105.2	106.4	107.1	111.1	110.6	111.8	111.4	111.5	111.2	109.7
Credit to government 6/	19.2	16.1	15.5	21.6	24.6	24.6	26.0	27.4	25.9	28.7	27.8	23.9
Memorandum items:					(in percent)							
Capital to assets	7.4	7.1	5.6	7.2	7.0	6.3	6.7	7.1	7.5	7.3	7.5	7.9
Credit/deposits	103.3	100.7	101.5	107.1	112.6	107.4	109.6	113.4	113.2	126.1	127.4	127.9
Velocity	2.3	2.3	2.2	2.1	2.2	2.3	2.3	2.3	2.3	2.3	2.3	2.3

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

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

2/ Holdings of securities other than shares and derivatives.

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

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

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

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

Table 3. Greece: Banking Sector Uses and Sources of Funds

	2006	2007	2008	2009	2010	2011 proj.	2012 proj.	2013 proj.	2014 proj.	2015 proj.	2016 proj.
						(in billions of euro)					
Assets	321.0	391.3	464.5	491.9	515.3	457.6	428.9	423.0	427.2	444.7	468.0
Cash	2.6	2.7	2.7	2.5	2.1	2.0	2.0	2.1	2.2	2.2	2.3
Claims on non-MFIs	227.5	264.8	301.1	309.3	357.8	329.9	314.8	315.2	320.9	334.9	352.5
General government	35.7	31.5	31.6	41.8	63.0	53.7	50.6	51.5	52.8	58.5	65.2
Private sector 1/	170.7	202.4	221.3	211.7	256.9	247.0	240.7	244.4	251.7	260.7	270.8
Corporate	85.6	103.8	116.9	119.5	119.2	114.5	110.6	109.9	110.3	111.3	112.5
Households	85.1	98.6	104.4	92.2	137.7	132.5	130.1	134.5	141.4	149.5	158.3
Other countries	21.1	8.2	12.6	13.0	6.5	6.1	6.2	6.3	6.5	6.8	7.0
Other assets	47.4	57.6	72.4	68.1	68.6	62.2	60.3	61.1	62.1	64.4	66.9
Liabilities	321.0	391.3	464.5	491.9	515.3	457.6	428.9	423.0	427.2	444.7	468.0
Net liabilities to other MFI	1.5	2.9	-10.7	-20.7	-20.8	-15.4	-8.8	-3.2	0.5	2.4	3.2
Deposits of non-MFIs	211.1	248.5	280.2	278.8	280.2	234.3	232.0	239.9	253.6	273.6	295.8
Central government	3.7	4.0	4.2	3.1	9.0	1.8	5.8	8.3	9.3	9.3	9.3
Private sector	177.2	201.0	231.6	242.4	213.9	179.6	178.2	183.3	194.6	212.7	232.9
Other countries 3/	30.1	43.6	44.3	33.4	57.4	52.9	47.9	48.2	49.8	51.5	53.5
Other liabilities	35.2	36.0	37.9	32.6	27.1	29.5	29.9	30.8	31.7	32.9	34.2
Capital and reserves	24.8	28.9	28.0	39.3	44.0	44.7	46.0	48.1	50.3	52.9	55.8
ECB liquidity support	4.9	8.8	40.6	49.7	97.8	100.8	77.8	62.7	48.7	39.6	32.6
						(in percent of GDP)					
Assets	146.7	166.9	193.1	201.6	221.2	202.0	186.7	179.0	175.3	176.1	178.4
Cash	1.2	1.2	1.1	1.0	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Claims on non-MFIs	103.9	112.9	125.2	126.8	153.6	145.6	137.0	133.4	131.7	132.6	134.4
General government	16.3	13.4	13.2	17.1	27.1	23.7	22.0	21.8	21.7	23.2	24.9
Private sector 1/	78.0	86.3	92.0	86.8	110.3	109.0	104.8	103.4	103.2	103.2	103.2
Corporate	39.1	44.3	48.6	49.0	51.2	50.5	48.1	46.5	45.2	44.1	42.9
Households	38.9	42.0	43.4	37.8	59.1	58.5	56.6	56.9	58.0	59.2	60.4
Other countries	9.7	3.5	5.2	5.3	2.8	2.7	2.7	2.7	2.7	2.7	2.7
Other assets	21.7	24.6	30.1	27.9	29.4	27.5	26.3	25.9	25.5	25.5	25.5
Liabilities	146.7	166.9	193.1	201.6	221.2	202.0	186.7	179.0	175.3	176.1	178.4
Net liabilities to other MFI	0.7	1.2	-4.4	-8.5	-8.9	-6.8	-3.9	-1.3	0.2	0.9	1.2
Deposits of non-MFIs	96.4	106.0	116.5	114.3	120.3	103.4	101.0	101.5	104.1	108.3	112.8
Central government	1.7	1.7	1.8	1.3	3.8	0.8	2.5	3.5	3.8	3.7	3.6
Private sector	81.0	85.7	96.3	99.3	91.8	79.3	77.6	77.6	79.8	84.2	88.8
Other countries 3/	13.8	18.6	18.4	13.7	24.6	23.3	20.9	20.4	20.4	20.4	20.4
Other liabilities	16.1	15.4	15.8	13.3	11.6	13.0	13.0	13.0	13.0	13.0	13.0
Capital and reserves	11.3	12.3	11.7	16.1	18.9	19.8	20.0	20.3	20.6	21.0	21.3
ECB liquidity support	2.2	3.8	16.9	20.4	42.0	44.5	33.9	26.5	20.0	15.7	12.4
Memorandum items											
Domestic deposit growth (percent)	9.1	13.4	15.2	3.9	-11.7	-19.4	1.5	4.1	6.4	8.9	9.1
Private sector credit growth (percent)	21.1	21.5	15.9	4.1	-0.1	-3.6	-2.6	1.5	3.0	3.6	3.9
ECB liquidity support (in percent of total assets)	1.5	2.2	8.7	10.1	19.0	22.0	18.1	14.8	11.4	8.9	7.0

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

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

2/ Holdings of securities other than shares and derivatives.

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

Table 4. Greece: Financial Soundness Indicators

(Percent)

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

Source: Bank of Greece.

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

Table 5. Greece: Modified General Government Balance for Program Monitoring
(in billion of Euro)

	2009	Program						
		Jun-10	Sep-10	Dec-10	Mar-11		Dec-11	
	Actual	Actual	Actual	Actual	Progr.	Actual	Progr.	Proj.
I. State budget								
Revenues 1/	50.5	24.2	37.8	54.2	12.4	11.7	58.4	57.8
Net income Ordinary Budget (A+B-C)	48.5	23.8	36.5	51.2	12.4	11.1	54.5	53.9
A. Recurrent/ordinary revenue	52.3	25.1	38.6	54.4	12.9	11.6	56.2	55.6
1. Direct taxes	21.4	8.9	14.3	20.3	4.1	3.9	20.6	20.5
Income taxes	16.6	6.0	10.3	14.3	2.5	2.2	14.5	14.0
PIT	10.9	4.3	6.8	9.4	1.7	1.7	10.0	9.7
CIT	3.4	1.1	2.2	3.2	0.5	0.0	3.0	2.7
Other	2.3	0.6	1.3	1.7	0.3	0.4	1.5	1.7
Property taxes	0.5	0.1	0.4	0.5	0.2	0.0	0.9	0.7
Tax arrears collection	2.4	1.2	1.6	2.9	0.9	0.7	2.9	2.7
Other direct taxes	1.9	1.6	2.1	2.6	0.6	1.0	2.4	3.0
2. Indirect taxes	28.3	14.8	22.0	31.0	8.3	7.1	31.0	30.3
Transaction taxes	17.9	8.9	13.6	18.5	5.3	4.7	18.6	18.5
VAT	16.6	8.4	12.8	17.4	5.0	4.5	17.5	17.5
other	1.3	0.5	0.8	1.1	0.3	0.2	1.1	1.0
Consumption taxes	9.6	5.5	8.0	11.8	2.8	2.2	11.4	10.7
Tax arrears collections	0.4	0.2	0.3	0.3	0.1	0.1	0.5	0.6
Other indirect taxes	0.4	0.2	0.3	0.4	0.1	0.1	0.4	0.4
3. Transfers EU	0.3	0.1	0.2	0.3	0.1	0.0	0.3	0.2
4. Nontax revenue	2.3	1.4	2.1	2.8	0.5	0.6	4.3	4.6
B. One-off revenue	1.1	0.9	1.2	1.8	0.5	0.3	2.1	2.1
C. Tax Refunds (-)	5.0	2.3	3.3	5.0	0.9	0.8	3.8	3.8
Public investment budget	2.0	0.4	1.3	3.1	0.0	0.6	3.9	3.9
A. EU flows	1.9	0.3	1.2	2.8	0.0	0.0	3.7	3.7
B. Own revenues	0.2	0.1	0.2	0.3	0.0	0.6	0.2	0.2
Total expenditure 1/	83.6	34.1	54.4	74.7	17.7	16.4	78.8	75.9
Total ordinary spending	70.3	30.2	48.4	64.9	15.6	15.3	68.2	66.4
Total ordinary primary spending	58.0	24.5	36.8	51.7	12.3	12.1	52.1	50.4
A. Remuneration and pensions	25.2	11.3	16.9	22.8	5.3	5.1	21.6	21.6
B. Insurance and Healthcare	17.6	7.4	10.7	15.7	4.2	4.2	16.1	15.4
C. Operating and other expenditure and returned resources	14.5	5.4	8.6	12.6	2.6	2.5	13.3	12.3
D. Payments in exchange of claims of insurance fund 2/	0.8	0.4	0.5	0.6	0.2	0.2	0.6	0.6
E. Reserve	…	…	…	…	0.1	0.0	0.6	0.6
Interest expenditure	12.3	5.7	11.7	13.2	3.2	3.2	16.1	16.0
Transfers to hospitals for the settlement of past debt 3/	1.5	0.0	0.3	0.4	0.2	0.4	0.5	0.5
Investment spending	9.6	3.7	5.4	8.4	1.6	0.7	8.5	7.6
Spending on military procurement	2.2	0.2	0.2	1.0	0.4	0.1	1.6	1.5
State Budget primary spending 1/ *(variable monitored for PC)*	71.3	28.4	42.4	61.1	14.3	13.4	62.7	60.1
Balance state budget 1/	**-33.1**	**-9.9**	**-16.5**	**-20.5**	**-5.3**	**-4.7**	**-20.4**	**-18.1**
II. Balance local governments 1/ 4/	**0.0**	**0.3**	**0.1**	**-0.4**	0.0	0.2	0.0	-0.1
III. Balance social security funds 1/ 4/	**0.5**	**-0.1**	**1.0**	**1.7**	0.2	0.6	0.7	0.8
IV. Balance of extra-budgetary funds (ETERPS) 1/ 4/	…	…	…	…	0.1	0.1	0.2	0.4
V. Called guarantees from non-general govt entities	…	…	…	…	0.0	0.0	-0.2	-0.2
VI. Change in arrears of line ministries	…	…	…	…	0.0	-0.2	0.0	0.0
VII. Change in arrears of NHS hospitals	…	…	…	…	0.0	-0.2	0.0	0.0
VIII. Balance of reclassified public enterprises 1/ 4/	…	…	…	…	…	…	-1.0	-0.3
IX. Modified general government cash balance 5/	**-32.5**	**-9.7**	**-15.5**	**-19.3**	**-5.1**	**-4.2**	**-20.6**	**-17.5**
of which: Modified general government primary cash balance *(variable monitored for PC)*	…	-3.9	-3.5	-5.7	-1.9	-0.9	-4.5	-1.5
X. Adjustments 6/	-3.6	…	…	-2.7	…	…	1.8	0.4
XI. General government balance (ESA 95) before measures	**-36.1**	**…**	**…**	**-22.0**	…	…	**-18.8**	**-17.1**
XII. To be identified measures	…	…	…	…	…	…	1.8	**0.0**
XIII. General government balance (ESA 95) incl. measures	**-36.1**	**…**	**…**	**-22.0**	…	…	**-17.0**	**-17.1**
Memorandum items								
Floor on the modified general government primary cash balance	…	-3.9	-3.5	-5.7	-2.0	-0.9	…	-1.5
Ceiling on state budget primary spending	…	28	42	61	15	13	63	60

Source: Greek Ministry of Finance and Fund staff projections.
1/ Including measures taken in the context of the Medium Term Fiscal Strategy, passed by parliament on June 29, 2011.
2/ For the personnel of the Public Power Company.
3/ Such transfers are excluded from spending for measurement of the PCs in 2010.
4/ Change in net financial assets. Excludes valuation changes.
5/ Including balances of reclassified public enterprises
6/ Cash to accrual, coverage, and other ESA adjustments.

Table 6. Greece: Status of Macro-Structural Reforms

Indicator	2010 Q1	2011Q1	2011Q2 1/	Comments
		Labor market		
Employment protection : Law 3863/2010, July 15 2010. Implementation completed.				The law introduced sub-minimum wages for youth, facilitated firing (costs and procedures), eased overtime premia, equalized hourly remuneration for permanent and part-time work, and extended the duration of temporary contracts.
Collective bargaining, mediation andarbitration: Law 3899/2010, Dec. 14, 2010. Implementation completed.				The law allows firms to deviate from the automatic extension of sectoral agreements via opt-outs. Such firms are allowed to undertake special firm-level collective agreements, subject to evaluation of the Labor Inspectorate and consent by sector unions in small firms. The law also provides for symmetric access to arbitration services.
Special Firm Level Collective Agreements implemented (eop, cummulative)	0	1	6	
estimated average wage reduction in SFLCA (in percent)	0	0	6-8	
		Services and Sectoral Liberalization		
Liberalization of regulated professions: Law 3919/2011, Feb. 22, 2011. Implementation to be completed by July 2, 2011.				The law removes restrictions to closed professions related to quantity, geography, scale, incorporation, prices, number of licenses, and prior conditions for licenses. The law deals explicitly with lawyers, notaries, engineers, architects, and auditors, where advertisement prohibitions were removed and compulsory minimum fees were eliminated.
Number of restrictions reapplied for			1	
Number of identified professions subject to new law			141	
Liberalization of road freigh transportation: Law 3887/2010, Sept. 28, 2010. Implementation to be completed by Q3 2012.				The law allows for automatic granting of licenses upon meeting objective criteria set by the law; new entrants would pay an entry fee equal to the goodwill of existing licenses during the 2.5-year transition period, after which the fee will reflect administrative costs. The law also abolishes administratively set transportation tariffs.
Number of new licenses issued	0	0	0	
Average price of licenses in the secondary market	100,000	15,000	15,000	
Liberalization of cruise ships (cabotage). Law 3872/2010, Aug. 31, 2010. Implementation completed (contracts signed 2 years ahead).				The law opens access to cruise ships with non EU flag to dock on/ depart from a Greek port.
Number of new contracts signed		0	1	
Number of non-EU flag ships departing from and terminating in a Greek port		0	0	
		Investment and business environment		
One-stop-shops: Law 3853/2010 was adopted on Jun. 8, 2010. Implementation is completed.				The law reduces the number of steps (from 11 to), days (from 38 to 1), and cost (by about 70%) required to start a business. It also operationalizes the electronic commercial registry (GEMI) and harmonizes IT systems among institutions.
Number of new business start-ups			1,386	
Number of businesses registered in the Electronic Registry			8,635	
Number of one-stop shops			1,939	
Fast-track procedure for large investment projects: Implementation completed.				The law simplifies procedures for approval of large-scale investment projects, centralizes and speeds up the decision process , accelerates licensing procedures (2 month deadline), and provides for a one-stop-shop.
Number of applications received		0	3	
Number of applications approved		0	0	
Simplification of business and environmental licensing : Law L3982/2011 passed in June, implementation of main decrees to be finalized by Q3-2011.				The new law accelerates access to the main permits needed for the physical installation of enterprises and sets clear standards for applications and binding deadlines for necessary opinions.
Strengthening the Competition Authority: Law passed in April 2011. Implementation in progress.				The law strengthens the independence and continuity of the Competition Authority's Board; maintains its financial capacity, and reinforces its governance and accountability.

Source: Greek authorities.

1/ Data as of June 23, 2011.

Table 7. Greece: Medium-Term Macro Framework, 2010-16

	2010	2011	2012	2013	2014	2015	2016
		Projections					
	(Percentage change, unless otherwise indicated)						
Domestic economy							
Real GDP	-4.5	-3.9	0.6	2.1	2.3	2.7	2.9
Output gap (percent of pot. output)	0.1	-3.4	-3.5	-2.4	-1.5	-0.4	0.0
Total domestic demand	-5.9	-6.0	-1.9	1.0	1.4	1.8	1.8
Private consumption	-4.6	-4.9	-1.2	1.1	1.2	1.4	1.3
Public consumption	-8.3	-8.4	-5.0	-1.0	-0.3	0.3	0.6
Gross fixed capital formation	-16.5	-8.8	-1.5	2.7	4.0	5.0	5.4
Change in stocks (contribution)	1.6	0.1	0.0	0.0	0.0	0.0	0.0
Foreign balance (contribution)	2.3	2.7	2.6	1.1	0.9	0.9	0.0
Exports of goods and services	3.8	6.4	6.7	6.5	6.6	6.8	6.3
Imports of goods and services	-4.8	-4.2	-3.3	1.9	2.8	3.2	2.4
Unemployment rate (percent) 1/	12.5	15.8	16.2	15.0	14.5	13.3	12.0
Employment	-2.7	-3.3	0.3	1.9	1.2	2.1	2.1
Consumer prices (HICP), end of period	5.2	2.1	0.6	0.9	1.0	1.0	1.3
Consumer prices (HICP), period average	4.7	2.9	1.0	1.1	1.0	0.9	1.1
GDP deflator	2.3	1.7	0.7	1.0	1.0	0.9	1.1
Monetary survey							
Credit to the private sector (percent change)	-0.1	-3.6	-2.6	1.5	3.0	3.6	3.9
Private sector deposits (percent change)	-11.7	-16.1	-0.7	2.9	6.1	9.3	9.5
Liabilities to the BoG (in billions of Euro)	97.8	100.8	77.8	62.7	48.7	39.6	32.6
	(Percent of GDP)						
Balance of payments							
Current account	-10.4	-8.2	-7.1	-6.3	-6.0	-5.2	-3.9
Trade balance	-6.5	-4.2	-2.9	-1.7	-0.5	0.5	1.5
Export of goods and services	19.8	22.3	23.8	25.0	26.1	27.3	28.5
Imports of goods and services	26.3	26.5	26.7	26.6	26.7	26.8	27.0
Total transfers	0.1	0.4	0.4	0.4	0.4	0.3	0.4
Net income receipts	-4.0	-4.4	-4.5	-5.0	-5.8	-6.0	-5.8
Net international investment position	-98	-107	-111	-113	-114	-114	-112
Public finances (general government)							
Total revenues	39.0	40.9	42.2	41.9	42.0	41.6	40.2
Total expenditures	49.4	48.5	48.8	46.7	44.7	43.1	42.4
Primary expenditures	44.0	41.7	40.8	38.3	35.6	33.9	33.7
Overall balance	-10.4	-7.6	-6.5	-4.8	-2.6	-1.5	-2.2
Primary balance	-4.9	-0.8	1.5	3.6	6.4	7.7	6.4
Gross debt	143	166	172	170	160	146	143
Memorandum item:							
Nominal GDP (billions of euros)	230	225	228	235	243	252	262
Nominal GDP (percentage change)	-1.7	-2.3	1.3	3.1	3.3	3.6	4.0

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

1/ Based on Labor Force Survey.

Table 8. Greece: Summary of Balance of Payments, 2009–16

	2009	2010	2011	2012	2013	2014	2015	2016
		Prel.	Projections					
			(Billions of euro)					
Current account balance	-25.8	-24.1	-18.6	-16.2	-14.8	-14.6	-13.1	-10.2
Balance of goods and services	-18.1	-15.0	-9.5	-6.7	-3.9	-1.3	1.2	4.0
Goods balance	-30.8	-28.3	-26.2	-26.0	-25.4	-25.2	-25.0	-24.9
Exports	15.3	17.1	19.3	20.8	22.4	24.2	26.4	28.8
Imports	46.1	45.4	45.6	46.8	47.8	49.4	51.4	53.6
Services balance	12.6	13.2	16.7	19.3	21.5	23.9	26.3	28.9
Credit	27.0	28.5	30.8	33.4	36.3	39.3	42.4	45.8
Debit	14.3	15.2	14.0	14.1	14.7	15.4	16.1	16.9
Income balance	-9.0	-9.2	-10.0	-10.3	-11.7	-14.1	-15.2	-15.2
Credit	4.3	3.8	4.1	5.5	6.2	6.8	7.4	7.8
Debit	13.3	13.0	14.2	15.8	18.0	20.9	22.6	23.0
Current transfers (net)	1.3	0.2	1.0	0.9	0.9	0.9	0.8	1.0
Capital and financial account balance	26.4	-7.4	-48.3	-26.5	-13.4	2.9	13.1	10.2
Capital account balance	2.0	2.1	3.4	3.4	3.3	3.2	3.1	3.0
Financial account	24.4	-9.5	-51.7	-29.8	-16.7	-0.3	10.0	7.2
Direct investment	0.3	0.7	2.5	5.4	7.7	9.5	10.7	1.4
Portfolio investment	27.9	-20.9	-14.0	-15.4	-13.8	-10.7	-6.4	16.9
of which: government	29.1	-26.8	-18.9	-18.9	-15.7	-10.1	-2.3	22.9
Other investment (excl. program financing)	-3.6	10.5	-40.2	-19.8	-10.7	0.9	5.7	-11.1
Reserve assets (increase = -)	-0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Net errors and omissions	-0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Program financing	0.0	31.5	46.5	24.0	8.0	…	…	…
Additional Official Financing and PSI	…	…	20.3	22.0	22.5	13.2	0.0	0.0
			(In percent of GDP)					
Current account balance	-11.0	-10.4	-8.2	-7.1	-6.3	-6.0	-5.2	-3.9
Balance on goods and services	-7.7	-6.5	-4.2	-2.9	-1.7	-0.5	0.5	1.5
Goods balance	-13.1	-12.3	-11.7	-11.4	-10.8	-10.4	-10.0	-9.5
Services balance	5.4	5.8	7.4	8.5	9.2	9.8	10.4	11.0
Income balance	-3.8	-4.0	-4.4	-4.5	-5.0	-5.8	-6.0	-5.8
Current transfers	0.6	0.1	0.4	0.4	0.4	0.4	0.3	0.4
Capital and financial account balance	11.3	-3.2	-21.5	-11.6	-5.7	1.2	5.2	3.9
Capital account balance	0.9	0.9	1.5	1.5	1.4	1.3	1.2	1.1
Financial account	10.4	-4.1	-23.0	-13.1	-7.1	-0.1	4.0	2.8
Direct investment	0.1	0.3	1.1	2.4	3.3	3.9	4.2	0.5
Portfolio investment	11.9	-9.1	-6.2	-6.8	-5.9	-4.4	-2.6	6.5
of which: government	12.4	-11.7	-8.4	-8.3	-6.7	-4.1	-0.9	8.7
Other investment	-1.6	4.6	-17.9	-8.7	-4.5	0.4	2.3	-4.2
Reserve assets (increase = -)	0.0	0.1	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
Program financing	…	13.7	20.7	10.5	3.4	…	…	…
Additional Official Financing and PSI	…	…	9.0	9.6	9.6	5.4	0.0	0.0
External debt	174.1	178.1	183.9	182.0	175.9	170.4	166.1	164.4
Public sector	114.6	120.4	145.7	145.3	139.7	127.3	112.1	105.9
Private sector	59.4	57.8	38.2	36.8	36.2	43.1	54.0	58.5

Sources: Bank of Greece; and IMF staff estimates.

Table 9. Greece: General Government Operations 2009-15

	2009	2010	2011		2012	2013	2014	2015
			Progr.	Proj.	Proj.	Proj.	Proj.	Proj.
					(billion of Euro)			
Revenue	87.7	89.9	95.6	91.9	96.3	98.4	102.1	104.7
Taxes on production, and imports	26.1	28.6	31.0	29.4	31.6	32.6	34.7	35.7
Taxes on income, and property	19.0	17.4	17.7	16.7	17.9	18.5	19.9	21.2
Social contributions	29.5	29.7	30.0	29.4	29.7	29.9	31.0	31.4
Other	9.9	9.6	12.4	11.8	12.5	12.5	13.0	12.9
Capital transfers	3.2	4.6	4.5	4.7	4.7	4.9	3.5	3.5
Primary expenditure	111.8	101.3	99.4	93.8	93.0	90.1	86.5	85.3
Wages	30.6	27.2	27.7	24.7	23.4	21.6	20.3	20.4
Social benefits	48.8	47.4	48.9	45.1	44.7	44.6	43.5	43.7
Goods and services	17.2	13.3	10.0	11.8	12.1	11.2	9.9	8.3
Subsidies	0.1	0.1	0.3	0.1	0.1	0.1	0.1	0.1
Other current	3.6	3.9	3.8	3.8	3.8	3.8	3.9	4.1
Capital	11.5	9.4	8.7	8.3	8.9	8.8	8.8	8.8
Remaining measures to be identified	…	…	1.8	…	…	…	…	…
Primary balance	-24.1	-11.4	-2.0	-1.9	3.3	8.4	15.6	19.4
Interest payments	12.3	12.6	15.0	15.2	18.2	19.7	22.0	23.1
Overall balance	-36.5	-24.0	-17.0	-17.1	-14.9	-11.4	-6.4	-3.7
Gross debt (Maastricht)	298.7	328.6	345.6	373.2	392.2	399.1	388.1	368.5
					(percent of GDP)			
Revenue	37.3	39.0	42.3	40.9	42.2	41.9	42.0	41.6
Taxes on production, and imports	11.1	12.4	13.7	13.1	13.8	13.9	14.3	14.2
Taxes on income, and property	8.1	7.6	7.8	7.4	7.9	7.9	8.2	8.4
Social contributions	12.5	12.9	13.3	13.0	13.0	12.7	12.8	12.5
Other	4.2	4.2	5.5	5.2	5.5	5.3	5.3	5.1
Capital transfers	1.4	2.0	2.0	2.1	2.0	2.1	1.4	1.4
Primary expenditure	47.6	44.0	44.0	41.7	40.8	38.3	35.6	33.9
Wages	13.0	11.8	12.3	11.0	10.3	9.2	8.4	8.1
Social benefits	20.8	20.6	21.7	20.0	19.6	19.0	17.9	17.3
Goods and services	7.3	5.8	4.4	5.3	5.3	4.7	4.1	3.3
Subsidies	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Other current	1.5	1.7	1.7	1.7	1.7	1.6	1.6	1.6
Capital	4.9	4.1	3.9	3.7	3.9	3.8	3.6	3.5
Remaining measures to be identified	…	…	0.8	…	…	…	…	…
Primary balance	-10.3	-4.9	-0.9	-0.8	1.5	3.6	6.4	7.7
Interest payments	5.2	5.5	6.6	6.8	8.0	8.4	9.0	9.2
Overall balance	-15.5	-10.4	-7.5	-7.6	-6.5	-4.8	-2.6	-1.5
Gross debt (Maastricht)	127	143	153	166	172	170	160	146
Memorandum items:								
Nominal GDP (in euro billions)	235	230	226	225	228	235	243	252
Fiscal balance target (in euro billions)	…	…	-17.1	-17.1	-14.9	-11.4	-6.4	…

Source: Greece authorities, and IMF staff estimates.

Table 10. Greece: Fiscal Measures

	2011-14 Millions of Euro	2011-14 In percent of GDP	Explanatory Notes
Total	24,220	10.4	
Rationalization of the public wage bill	2,124	0.9	
Reduction of public employment	689	0.3	
Reduction in contract employment	329	0.1	
Labor reserve (Furlough)	240	0.1	
Others	120	0.1	
Adjustment in public employees' compensations	1,435	0.6	
Single public sector wage scale and reduction automatic wage drift	800	0.3	
Others	635	0.3	
Closure of non essential public entities and agencies	1,090	0.5	
Reduction in grants to entities outside the general government	490	0.2	
Closure of identified public entities	300	0.1	Include closure of 12 large entities in 2011
Others	300	0.1	
Improvement in the performance of state enterprises	1,040	0.4	
Increase in tariff and other revenue	315	0.1	Tariff increase in 2013-2014
Reduction in personnel and other costs	560	0.2	Other costs linked to business planes
Others	165	0.1	
Streamline and better targeting of social benefits	2,092	0.9	
Strengthening means testing	791	0.3	Includes nemployment benefits and administrative controls to avoid abuses
Review of social benefits	980	0.4	Plans to be developed after completion of the social spending review
Others	321	0.1	
Pension reforms	2,361	1.0	
Supplementary pensions	760	0.3	
Lump sum pensions	350	0.2	
Disability pensions	405	0.2	
Others	846	0.4	
Health sector reforms	1,659	0.7	
Central procurement system	275	0.1	
Pharmaceutical spending	1,043	0.5	
Others	341	0.1	
Elimination of tax exemptions and special tax regimes, and increases in contributions	8,276	3.6	
Reduction in the tax free PIT threshold	1,350	0.6	From €12,000 to €8,000
Solidarity charge	1,367	0.6	Low rate charge (1-4 percent) levied on personal income (no deductions)
Property taxation: reduction in tax free threshold, increased rate and assessment	800	0.3	Low threshold (€200,000), higher minimum rate, 2 year re-evaluations
Minimum tax on self employed	400	0.2	
Increases in social security contributions (not related to pensions)	1,741	0.7	Mainly extension of unemployment contributions
Others	2,619	1.1	
Improvement in the administration of taxes and social security contributions	3,295	1.4	
Improvements in revenue administration	2,308	1.0	
Improvements in the administration of social security contribution	987	0.4	
Others	2,282	1.0	
Reduction in operational expenses	766	0.3	
Reduction in operational defense expenses	267	0.1	
Improved performance of local governments	745	0.3	
Rationalization of the public investment budget	504	0.2	Including investment incentives

Source: Authorities and Staff estimates

Table 11. Greece: Revenue Collection Process

Stage of the Revenue Collection Process	Issues	Actions Taken and Next Steps
1. Assessment		
Taxpayers self-assess taxes due and tax authorities provide services to support taxpayer compliance	• Taxpayer services are decentralized or non-existent.	**Next steps** • Centralized Taxpayer Service Directorate to be established following the presentation of medium term strategic plan (*September 2011*).
Taxpayers submit tax returns (which legally establish tax liabilities) and pay taxes.	• Tax returns can only be filed if tax due is paid in full. • About 30 percent of VAT returns are not filed or filed late.	**Action taken** • Legislation allowing acceptance of VAT tax returns without full payment of taxes contingent to installment arrangements (*March 2011*).
2. Control		
Tax authorities perform controls and enforce timely filing and payment	• Weak and decentralized filing and payment enforcement with procedures not automated. • Data gathering is ad hoc with no central control for monitoring and enforcing compliance.	**Actions taken** • Anti-evasion plan: a task force is in place to strengthen filing enforcement through centralized control with defined performance targets (*early 2011*). • Legislation approved obliging electronic submission of income tax returns by legal entities (*March 2011*) **Next steps** • Monitor progress towards achieving performance targets (*Monthly reports* , *2011*).
Authorities identify cases to audit	• Legal requirement to audit all tax returns generally prevents prioritization and risk-based selection audit cases. • Potentially large tax evasion: about 70 percent of self employed professionals declaring taxable income below minimum exemption threshold.	**Actions taken** • Anti-evasion plan (*early 2011*): task forces are in place to secure control of top 1200 taxpayers, and high wealth individuals and self-employed (including performance targets on filing, payment and audit results). • Legislative obligation of auditing all tax returns eliminated (*March 2011*) • High risk case to be subject to audit identified (*April 2011*) **Next Steps** • Monitor progress towards achieving the task forces' performance targets (*Monthly reports, 2011*). • Administrative changes required to eliminate mandatory audits for all returns and introduce risk-based audits (*2011*). • Following the announcement of the medium-term strategic plan actions to introduce a risk-based compliance framework for verification programs are developed, and a large taxpayer unit created (*July 2011*).
Audits are performed and tax due assessed and collected	• Limited use of indirect methods of assessment. Limited legal gateways to collect third party information. • Audit process not centralized. • Collection of assessed tax low.	**Action taken** • Anti evasion plan to implement centralized audits of top 1200 taxpayers and high wealth individuals (*early 2011*). • Legislation approved to centralize and strengthen some audit functions, and enforce data transfers from identified parties (*March 2011*). • Administrative and legislative measures enacted to allow data collection from third parties (March *2011*). **Next steps** • Administrative and legislative measures to be enacted to allow better use of indirect methods of assessment (*2011*).
3. Enforcement		
Taxpayers may dispute tax assessments and appeal administration's decisions (administrative and judicial appeals)	• Average time to resolve tax disputes in judicial appeals process is 7 to 12 years and has created a huge backlog of pending cases (140,000-160,000). • Administrative tax dispute process not independent from tax administration. • Pre-payment prior to the judicial appeal largely waived by courts.	**Action taken** • Legislation adopted to reform the judicial appeal process (*October 2010*). • Legislation adopted to Parliament to allow the reform of the administrative tax dispute process and create an independent arbitration system. Legislation aims at: reducing the judiciary dispute period (no longer than 3 years), increasing the payment to access the judicial appeal process, and reducing the instances for payment suspensions granted by courts (*March 2011*). **Next steps** • An independent fast track administrative dispute resolution process to be established to deal rapidly with large dispute cases (*July 2011*). • The newly established arbitration agency to be operative (*September 2011*)
Appealed tax assessments and tax arrears (including penalties and fines) are collected	• Poor collection enforcement: collection of fines and penalties around 1 percent, debt collection not centralized.	**Actions taken** • Anti-evasion plan: a taskforce is in place to coordinate centrally and accelerate collection of tax debt with defined performance targets (*early 2011*). • Legislation approved to facilitate collection of tax debt (March 2011). **Next steps** • Monitor progress towards achieving performance targets (*Monthly reports 2011*)

Source: IMF staff

Table 12. Greece: Spending Process

Stages of the Spending Process and Issues	Actions Taken and Next Steps
1. Budgeting	
Develop a medium term budget framework	**Actions taken** • New Fiscal Responsibility and Management Act (FRMA) approved, establishing medium term fiscal strategy covering general government (*August 2010*). • A full MTFS for the period 2011-15 for the GG to be approved by Parliament. The MTFS sets: (i) the deficits of the GG and its subsectors; (ii) estimates of revenue and expenditure for each subsector, including transfers ; and (iii) an expenditure ceiling for the ordinary and investment budgets of the state and line ministries (*June 2011*). **Next steps** • a more formal formulation process to be established for the review of the MTFS 2012-15 (*March 2012*)
Establish annual budget with spending ceilings for each budget item • Budgets prepared in a bottom-up fashion with no hard budget constraints. • Fiscal planning largely confined to the state budget with the MOF only responsible for administration and management. • Budget preparation processes for other general government entities disjointed. Responsibility for social security fragmented with no effective preparation, management and monitoring of social security budget. • Parliamentary budget oversight weak and no intra-year supplementary budgets required.	**Actions taken** • The FRMA establishes: MOF's responsibilities for setting and controlling budget policies for all GG entities; top-down budget procedures and expenditure ceilings; alignment of budget preparation processes across the general government entities; separate social budget, and supplementary budgets; a Parliamentary Budget Office. • MTFS 2011-15 includes legally binding limits for central government spending for 2012 (June 2011). **Next steps** • Issue regulations to fully implement the FRMA, including assessment of policy initiatives initiated during the year that have a potential bearing on the budget (*2011*).
2. Spending Controls	
Release budget appropriations to spending units, and units make expenditure commitments • Line ministries do not check or control expenditure commitments; no central control on incurred commitments. Execution of budget releases focused on verifying payments.	**Action taken** • Commitment registers established and rolling out process started. A presidential decree issued establishing commitment registers in all line ministries and GG entities (*November 2011*) and implementing circular issued (*January 2011*). Rolling out of registers started but still limited. • Appointment of permanent accounting officers in all GG entities and interim officers in line ministries completed (*May 2011*). **Next Steps** • Commitment registers to be made fully operational in all line ministries and major GG entities (*September 2011*). • Permanent accounting officers to be appointed (*July 2011*) and new directorates of financial services to be established in all line ministries (*September 2011*). The officers have the responsibility and authority to ensure sound financial controls and that expenditure commitments do not exceed appropriations.
Pay invoices after accounting and audit controls • Cumbersome checking procedures to make payments, with several institutions involved (e.g. the department of financial services of the spending unit, the Fiscal Audit Office (FAO) and the Court of Audit locally stationed). Controls are mainly compliance-oriented.	**Next Steps** • Role of Financial Audit Office (FAO) in spending units to be clarified, following the appointment of accounting officers. Procedures for audit clearance and payment orders to be streamlined, including the scaling down of preventive audits (*July 2011*).
3. Reporting	
Collect and analyze information on payments, pending bills and arrears • Limited real-time monitoring of arrears and other pending bills. Collection of payment information at non-central government level difficult.	**Actions taken** • Data on arrears published, using surveys while waiting for commitment registers to be established (*June-September 2010*); • Accounting officers (appointed on an interim base) have the responsibility, among others, to improve monitoring at spending unit level (*June* 2011). • Work to begin to review the 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 (June 2011). **Next steps** • Commitment registers in use in most of GG entities and used to publish arrears data (*September 2011*). • FMIS to be operational, (*late 2011*).
Monitoring and reporting of fiscal developments for general government • Monitor and reporting focused on state budget. No timely in-year monitoring or reporting for general government published. Budget deviations not detected on time.	**Actions taken** • Aggregate monthly fiscal reports for GG published, using banking data for non-central government entities (*September 2010*); • Monthly fiscal reports with aggregate revenues and spending data, and transfers for all GG entities published (*March 2011*); **Next steps** • Detailed monthly fiscal reports for GG to be published, monitoring the composition of revenue and expenditure by sub-sector and major economic category (*December 2011*); • Arrears data based on commitment registers to be published (*September 2011*); • FMIS to be operational in GG entities, to allow for automated detailed monthly fiscal reporting and financial controls (*late 2011*).
Parliamentary oversight and general auditing • 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.	**Action taken** • Establish a Parliamentary Budget Office (*mid 2011*).

Source: IMF staff

Table 13. Greece: Selected Structural Reforms Pending

Measures	EC MoU deadline	Description	Macroeconomic implications
		Labor market	
Fixed-term contracts, working-time management, and term contracts for youth	Q2-2011	New legislative amendments will permit individuals to work longer hours for a longer period, while reducing the use of overtime pay, and will lower the severance pay associated with fixed-term contracts as well as limit the times these types of contracts can be renewed. It will also provide for an introduction of term contracts for youth to gain work experience at sub-minimum wages.	Reduce labor costs, and promote employment (especially for women and youth).
Strengthen the role of the Labor Inspectorate	Q3-2011	The reform to strengthen the Labor Inspectorate is completed, with the appropriately qualified staff. Quantitative targets on the number of controls to be executed are set for the Labor Inspectorate. A limited (in scope and time) pilot study is be implemented to verify the favorable financial net impact on the overall social security budget of a discount of up to 10 percent on social contributions for those enterprises introducing the labor card.	Tackle undeclared work, enhance the labor tax base and ensure a more equitable distribution of the tax burden.
		Sectoral deregulation	
Liberalization of tourist coaches	Jul-11	Government adopts legislation removing restrictions on the provision of services for occasional passenger transport by buses, coaches and limousines, by liberalizing entry, limiting license costs and authorization time, and lowering fees.	Foster competition, improve tourism, and facilitate investment.
Liberalization of the energy sector	Jul-11	The energy law is passed, unbundling transmission and distribution of energy, and establishing the independent Regulatory Authority for Energy.	Fosters competition, improves services, facilitates investment and privatization of state-owned monopolies.
Tourism and retail sector liberalization	Q3-2011	Legislation and other structural actions are prepared by Q3-2011 (to be adopted by Q4-2011) to implement the findings of the reports which analyze the potential contribution of the tourism and retail sectors to growth and jobs, and price flexibility, in the Greek economy.	Foster employment, growth, and disinflation.
Liberalization of other sectors	Q4-2011	Government initiates additional studies on manufacturing, energy, and wholesale sectors with a view to removing remaining obstacles to growth in these sectors (Q3 2011). On the basis of these studies, Government prepares concrete actions and a timetable for implementation by Q4-2011.	Foster employment, growth, and disinflation.
		Investment and business environment	
Simplification of export procedures	Q3-2011	Government reviews and codifies the legislative framework of exports (i.e., Law 936/79 and Law Order 3999/59), simplifies the process to clear customs for exports and imports and gives larger companies or industrial areas the possibility to be certified to clear cargo for the customs themselves. The obligation of registration with the exporters' registry of the Chamber of Commerce is abolished; such a registration is simplified and becomes voluntary.	Stimulate exports.
Simplification of environmental licensing	Jul-11	Legislation is adopted to simplify and shorten procedures to complete studies on environmental impact and to get the approval of environmental terms with a view to reducing the number of projects subject to environmental licensing and the duration of approval procedures to EU average levels. The acceleration of the environmental licensing is assured by committing the authorizing authority to proceed with the approval procedure after a specified time period.	Simplifies regulations to boost investment.
Simplification of regulation	Jul-11	A law is passed establishing principles of better regulation, tools (codification, recast, simplification), better regulation units, electronic access to existing legislation, and impact assessments. Government identifies priority areas to codify and simplify existing legislation within the better regulation agenda.	Cuts red tape and improves regulation practices.
		Judicial reform	
Simplification of procedures for fiscal cases	Q3-2011	Government finalizes the process of establishing and fully operationalizing tax chambers in administrative tribunals and courts with at least three chambers, staffs them with experienced judges, and monitors their activities. By end-December 2011, the government will conduct assessments of recently introduced legislation and indentifies required changes.	Improve system efficiency
Clearing the existing case backlog in courts	2012-2013	The Ministry of Justice will conduct, jointly with an external body, a study of the backlog in all administrative tribunals and courts of appeal by end-January 2012, develop an action plan by end-March 2012 with a timetable for a targeted reduction of at least 50 percent of the backlog of tax cases by end-July 2012, with a view to achieving full clearance of such backlog by end-July 2013. For all other courts, including the Supreme Court and the Supreme Administrative Court, a similar study will be finalized by end-June 2012.	Improve system efficiency, recover tax revenues
Improving case processing	Q3-2011	Government will reduce the processing time of cases through the adoption of specific additional efficiency measures, including simplifying case registration and rationalizing docket management. The government will also increase the court registration fees in civil and administrative matters, including for postponements by end-December 2011.	Improve system efficiency
Reviewing the Code of Civil Procedure	Q2-2012	Government will establish a task force to review the Code of Civil Procedure so as to bring it in line with international best practices, including on: (i) case management; (ii) the execution of decisions and orders to pay; and (iii) enforcing statutory deadlines for court processes and debt enforcement and insolvency cases. This task force will make specific recommendations by end-December 2012.	Improve system efficiency
Designing a performance and accountability framework for courts.	Q4-2011	Government will establish a task force that will design a performance framework for courts by end-September 2012, including the development of a data management system, a workload measurement system, and a management structure. Also by end-September 2012, the government will fully operationalize and make publicly available a database with case data for each court and will develop a work plan on benchmarking cases for workload measurement.	Improve system efficiency

Source: IMF staff.

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

	2009	2010	2010	2011	2012	2013	2014	2015
	Program		Projections					
Gross borrowing need	70.7	60.0	60.8	84.9	67.9	54.5	50.4	39.9
Overall balance	36.5	22.0	24.0	17.1	14.9	11.4	6.4	3.7
Amortization	29.7	31.2	28.5	37.3	41.3	36.7	47.9	44.5
MLT (non-official)	20.3	19.5	19.6	28.1	35.1	28.8	33.2	21.7
Residents			3.9	9.1	12.9	10.7	11.2	4.3
Non-residents			15.6	19.0	22.2	18.1	22.0	17.4
ST	9.4	11.7	8.9	9.2	6.2	6.2	6.2	6.2
Residents	3.9	3.5	0.7	8.0	5.0	5.0	4.9	4.7
Non-residents	5.5	8.2	8.2	1.2	1.2	1.2	1.3	1.5
Official creditors	..	..	0.0	0.0	0.0	1.7	8.5	16.6
IMF	..	..	0.0	0.0	0.0	1.7	7.8	10.6
EC bilateral loans	..	..	0.0	0.0	0.0	0.0	0.7	6.0
Other 1/	4.5	6.8	8.4	30.5	11.7	6.5	-3.8	-8.3
Gross financing sources	70.7	28.5	29.3	13.7	13.7	17.2	31.1	39.9
Privatization receipts	0.9	0.0	0.0	3.0	7.5	11.0	13.5	15.0
Other	3.8	12.3	0.9	4.5	0.0	0.0	0.0	0.0
Market access	66.0	16.2	28.5	6.2	6.2	6.2	17.6	24.9
MLT	57.1	6.8	19.3	0.0	0.0	0.0	11.4	18.7
ST	8.9	9.4	9.2	6.2	6.2	6.2	6.2	6.2
Residents		6.2	8.0	5.0	5.0	4.9	4.7	4.6
Non-residents		3.2	1.2	1.2	1.2	1.3	1.5	1.6
Official financing already committed		31.5	31.5	46.5	24.0	8.0	0.0	0.0
IMF (3/11 share)		10.4	10.4	10.9	6.5	2.2	0.0	0.0
EC bilateral loans (8/11 share)		21.1	21.1	35.6	17.5	5.8	0.0	0.0
New financing 2/		..	0.0	24.7	30.1	29.3	19.3	0.0
Net market access		-15.0	0.0	-31.1	-35.1	-28.8	-21.8	-3.0
Residents		8.9	3.4	-12.2	-16.2	-13.1	-10.2	-0.8
MLT		6.2	-3.9	-9.1	-16.2	-13.1	-10.1	-0.6
ST (net increase)		2.7	7.3	-3.1	0.0	-0.1	-0.2	-0.2
Non-residents		-23.9	-3.4	-18.9	-18.9	-15.7	-11.6	-2.3
MLT		-18.9	3.7	-19.0	-18.9	-15.8	-11.7	-2.4
ST (net increase)		-5.0	-7.0	0.1	0.0	0.1	0.2	0.2
Rollover rates of existing MLT debt (in percent)		34.9	98.6	0.0	0.0	0.0	34.3	86.0
Total Maastricht debt	298.7	326.9	328.6	373.2	392.2	399.0	388.1	368.4
Official creditors		31.5	31.5	102.7	156.8	192.5	203.3	186.7
IMF		10.4	10.4	21.3	27.8	28.3	20.5	9.9
(in percent of quota)		1,113	1,109	2,277	2,978	3,033	2,197	1,062
EC bilateral loans (incl. rollover financing)		21.1	21.1	81.4	129.0	164.1	182.8	176.8
Private sector (excl. rollover financing)		295.4	297.1	270.5	235.4	206.6	184.8	181.7
Total Maastricht debt (in percent of GDP)	127.5	142.5	142.7	165.9	172.1	169.7	159.8	146.4
Official creditors		13.7	13.7	45.6	68.8	81.9	83.7	74.2
IMF		4.5	4.5	9.5	12.2	12.1	8.4	3.9
EC bilateral loans (incl. rollover financing)		9.2	9.2	36.2	56.6	69.8	75.3	70.2
Private sector (excl. rollover financing)		128.8	129.0	120.2	103.3	87.9	76.1	72.2

Sources: Ministry of Finance; and IMF staff projections.
1/ Includes bank assistance and stock-flow adjustments.
2/ To be filled by a combination of voluntary private sector rollover and new funding from euro area member states (on EFF-equivalent terms). The precise breakdown will be available by the time of the next review.

Table 15. Greece: External Financing Requirements and Sources, 2009-16
(Billion of Euro, unless otherwise indicated)

	2009	2010 Prel.	2011 Proj.	2012 Proj.	2013 Proj.	2014 Proj.	2015 Proj.	2016 Proj.
GROSS FINANCING REQUIREMENTS	**194.4**	**217.8**	**232.0**	**192.8**	**169.1**	**167.4**	**178.2**	**202.9**
Current account deficit	25.8	24.1	18.6	16.2	14.8	14.6	13.1	10.2
Medium- and long-term debt amortization	28.2	22.7	31.1	31.4	26.7	34.7	38.6	42.9
Public sector	15.8	15.6	19.0	22.2	19.8	30.4	34.0	38.1
of which: EC/IMF					1.7	8.5	16.6	21.5
Banks	11.3	6.7	9.7	9.0	5.0	3.7	2.7	2.9
Corporates	1.1	0.3	2.3	0.2	1.9	0.6	1.9	1.9
Short-term debt amortization	140.3	171.1	182.4	145.3	127.7	118.1	126.5	149.8
Public sector & BoG	40.8	57.2	88.2	91.0	70.5	57.1	44.8	36.8
BoG 1/	35.3	49.0	87.1	89.7	69.3	55.8	43.3	35.2
Public sector 2/	5.5	8.2	1.2	1.2	1.2	1.3	1.5	1.6
Banks	98.3	113.2	93.4	53.4	56.2	60.0	80.5	111.5
Corporates	1.3	0.6	0.8	0.9	1.0	1.1	1.3	1.4
SOURCES OF FINANCING	**194.4**	**186.3**	**165.2**	**146.8**	**138.6**	**154.1**	**178.2**	**202.9**
Capital account (net)	2.0	2.1	3.4	3.4	3.3	3.2	3.1	3.0
Foreign direct investment (net)	0.3	0.7	2.5	5.4	7.7	9.5	10.7	1.4
Inward	1.8	1.7	3.5	6.4	8.8	10.6	11.8	2.6
Equities (net)	-0.2	-2.3	-1.2	0.4	0.8	1.3	1.8	2.0
by nonresidents	0.5	-1.1	-0.1	1.5	2.0	2.5	3.0	3.3
Assets drawdown (- increase)	-26.1	21.7	10.7	5.8	2.5	-1.8	-8.8	-10.9
New borrowing and debt rollover	219.9	163.6	149.8	131.9	124.3	141.9	171.5	207.5
Medium and long-term borrowing	48.8	-18.8	4.5	4.2	6.2	15.4	21.6	46.3
Public sector	**39.8**	**-5.6**	**0.0**	**0.0**	**0.0**	**10.2**	**14.9**	**39.4**
Banks	-1.3	-12.3	2.4	4.0	4.2	4.6	4.6	4.6
Corporates	10.3	-0.9	2.1	0.2	1.9	0.6	2.1	2.2
Short-term borrowing	171.1	182.4	145.3	127.7	118.1	126.5	149.8	161.2
Public sector & BoG	57.2	88.2	91.0	70.5	57.1	44.8	36.8	30.7
BoG 1/	**49.0**	**87.1**	**89.7**	**69.3**	**55.8**	**43.3**	**35.2**	**29.0**
Public sector 3/	8.2	1.2	1.2	1.2	1.3	1.5	1.6	1.8
Banks 2/	113.2	93.4	53.4	56.2	60.0	80.5	111.5	128.9
Corporates	0.6	0.8	0.9	1.0	1.1	1.3	1.4	1.6
Other	-1.5	0.5	0.0	0.0	0.0	0.0	0.0	0.0
PROGRAM FINANCING	…	**31.5**	**46.5**	**24.0**	**8.0**	…	…	…
European Union	…	21.1	35.6	17.5	5.8	…	…	…
IMF	…	10.4	10.9	6.5	2.2	…	…	…
in percent of quota	…	*829*	*872*	*523*	*174*	…	…	…
ADDITIONAL OFFICIAL FINANCING AND PSI	…	…	**20.3**	**22.0**	**22.5**	**13.2**	**0.0**	**0.0**

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

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

Table 16. Greece: Access and Phasing under the Proposed Stand-By Arrangement, 2010–13

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 and end-July 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.

Table 17. Greece: Indicators of Fund Credit

(Millions of SDRs, unless otherwise specified)

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Disbursements	9,131	9,612	5,767	1,922	…	…	…	…	…
(in percent of quota)	828.8	872.4	523.4	174.5	…	…	…	…	…
(Projected Debt Service to the Fund based on Existing and Prospective Drawings)									
Total	61	405	720	2,439	7,487	9,950	6,614	2,433	303
Interest	61	405	720	967	969	608	216	30	3
Amortization	0	0	0	1,472	6,518	9,342	6,398	2,403	300
Total debt service, in percent of									
Exports of goods and services	0.1	0.9	1.5	4.6	13.1	16.1	9.9	3.3	0.4
GDP	0.0	0.2	0.4	1.2	3.4	4.4	2.8	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	18,443	9,101	2,703	300	…
(in percent of quota)	829	1,701	2,225	2,265	1,674	826	245	27	…
(in percent of GDP)	4.4	9.3	12.0	11.8	8.5	4.0	1.1	0.1	…
Memorandum items:									
Exports of goods and services (in billion of euros)	45.6	50.1	54.2	58.7	63.5	68.8	74.6	80.9	87.8
GDP (in billions of Euros)	230	225	228	235	243	252	262	273	285
Euro/SDR rate (of May 31, 2011)	1.113								
Quota	1,102								

Source: IMF staff projections.

Appendix I. Debt Sustainability Analysis

The DSA has been updated to reflect various developments since the Third SBA Review. These developments include delayed market re-access for the sovereign, new financing from the EC and via private sector involvement, and the new ambitious privatization program. The analysis shows that public and external debt sustainability hinges critically on full and timely implementation of fiscal, privatization, and structural reforms macroeconomic developments in line with program projections, and the restoration of market access at reasonable terms in the post-program period.

A. Assumptions

1. **The assumptions underpinning the DSA have changed**. The changes relate to the macroeconomic framework, policies, and financing:

Macro assumptions

- **GDP growth**. Real growth has been lowered by ¾ percent in 2011 and ½ percent in 2012. The medium term returns to the path envisaged at the third review. Growth is now projected to average 1¾ percent over 2012–14, and 2.9 percent over 2015–20.

- **Deflator**. The GDP deflator has been moderately increased, mainly reflecting the effect of higher oil prices, as well as tax increases. For the medium term, the deflator follows the trend of inflation, which stays below the Euro area target throughout the projection period.

- **The terms of trade**. The terms of trade in euro terms with respect to trading partners are expected to improve by about 1½ percentage points in 2011. Within this, projections for average oil prices for 2011 have been further increased to $106 per barrel, compared to $95 at the third review, and are expected to decline only gradually below $100 by end-2016.

- **External demand**. External demand by trading partners is expected to slightly improve, with an increase of imports of goods by almost ½ percentage points in 2011 and a further ½ percentage point on a cumulative basis for the remainder of the program period.

Policy assumptions

- **Fiscal adjustment.** The primary balances for 2015 and the medium term have been revised slightly upward (7½ percent of GDP versus 6¼ percent of GDP for 2015; and 6½ percent of GDP vs. 6 percent of GDP before).

- **Privatization.** With the authorities' privatization plan now specified, receipts have been revised up to reflect the plans' target (€50 billion over 2011–15). Inflows are assumed to gradually scale up: €3 billion in 2011; €7.5 billion in 2012; €11 billion in 2013; €13.5 billion in 2014; and €15 billion in 2015.

- **Arrears clearance.** A total amount of €5.1 billion in arrears (representing the stock excluding arrears to the civil servants' welfare fund and pre-2010 health arrears) assumed to be cleared, spread over 2011–13. In addition, it is assumed that the remaining €4.5 billion stock of pre–2010 health arrears will be settled in 2011.

- **Deposit buffer**. The financing framework now builds a deposit buffer of up to €10 billion (about 1½ month of expenditures, or a medium-sized bond redemption) by mid-2014. The deposit buffer is to help contain risks from unexpected developments.

- **FSF funding.** The baseline assumes an additional contribution to the FSF of €16 billion. It is assumed that these funds are disbursed to banks in the near term, with the government recovering the resulting equity investment by 2014–15.

Financing assumptions

- **Private sector involvement (PSI)**. For the purpose of this assessment exercise, it is assumed that voluntary rollovers/maturity extensions reduce financing needs by €33 billion through June 2014. New bonds issued are assumed to involve a 5-year maturity and a coupon equal to the existing coupon. Participation is assumed to include Euro-area banks (including Greek banks) and Greek social security funds, with 100 percent take up. In this assessment, the ECB and foreign non-bank entities (such as pension funds) are assumed to be non-participants. The numbers are however subject to some uncertainty: the share of maturing holdings in non-Greek banks has been inferred from BIS data.

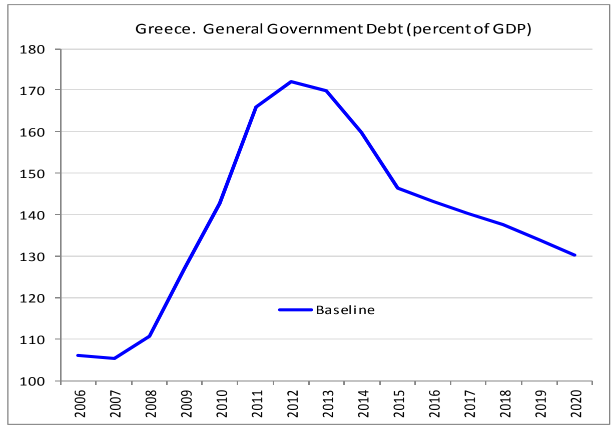
- **Official support**. Additional support from euro area member states of €71 billion is assumed through June 2014 (on top of the €80 billion in the existing program). EC loans are now recorded on the newly agreed (EFF-like) terms: an interest rate 200 bps above 3-month Euribor rates up to three years, and after that at 300 bps; and principal repayments between 4½ and 10 years from disbursement. Fund lending remains at €30 billion on SBA terms.

- **Market access**. Greece is assumed to return to the market in the second half of 2014. Spreads on 10 year bonds over German bunds are assumed to gradually fall from 675 bps in 2014 to 250 bps in 2020. This upward revision in the spread reflects ongoing risk differentiation in the euro area, and an assumed impact from the application of PSI.

- **ECB liquidity support**. The exposure of domestic banks to the ECB is expected to decline gradually to below €70 billion by May 2013. Retail and wholesale funding sources are projected to recover very slowly.

B. Fiscal DSA

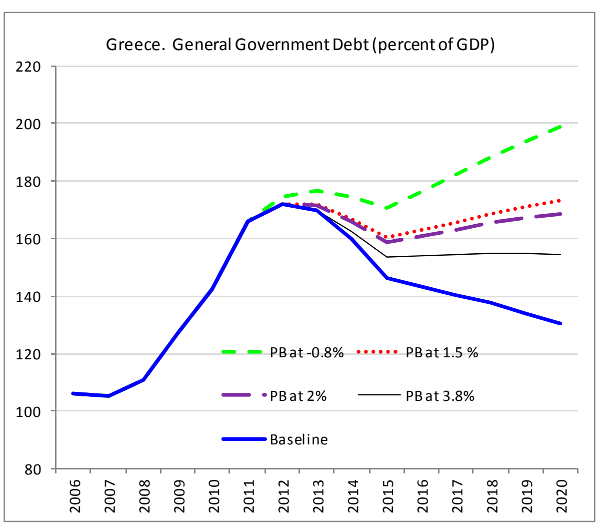
2. **Under the baseline set of assumptions, debt is expected to eventually decline** (Table A1). Debt would peak at a higher level (172 percent of GDP in 2012) but fall to 130 percent of GDP by end-2020. This is very similar to the third review. The positive impact of significantly larger privatization receipts is offset by the need for deposit accumulation, arrears clearance, higher stock flow adjustments, higher FSF needs, and also more cautious growth and spread assumptions.

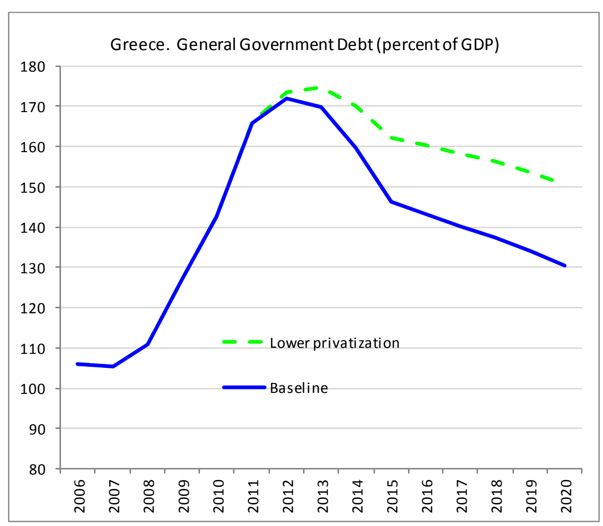


3. **Full and timely implementation of the fiscal and privatization program is absolutely critical to achieving favorable debt dynamics:**

- **Incomplete fiscal adjustment**. If due to inability to implement the full fiscal program, the primary balance gets stuck at around -1 percent of GDP (the level targeted in 2011), 1½ percent of GDP (the level targeted in 2012), at 2 percent of GDP, or even at 3½ percent of GDP (the level targeted in 2013), debt would either stall at around 155 percent of GDP or become clearly unsustainable.

- **Shortfalls with privatization receipts.** Failures with privatization (only €10 of €50 billion realized) would see debt remain at very high and likely unsustainable levels—above 150 percent of GDP—right through 2020.

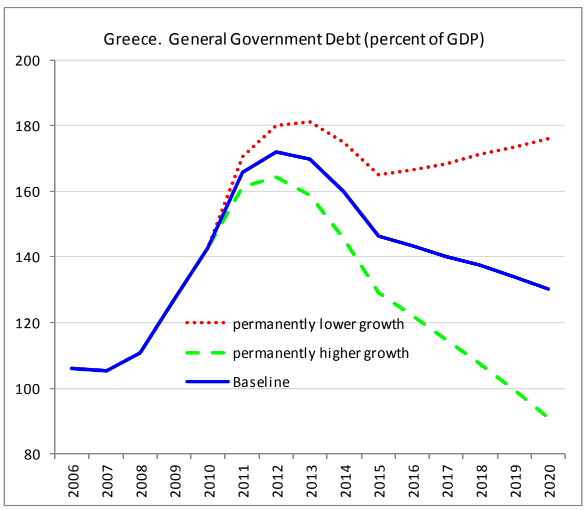


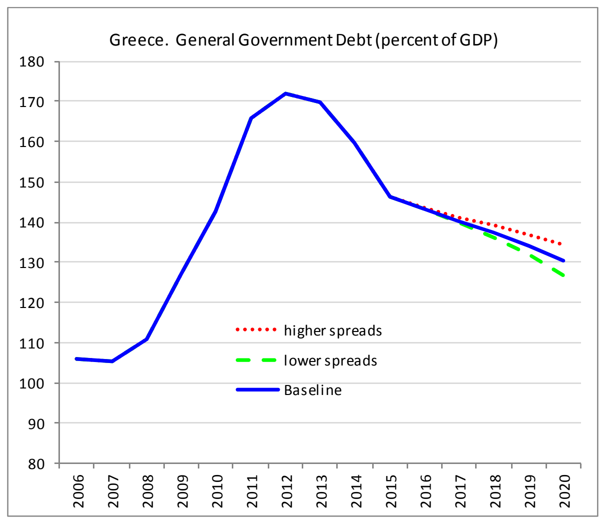


4. **Macroeconomic outcomes also play a critical role in achieving positive debt dynamics**:

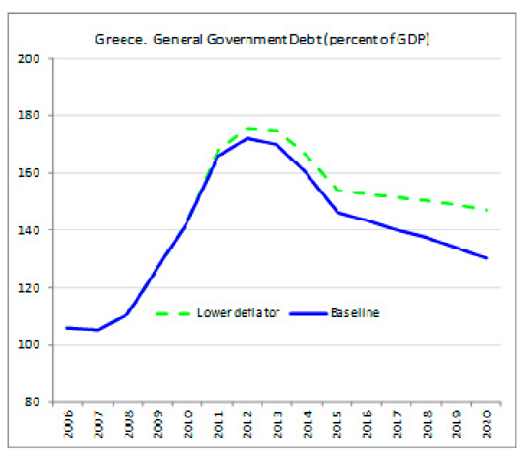
- **Growth**. Results are very sensitive to growth outcomes. Permanently lower growth (-1 percentage point each year) would render debt unsustainable, while higher growth (+1 percentage point each year) would lead to debt below 100 percent of GDP by 2020. This highlights the crucial importance of frontloading growth-enhancing structural reforms for debt sustainability.

- **Spreads.** Spreads must drop to secure a sustainable debt trajectory, but once they do, small variations in the spreads do not have a large impact. If expectations of default, and thus spreads, remain too high, then the authorities will not be able to return to the market and the debt cannot be sustained. However, if spreads come down then the precise trajectory is less important. For example, if they are 150 bps higher than the baseline, debt-to-GDP converges to only a slightly higher level—134 percent of GDP by 2020.



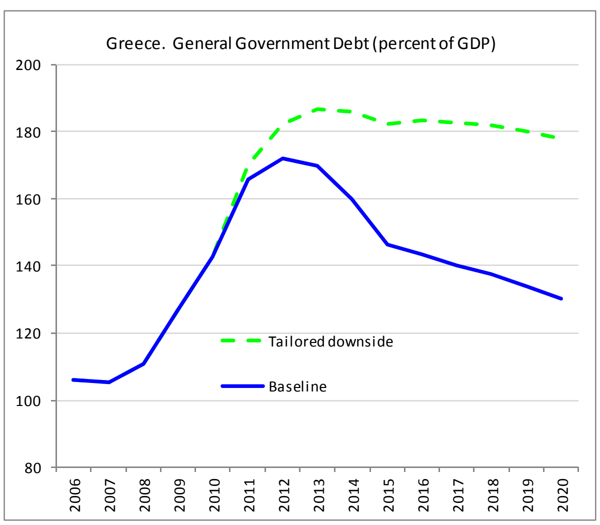


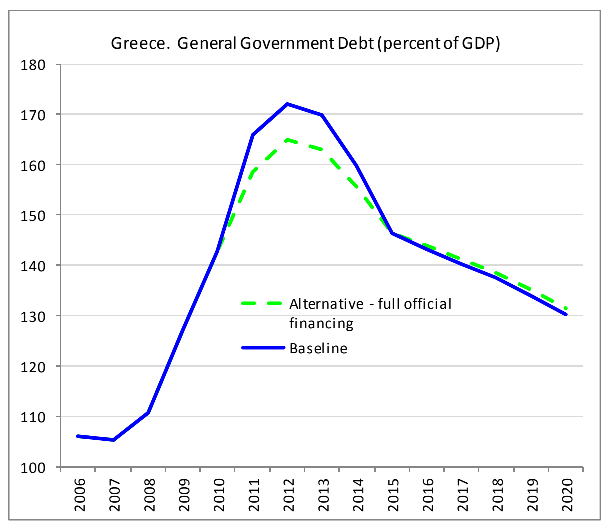
- **REER adjustment**. Faster internal devaluation would delay the debt decline. With a deflator lower by 1 percentage point each year but (nominal) fiscal targets met through 2015, debt would peak at 174 percent of GDP and end at 147 percent of GDP by 2020. The decline between 2015 and 2020, which under the baseline is some 16 percentage point of GDP, would slow to 7 percentage points of GDP.



5. **A tailored downside scenario exposes additional vulnerabilities.** A tailored downside scenario would reflect a delay in structural reforms, a slump in external demand, or a much faster deleveraging by the, Greek banking sector, which in turns affects growth, impedes the government's ability to deliver on its fiscal program, and brings about further balance sheet risks. For the purposes of this DSA it is assumed to involve: (i) growth lower by 1 percentage point each year compared to the baseline until 2016; (ii) higher interest rate spreads (assumed +150 bps until 2016); (iii) higher overall fiscal deficits (with the primary balance frozen at 6 ½ percent of GDP, it takes until after 2030 to bring the fiscal deficit below 3 percent of GDP); (iv) lower privatization program proceeds (only €10 billion); and (v) higher contingent banking liabilities (an extra €10 billion). Debt would peak at 186 percent of GDP in 2015 and remain above 178 percent of GDP in 2020, a situation highly unlikely to allow continued market access.

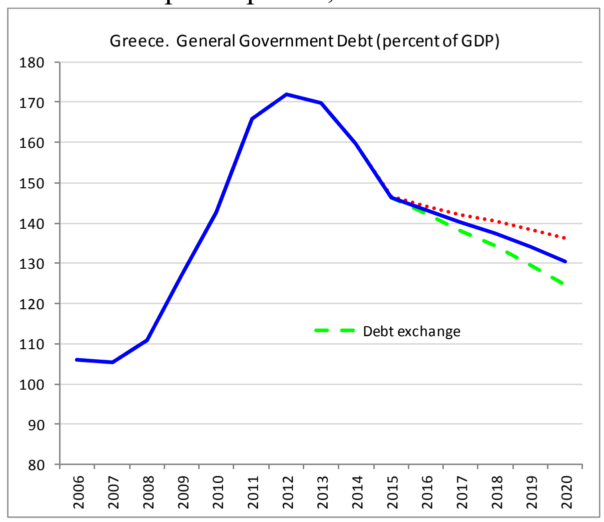
6. **Failure to involve the private sector would have no major impact on debt dynamics, provided alternative official finance was available to fill the resulting gap**. The outcome of participation in the PSI initiative is uncertain, as the voluntary nature of the initiative and the below market rates implied on rollovers/maturity extensions may well reduce participation. In the case of a total failure, but provided additional official financing would be made available by EU partners on EFF terms, debt dynamics would be very similar. No additional FSF support would be necessary to offset the impact on Greek banks of the PSI initiative and therefore, debt would peak at a lower level of 165 percent of GDP. By end-2020, debt would be at 132 percent of GDP, only marginally different from the baseline.





7. **However, alternatively structured PSI could have a significant impact.**

- For illustrative purposes only, if the outcome of PSI were to involve longer maturities and/or lower coupons on the new debt, or a wider base of participation, this would have a much more pronounced positive impact on debt dynamics. For instance, under a debt exchange operation (with a 85 percent participation of all non-ECB bond holders) and involving a 10-year maturity extension at a coupon 1 percentage point lower than the existing coupon, there would be significant interest savings in the short term (slightly reducing the need for measures and allowing debt to fall to 125 percent of GDP by 2020). Official additional assistance would also be lower at €52.7 billion.



- Conversely, rollovers involving enhancements to induce participation would have an adverse impact on debt dynamics. In particular, a three-year maturity extension with a 4 percentage point higher coupon would have debt converge to 136 percent of GDP. Spreads would likely be higher in this scenario in light of higher rollover rates.

C. External DSA

8. **The overall external debt dynamics in the revised baseline scenario remain largely unchanged since the past review (Figure A2 and Table A2)**. Under the baseline, the net debt-to-GDP ratio is projected to peak at 115 percent of GDP in 2012 (about 9 percentage points higher than in the previous baseline), but to then decline to 104 percent of GDP in 2015 (about 2¾ percent of GDP lower than in the previous baseline). The better end-point reflects the improved external outlook and more favorable terms for the EC loans and the voluntary bond rollovers in a scenario where market access is delayed to mid-2014.

9. Sensitivity analysis suggests that external debt sustainability is vulnerable to a macro shock on the current account.

- **Faster REER adjustment.** A quicker internal devaluation, with lower GDP deflator growth and nominal GDP, would lead to an increase in the external debt ratio in the short-term which would reach 117 percent of GDP. Nevertheless, medium-term dynamics would remain on a downward path, as the negative base effect would be offset by improved external competitiveness and faster current account adjustment.

- **Higher interest rates.** The sensitivity of the debt ratio to interest rates (including those charged on ECB lending) is contained, given the migration of debt to the official sector.

For instance, an additional 150 basis points in response to a further deterioration in market conditions would raise the debt ratio by 4 percentage points of GDP in 2016 relative to the baseline. The extent of the interest rate shock is partly mitigated by the delayed return to market access assumed under the baseline and the increasing share of official debt (the average increase in the implied interest rate on the stock of total external debt, public and private, is equivalent to 50 basis points).

- **Higher current account deficits**. This could reflect, for instance, weaker external competitiveness (due to delays in the response of the economy to structural reforms) leading to a loss of market share in exports of goods and services, or a terms-of-trade shock (of about 5 percentage points). In this scenario, the non-interest current account deficit would be 1¼ percent of GDP higher than in the baseline. This would result in a further increase in the debt ratio by about 8 percentage points of GDP in 2016 than under the baseline, and set external debt on an unsustainable path.

10. **Policy slippages would also be critical, especially if generating more debt creating flows**.

- **Lower FDI.** Delays in the fiscal privatization program (€10 billion compared to €50 billion in the baseline) and/or lower than expected foreign participation (e.g. due to ongoing concerns about corruption and a high cost of doing business) would reduce FDI by about €30 billion. As a result of the corresponding increase in debt-generating flows, the debt ratio would deteriorate by 11 percentage points of GDP compared to the baseline.

- **External debt would not be sustainable under the tailored downside scenario.** Under a combined shock scenario featuring delayed program implementation and macro underperformance (see the discussion in the fiscal DSA section), resulting in higher spreads and loss of market share, external debt would remain on an upward sloping path reaching 126 percent of GDP by 2016.

Table A1. Greece: Public Sector Debt Sustainability Framework

(In percent of GDP, unless otherwise indicated)

	Actual			Projections											
	2008	2009		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Debt-stabilizing primary balance 10/
Baseline: Public sector debt 1/	111	127		**143**	**166**	**172**	**170**	**160**	**146**	**143**	**140**	**138**	**134**	**130**	**2.7**
Change in public sector debt	5.3	16.4		15.6	23.2	6.2	-2.3	-10.0	-13.4	-3.0	-3.1	-2.7	-3.5	-3.7	
Identified debt-creating flows (4+7+12)	6.4	18.0		16.6	23.2	6.2	-2.3	-10.0	-13.4	-3.0	-3.1	-2.7	-3.5	-3.7	
Primary deficit	4.8	10.3		4.9	0.8	-1.5	-3.5	-6.4	-7.7	-6.4	-6.4	-6.4	-6.4	-6.4	
Revenue and grants	39.8	37.3		39.0	41.0	41.9	41.7	41.7	41.4	40.0	39.4	39.2	38.9	38.5	
Primary (noninterest) expenditure	44.7	47.6		44.0	41.8	40.4	38.2	35.3	33.7	33.5	33.0	32.7	32.5	32.1	
Automatic debt dynamics 2/	0.6	6.1		8.0	10.2	5.8	3.2	3.6	3.6	3.0	2.9	3.3	2.6	2.4	
Contribution from interest rate/growth differential 3/	0.6	6.1		8.0	10.2	5.8	3.2	3.6	3.6	3.0	2.9	3.3	2.6	2.4	
Of which contribution from real interest rate	1.8	3.5		2.4	4.7	6.8	6.7	7.4	7.7	7.0	7.0	7.3	6.5	6.2	
Of which contribution from real GDP growth	-1.2	2.6		5.6	5.5	-1.0	-3.5	-3.8	-4.2	-4.1	-4.1	-4.0	-3.9	-3.8	
Contribution from exchange rate depreciation 4/	0.0	0.0		...	...	...	...	...	...	...	...	...	...	...	
Denominator = 1+g+p+gp	1.0	1.0		1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	
Other identified debt-creating flows	1.0	1.5		3.6	12.2	1.8	-1.9	-7.1	-9.3	0.5	0.4	0.4	0.4	0.4	
Privatization receipts (negative)	0.0	-0.4		0.0	-1.3	-3.3	-4.7	-5.6	-6.0	0.0	0.0	0.0	0.0	0.0	
Recognition of implicit or contingent liabilities	1.0	0.3		1.0	12.3	3.4	1.7	-2.0	-3.3	0.5	0.4	0.4	0.4	0.4	
Other (specify, e.g. bank recapitalization) 4/	0.0	1.6		2.6	1.2	1.8	1.1	0.4	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes (2-3) 5/	-1.1	-1.6		-1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Public sector debt-to-revenue ratio 1/	277.9	340.5		365.5	404.7	410.6	407.1	383.0	353.6	358.7	355.5	351.2	344.7	338.2	
Gross financing need 6/	9.8	15.5		18.9	22.3	19.6	16.6	19.2	19.2	20.7	28.2	23.5	31.2	23.2	
in billions of U.S. dollars	34.2	50.8	10-Year	56.9	64.3	57.1	49.5	59.0	60.7	68.3	97.1	84.4	117.4	91.6	
Scenario with key variables at their historical averages 7/				**143**	**154**	**156**	**154**	**148**	**140**	**140**	**141**	**141**	**141**	**142**	**-9.6**
Scenario with no policy change (constant primary balance) in 2010-2020			Historical	**143**	**170**	**183**	**189**	**191**	**191**	**200**	**209**	**220**	**229**	**239**	**-5.0**
Key Macroeconomic and Fiscal Assumptions Underlying Baseline			Average												
Real GDP growth (in percent)	1.2	-2.3	3.3	-4.4	-3.8	0.6	2.1	2.3	2.7	2.9	3.0	3.0	3.0	3.0	
Average nominal interest rate on public debt (in percent) 8/	4.9	4.7	5.5	4.2	4.6	4.9	5.0	5.5	5.9	6.1	6.4	6.9	6.7	6.7	
Average interest rate on new market debt (incl. T bills)				7.2	6.9	7.1	5.7	9.2	11.1	9.0	7.8	7.5	7.3	7.3	
Average interest rate on all new debt (includes EU bilateral and IMF debts)				5.5	4.2	4.6	5.6	6.2	7.1	7.4	7.3	7.5	6.9	7.1	
Spreads above German bund (10-year) 9/				1175	1175	1000	800	675	600	500	400	350	300	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	3.1	2.2	1.7	3.1	4.2	4.0	4.5	5.0	5.0	5.1	5.5	5.0	4.9	
Inflation rate (GDP deflator, in percent)	3.1	1.6	3.3	2.5	1.5	0.7	1.0	1.0	0.9	1.1	1.3	1.4	1.7	1.8	
Growth of real primary spending (deflated by GDP deflator, in percent)	7.9	4.0	6.1	-11.6	-8.5	-2.7	-3.7	-5.3	-2.0	2.4	1.4	2.1	2.1	1.9	
Primary deficit	4.8	10.3	1.6	4.9	0.8	-1.5	-3.5	-6.4	-7.7	-6.4	-6.4	-6.4	-6.4	-6.4	

1/ General government.

2/ Derived as [(r - π(1+g) - g + αε(1+r)]/(1+g+π+gπ)) 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 - π (1+g) and the real growth contribution as -g.

4/ Includes build up of deposits.

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/ Market access assumed to start in mid-2013, therefore, no market borrowing takes place at spreads for 2010-2012.

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

Table A2. Greece: External Debt Sustainability Framework

(In percent of GDP, unless otherwise indicated)

	Actual					Projections						
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Debt-stabilizing non-interest current account 7/
Baseline: External debt	62.0	67.7	74.4	85.8	104.4	**113.0**	**114.7**	**112.5**	**109.1**	**104.3**	**101.7**	**-1.3**
Change in external debt	3.9	5.7	6.8	11.3	18.7	8.6	1.6	-2.2	-3.4	-4.8	-2.6	
Identified external debt-creating flows (4+8+9)	3.9	4.7	10.2	10.8	12.3	9.7	4.0	1.0	0.5	-0.6	-2.0	
Current account deficit, excluding interest payments	9.1	11.8	11.5	8.4	7.6	4.8	3.5	2.3	1.4	0.4	-0.7	
Deficit in balance of goods and services	9.5	11.0	11.4	7.7	6.5	4.2	2.9	1.7	0.5	-0.5	-1.5	
Exports	21.2	21.5	22.7	18.0	19.8	22.3	23.8	25.0	26.1	27.3	28.5	
Imports	30.6	32.5	34.1	25.7	26.3	26.5	26.7	26.6	26.7	26.8	27.0	
Net non-debt creating capital inflows (negative)	-3.2	-5.3	-1.4	-0.8	0.1	-1.0	-1.7	-1.8	-1.9	-2.0	-1.9	
Automatic debt dynamics 1/	-2.0	-1.7	0.0	3.2	4.5	5.9	2.1	0.5	1.0	1.0	0.6	
Contribution from nominal interest rate	2.2	2.6	3.1	2.6	2.8	3.4	3.6	4.0	4.6	4.8	4.6	
Contribution from real GDP growth	-2.4	-2.6	-0.8	1.5	4.1	4.0	-0.7	-2.3	-2.5	-2.8	-2.9	
Contribution from price and exchange rate changes 2/	-1.7	-1.8	-2.3	-0.9	-2.3	-1.5	-0.8	-1.1	-1.1	-1.0	-1.1	
Residual, incl. change in gross foreign assets (2-3) 3/	0.0	1.0	-3.4	0.5	6.4	-1.1	-2.3	-3.3	-3.9	-4.2	-0.5	
External debt-to-exports ratio (in percent)	292.9	314.2	327.3	476.5	528.0	507.9	482.2	450.7	417.2	381.6	357.1	
Gross external financing need (in billions of euros) 4/	73.9	93.2	122.9	166.3	180.4	232.0	192.8	169.1	167.4	178.2	202.9	
in percent of GDP	35.1	41.2	51.9	70.8	78.3	103.1	84.6	72.0	68.9	70.8	77.5	
Scenario with key variables at their historical averages 5/						**113.0**	**115.4**	**116.8**	**117.8**	**118.5**	**122.5**	**-2.8**
Key Macroeconomic Assumptions Underlying Baseline												
Real GDP growth (in percent)	4.5	4.5	1.2	-2.0	-4.6	-3.8	0.6	2.1	2.3	2.7	2.9	
GDP deflator in US dollars (change in percent)	3.1	3.0	3.5	1.3	2.8	1.5	0.7	1.0	1.0	0.9	1.1	
Nominal external interest rate (in percent) 6/	4.1	4.6	4.9	3.5	3.2	3.2	3.2	3.6	4.2	4.5	4.6	
Growth of exports (euro terms, in percent)	7.4	9.6	10.4	-21.5	7.7	9.9	8.2	8.2	8.3	8.3	8.4	
Growth of imports (euro terms, in percent)	20.2	14.3	9.6	-25.2	0.3	-1.7	2.2	2.7	3.6	4.2	4.5	
Current account balance	-11.3	-14.4	-14.7	-11.0	-10.4	-8.2	-7.1	-6.3	-6.0	-5.2	-3.9	
Net non-debt creating capital inflows	3.2	5.3	1.4	0.8	-0.1	1.0	1.7	1.8	1.9	2.0	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.

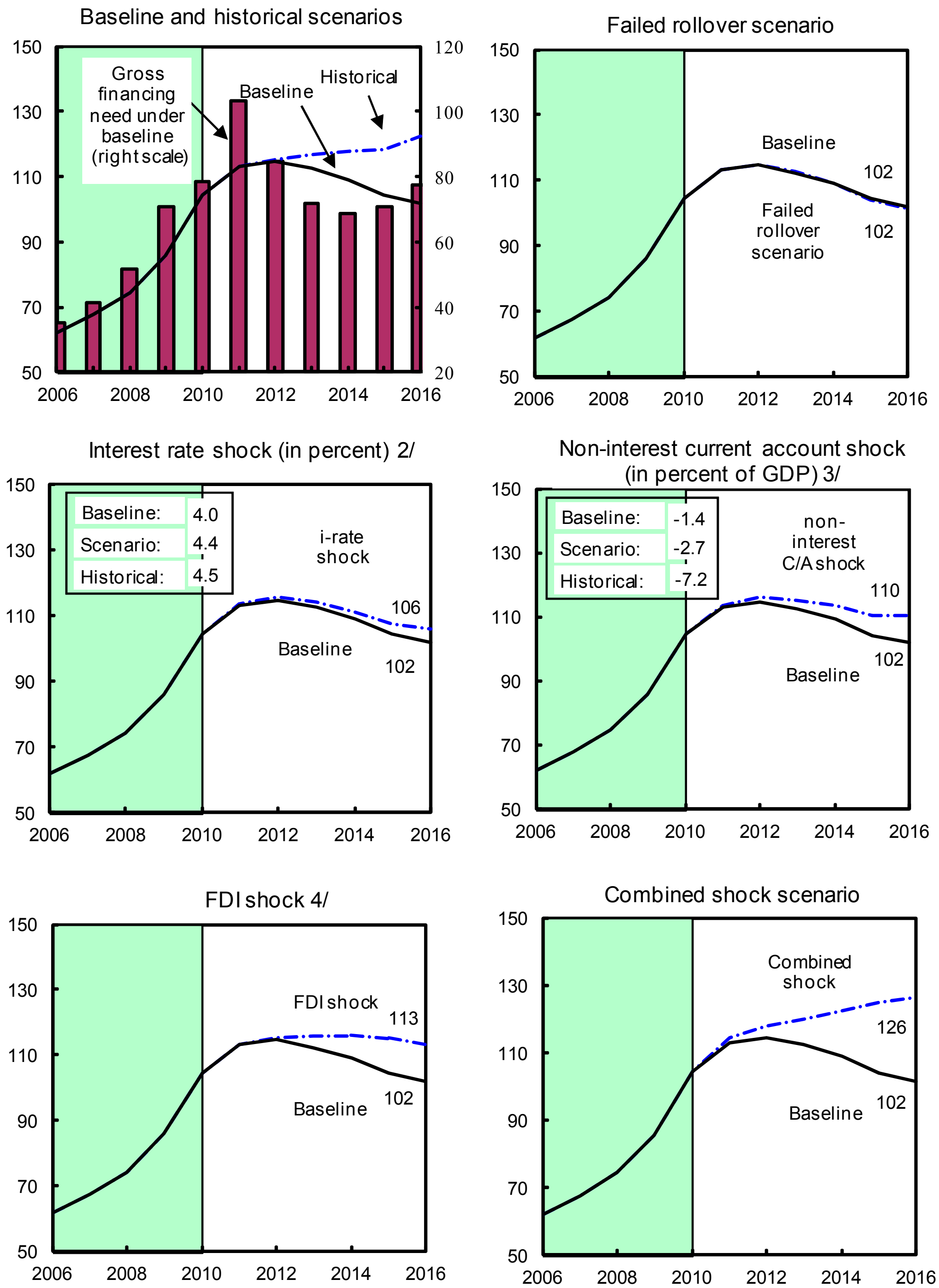
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

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

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

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



Sources: Greek authorities, and staff estimates.
1/ Shaded areas represent actual data. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ Market interest rates on sovereign issuance higher by 150bps during the projection period, resulting in a shock of 50bps to the implied interest rate on the total stock of external debt.
3/ Current account deficit higher by a 1.3 percent of GDP due to delayed macro adjustment and term-of-trade shock.
4/ Decline in FDI due to a delay in the privatization program.

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APPENDIX II. FUND RELATIONS
(As of May 31, 2011)

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

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

III. **General Resources Account**:	**SDR Million**	**Percent Quota**
Quota	1,101.80	100.00
Fund holdings of currency	13,597.01	1,234.07
Reserve position in Fund	240.65	21.84

IV. **SDR Department**:	**SDR Million**	**Percent Allocation**
Net cumulative allocation	782.36	100.00
Holdings	623.23	79.66

V. **Outstanding Purchases and Loans**:	**SDR Million**	**Percent Quota**
Stand-by Arrangements	12,735.80	1,155.91

VI. **Latest Financial Arrangements**:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By	May 09, 2010	May 08, 2013	26,432.90	12,735.80

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

	Forthcoming				
	2011	2012	2013	2014	2015
Principal			1,471.81	5,917.34	4,896.09
Charges/Interest	193.14	383.21	421.53	336.76	83.67
Total	193.14	383.21	1,893.34	6,254.10	4,979.76

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

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

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

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

XII. **Technical Assistance**:

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

*With participation from LEG.

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

GREECE—LETTER OF INTENT

Athens, July 4, 2011

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

Dear Ms. Lagarde:

In the attached update to the Memoranda of Economic and Financial Policies from May 3, August 6, December 8, 2010, and February 28, 2011 (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.

We continue to make progress with our economic program:

- Quarterly quantitative performance criteria for end-March have been met, along with the continuous criterion on external arrears. Information on other end-June performance criteria is not yet available, but we expect to meet these targets as well, and request a waiver of their applicability. However, our end-March indicative target on the accumulation of new domestic arrears by the general government was again exceeded. The deep recession and associated revenue slump has complicated the achievement of fiscal targets, but we will take appropriate measures to overcome this challenge, as laid out in the attached MEFP.

- Fiscal-structural reforms have been moving forward. A comprehensive medium-term fiscal strategy has been approved by parliament as well as first-stage legislation to implement policy reforms, in each case as a prior action for this review. Parliament has also approved a detailed time-bound privatization plan (a prior action for the review), and a law establishing a privatization agency has been passed (also a prior action for the review). A structural benchmark on appointing financial accounting officers in line ministries and general government entities, and a benchmark covering an actuarial study on the main supplementary pension funds were observed with delay. Earlier end-December benchmarks covering a study on public employment and compensation, and on improving the statistical reporting to ElStat are now fully implemented.

- Our policy efforts to support financial system stability continue. In March we submitted legislation to parliament allowing for the unbundling of the commercial activities of the HLCF and authorizing a new €30 billion tranche of government guarantees for uncovered bank bonds. The legislation was passed in May (allowing us to observe two program structural benchmarks, one with delay). Furthermore, banks have submitted draft medium-term funding plans to the ECB and Bank of Greece, and the Bank of Greece has issued guidance to banks to refine the plans in line with the program's macroeconomic framework.

- To support these efforts with an appropriate level of financing, we have defined a strategy to achieve substantial and credible contributions from the private sector and official sectors. In this context we will aim to finalize the relative contributions by private creditors and the official sector by the time of the Fifth Review. In parallel, the ECB is working with Greek banks on medium-term funding plans to ensure that they reduce their exposure to exceptional Eurosystem liquidity support at a pace consistent with the program's macroeconomic framework.

- On this basis, we request completion of the fourth review under the Stand-By Arrangement, and the fifth purchase under this arrangement in the amount of SDR 2,883.6 million. We also request the establishment of quantitative performance criteria for end July, applicable for the fifth review. As detailed below, we propose new structural benchmarks in support of our fiscal adjustment program (implementation of fiscal adjustment measures and covering achievement of revenue administration operational targets); and in support of our financial sector stability efforts (parliamentary approval of legislation strengthening the FSF operating framework and bank resolution framework) (Table 2).

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

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

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

GREECE—MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

The Economic Outlook

11. **The government expects the economy to stabilize in late 2011**. Revised national account figures for end-2010 suggest that the contraction of domestic demand has been somewhat deeper than previously expected. Economic activity stabilized during the first quarter of 2011 and external demand is recovering strongly, but with fiscal adjustment continuing to represent and important headwind, GDP is now projected to decline by 3¾ percent in 2011. The economy should return to positive year-on-year growth in early 2012.

12. **Competitiveness should continue to improve**. The private sector is adjusting at an accelerating pace, reducing costs and reorienting production towards the external sector. Unit labor costs have declined in 2010, and are projected to decrease further in 2011. Inflation pressures have remained elevated on the back of higher commodity prices and additional indirect tax rate adjustments. However, inflation at constant taxes is expected to remain well below the Euro area average, buttressing external competitiveness. With goods exports recovering strongly, and improving prospects for the tourism sector, we expect the external current account deficit to narrow to 8¼ percent of GDP in 2011.

13. **The remainder of the memorandum explains how the program's policy framework will be implemented to address these continuing challenges**. The key priorities at the current juncture are: securing the fiscal adjustment needed to restore confidence and market access; facilitating larger capital buffers in banks, while ensuring orderly transition to sustainable medium-term funding; transferring public assets to more productive private sector uses; improving implementation of structural reforms and making them more comprehensive in scope; and establishing the financing to support implementation of program policies.

Fiscal Policy

14. The government of Greece is determined to bring fiscal policy back to a sustainable position. The boom over the last decade disguised a deep deterioration of Greece's underlying structural fiscal balance, which the ensuing recession exposed. We succeeded in bringing the deficit down by 5 percent of GDP in 2010, but with the deficit still above 10 percent of GDP, and debt approaching 150 percent of GDP, this was just a first step. Our efforts going forward will continue to be anchored on reducing the overall deficit of the general government to €17 billion (7½ percent of GDP) in 2011, and to under 3 percent of GDP by 2014. This should allow the ratio of debt-to-GDP to begin declining in 2013. Our strategy, discussed in what follows, is to rapidly enact and start implementing far-reaching fiscal policy reforms to help secure achievement of our 2011 fiscal target, and reduce the deficit in the medium-term. Simultaneously, we will work to strengthen fiscal institutions—

revenue collection and expenditure management—to support strong and effective implementation of our fiscal policies.

15. **The government has prepared a medium-term fiscal strategy (MTFS), with the aim to reduce the overall deficit to below 3 percent of GDP by 2014.** The strategy envisions a further reduction in the deficit in 2015. It has been approved by parliament as a **prior action** for the program. The MTFS is the first of its kind in Greece, and specifies multi-annual expenditure ceilings for line ministries and the overall state budget, and estimates of revenue, expenditures and deficits for the various components of the general government (social security funds and hospitals, local governments, state owned enterprises, and extra budgetary funds). It also includes a baseline fiscal policy forecast and a set of policy adjustment measures (which together underpin the ceilings), along with an initial fiscal risk analysis. Given the likely evolution of revenues and spending over the next several years, the government forecasts that about 10 percent of GDP in measures are needed to achieve the 2014 target (including 3 percent of GDP to close a 2011 gap).

16. **The medium term plan is anchored on several key fiscal-structural reforms, which together aim to make a permanent break with Greece's past fiscal problems.** Our guiding aims include to improve the efficiency and quality of public spending, to reduce waste and inefficiency in the broader public sector, and to broaden the tax base and reduce tax and social contribution evasion. Specific measures have been designed with a view to protect and improve the core of the social safety net, and to the extent possible minimize the impacts on economic growth. Overall, during 2011-14 the adjustment is split almost evenly between revenue increases and spending restraint. The measures include:

***Expenditure adjustments*:**

- **A reduction of public employment** (0.3 percent of GDP). The government aims to reduce public sector employment by 150,000 or about 20 percent by 2015. To achieve this target, we expect to apply attrition (a 1:10 hiring rule in 2011 and 1:5 subsequently), reductions in contract employment, and involuntary redundancies. Redundant employees will be identified from units targeted for closure or merger (see below). Beyond the public sector, in the case of state enterprises, redundancies will be identified by reference to measures of spare capacity or benchmarking against similar companies in Europe (with this exercise to be complete by end-July 2011). Excess public employees will be either separated immediately or furloughed into a separate labor reserve. Time spent in the reserve would be limited to no more than 12 months at no more than 60 percent of their wage (excluding overtime and other extra payments). Transfers from the labor reserve to other public sector entities will be possible, but only under the attrition-related hiring limit, and with a positive evaluation of the employee from ASEP. At the end of the twelve month period, separation would be mandatory. To help manage the public sector with fewer employees, working hours have been extended to match the 40-hour work week private sector norm.

- **Closure of non-essential public entities and agencies** (0.5 percent of GDP). We have already made progress in this area, with some 4,500 entities closed or merged under the "Kallikratis" local government reform. The focus will now shift to the more than 1,500 public entities under line ministries and in the social security sector. We have already closed 77 of these entities and by mid-August we will pass legislation to close a further 40 small entities, merge 25 other small entities, and to close, merge or consolidate an additional 11 large entities with total current employment of 7,000 (including existing asset management companies; construction companies; and public television stations). To further this work, we will review the functions and cost structure of all such public entities, and close those with no essential function, merge those with overlapping mandates, and set cost benchmarks for the remaining entities. An initial stock taking exercise will be completed in October 2011, with results to inform closures and mergers in the context of the 2012 budget.

- **Adjustments in public employee compensation** (0.6 percent of GDP). A new wage structure will be introduced by mid-August and phased in over 3 years. It will bring wages into line with private sector norms (achieving "equal pay for equal work") and decompress the wage structure to better reward performance. Overall savings will be achieved by eliminating special wage regimes and allowances, and reducing automatic wage drift. Wages of state-owned enterprises employees will be in line with the new wage grid for the public sector.

- **Streamlining and better targeting of social benefits** (0.9 percent of GDP). We have reviewed Greece's social benefit system, with a view to preserve its core features, but to reduce abuse and improve the fairness of benefits. Key adjustments to be made include: caps on total pension income; and tightening of criteria to access several benefits (including unemployment benefits, social security contribution discounts, and benefits in kind). By September 2011we will complete a social spending review to identify further ways to rationalize this spending, improve benefit targeting and curtail unnecessary services. Based on this, we will issue legislation and regulations by Q1 2012 aiming at an overall annual saving of about €760 million by 2014.

- ***Reforms to social security***

  - **Pension reforms** (1 percent of GDP). The government maintains an objective to limit the increase in the expenditures of pension funds to below 2½ percent of GDP by 2060. With reforms to the main pension funds put in place during 2010, the focus will now shift to other pension schemes:

- **Supplementary pension funds**. Reforms will be adopted during Q3 2011 and implemented beginning in January 2012. The aim will be to eliminate imbalances, introduce a stricter link between benefits and contributions to guarantee the sustainability of all funds, and reduce the number of funds substantially.

- **Arduous professions**. The government will revise the list to reduce workers in arduous professions to less than 10 percent of total employees, with the list to be effective from July 2011.

- **Disability pensions**. The government will revise the definition of disability and its application by end-August. To reduce spending for disability pensions, now 14½ percent of overall pension spending to 10 percent, we will issue a regulation by end-August 2011 requiring the (re)certification of disabilities, and we will also make operational a central evaluation office.

- **Lump sum pensions**. Lump sum pensions for civil servants and public enterprise employees will be cut by at least 10 percent. By end-September studies of other lump sum pensions will be completed to identify where they are out of line with contributions. Adjustments to link these lump sum amounts with contributions will be made by end-year.

- **Health sector reforms** (0.7 percent of GDP). Over the past year, the government has designed a new institutional structure for the health sector merging different health funds, curtailing pharmaceutical spending, and introducing tighter accounting and spending controls in hospitals. Measures in these areas will continue to generate savings in the next three years. To build on these reforms, a task force will produce a report by September 2011 defining policies and quantitative targets in specific areas, including service provision, pharmaceutical spending, financing, governance of the health system, and accounting systems. On this basis, the government will adopt a time bound action plan to map out the next steps by end-November 2011.

- ***Revenue increases***

- **The elimination of tax exemptions and special regimes** (2.8 percent of GDP). To make the tax system fairer, simpler, and easier to administer, we are significantly scaling back preferential tax regimes. We have: (i) broadened the personal income tax base (by introducing a ceiling for the use of some tax credits and income deductions, reducing the tax free threshold, removing invoice-based tax refunds under the personal income tax, and introducing a special low rate solidarity charge on individual income, including currently exempt income); (ii) increased some reduced VAT rates on non basic items; (iii) widened the property tax base and raise rates (to bring revenues closer to the European average); and (iv) reduced expenditure on tax benefits for investment and for heating oil (in the latter case to come fully into effect by 2011 for legal entities and 2013 for households) . To ensure that these changes translate into savings for the central government, we have adjusted revenue sharing agreements with sub-national entities. Looking further ahead, by end-September we will table tax reform legislation covering the VAT, personal income tax and corporate income tax. The reform will have the objective to simplify each tax and broaden the base with the aim to reduce rates and improve growth prospects. The reform will overall be fiscally neutral, and we are committed to identify additional expenditure rationalization to help fund it.

- **Stronger enforcement of tax laws** (1½ percent of GDP through 2014). As discussed below, in the context of a comprehensive program of revenue administration reform, we will increase tax audits, boost debt collection, prosecute tax offenders, and use presumptive tax methods to capture undeclared tax bases. Projected gains are assumed to largely arise later in the forecast period, recognizing the uncertainty with respect to their precise timing and amount.

- ***Reforms to state enterprises***

  - **Improvements in the operating performance of state enterprises** (0.4 percent of GDP). A benchmarking exercise to best international practices, by sector, has provided guidance on areas where companies' operations can be rationalized and where tariffs can be increased. Using these benchmarks, companies have been instructed to update their business plans by end-July 2011 with specific actions to achieve potential savings.

17. **We are committed to front-loaded implementation of the measures in our medium-term program**. Key reforms (Annex I), representing 4.5 percent of GDP of the required total measures (and 2.4 percent of GDP of the required 2011 adjustment) have been legislated in an MTFS Implementing Bill as a **prior action** for the program. A second phase of implementing acts will be passed by August 15, covering among other things, laws to effect pension adjustments, adjust the civil service wage grid, and close extrabudgetary funds (we propose that completion of this second phase be a program **structural benchmark**). A separate aspect of front loading concerns the yield of measures across budget years. The phasing of our fiscal program provides for an extra amount of measures in each year through 2013, as a contingency margin against any technical delays in the implementation of measures, or shortfalls in their yields.

18. **Fiscal adjustment efforts will be supported by institutional reforms.** Weak tax compliance and poor spending control remain challenges that we must overcome to secure full implementation of our fiscal plans. Correcting tax compliance problems will improve fairness—by ensuring that all share in the tax burden—and better spending control will eliminate the need for costly and unintended borrowing (including arrears).

- Improvements in tax compliance will be supported by deep reforms to the **revenue administration**. We will need to better organize and focus its efforts, and eliminate barriers to its effectiveness. We have already made some progress over the last year, but much remains to be done**:**

    - We have put in place a **management structure** to design and guide our reform efforts. In 2010, a steering committee started overseeing the work of 5 task forces which have designed short-term anti-tax evasion action plans, and identified barriers to effective administration that need to be removed. This management structure will now oversee a strategy to overhaul the administration into a more modern functionally-based organization.

    - A key near-term priority is to implement the recently announced **anti-tax evasion action plan**. In April, the Ministry of Finance published this operational plan to guide present and future actions by the revenue administration. It includes stepped-up risk-based audits of large taxpayers, high wealth and self-employed individuals, as well as accelerated collection and resolution of tax arrears. Progress in these areas will be closely monitored under the program via quarterly quantified performance indicators. Achieving these targets is proposed as a program **structural benchmark** for end-December 2011.

    - A second key aim is to remove **barriers to effective tax administration**. In March, a tax law was passed to this end. The administration will now implement the key reforms in the law, including reassessing tax auditors' qualifications and hiring new auditors by end-September. The government will also make operational the newly established arbitration agency by end-September and, in addition, set up an independent fast track administrative dispute resolution process by end-July to deal rapidly with large dispute cases (i.e. within 90 days). To support these reforms, the government has also created the possibility for courts to introduce dedicated chambers for tax cases (to speed up judicial appeals). These are already operational in some courts and the initiative is expected to be fully in place by end-September.

    - A **strategic plan for medium term reforms** will be completed by end-July. The plan will set the priorities and timeline for reform of the tax administration, including adopting risk management approaches, establishing a large taxpayer unit, reshaping tax audit, debt collection, and administrative dispute resolution and introducing taxpayer services. The launch of the plan will be followed by the establishment of a central directorate general for debt collection by end-July and the initiation of a large taxpayers unit by end-September, and by the merger and closure of about 200 local tax offices identified as uneconomic and inefficient (beginning in July for completion by end-December).

- Surmounting problems with arrears will require modernization of **public financial management.** We have been working to this end over the last year under a three-pronged strategy, covering budgeting, spending control, and reporting. We have made much progress with strengthening budgeting—including a new budget code and Greece's first medium-term framework (above)—but considerable challenges remain in other areas:

    - The infrastructure for more effective **spending control** must be firmly put into place, in the form of financial accounting officers and commitment registers. Interim financial accounting officers have already been appointed, and the process of appointing permanent officers with adequate qualifications will be complete by August. A circular, to be issued by end-July, will clarify their responsibility to ensure that spending obligations are incurred within budget and cash releases, and the sanctions for failing to abide. General directorates for financial services will be established in all line ministries by September. The implementation of commitment registers in line ministries and general government entities has been slow to take hold. To identify and eliminate obstacles now present, the general accounting office of the ministry of finance will undertake inspections in line ministries and general government entities with the largest arrears, to ensure the application of registers. Inspections will be complete by end-July and will cover entities accounting for 75 percent of arrears. Once initial implementation issues are overcome, commitment registers will be expanded to cover the investment budget.

    - **Fiscal reporting** has improved under a vigorous application of sanctions, but comprehensiveness, timeliness and accuracy can yet be improved. We have increased the coverage of fiscal and arrears data to, on average, 98 percent of general government spending. To improve the quality of arrears reporting, the government has set up inter-ministerial committees to coordinate arrears data collection in the most critical areas (e.g. health and social protection). We now aim to improve the quality of data reporting and reduce the discrepancy between fiscal and financial data. We have published consistent arrears and consolidated general government fiscal reports through end-April (excluding small general government entities) expect to meet the end-June **structural benchmark** upon publication of May results.

    - **Management of the reform initiative** will be strengthened to help improve implementation. Coordination committees will be established for budget preparation, fiscal reporting and the implementation of commitment registers. These committees will have performance targets (e.g. publish the MTFS, reduce discrepancy in fiscal reports below a certain level, complete the roll out of commitment registers, reduce arrears), will be overseen by a central coordinator, and will regularly prepare reports on progress towards these targets for the Minister of Finance, commencing in July.

Financial sector policies

19. **The government and the Bank of Greece will continue to take all necessary steps to safeguard financial stability.** Greece's sovereign financing crisis has put the financial system under stress. Liquidity has been pressured by deposit outflows, and capital has been affected by the impact of the recession on loan quality. Wholesale market access has been all but eliminated. Systemic problems have been avoided, with the ECB providing exceptional liquidity support through its monetary policy operations and some banks being able to raise capital from private sources. However, with the ongoing impact of the recession on deposits, and the delayed return of the sovereign to bond markets, challenges have accumulated. Our strategy to help the system involves ensuring sufficient system liquidity, requiring banks to strengthen capital buffers, restructuring or resolving banks facing particular challenges, and enhancing the regulatory framework to facilitate appropriate capital support, resolution procedures, and supervision.

20. **The government and the Bank of Greece are committed to preserve sufficient system liquidity**. Parliament has passed the legislation for a €30 billion expansion of the government program of guarantees for uncovered bank bonds. Moreover, in May, legislation was passed permitting the Ministry of Finance to guarantee the Bank of Greece's financial exposure stemming from support provided to credit institutions. Over the medium term, banks will need to reduce their reliance on Eurosystem refinancing operations and state guarantees, at a pace consistent with the program's macroeconomic, fiscal, and financial framework. To this end they have been asked to set up and maintain medium-term funding plans. The Bank of Greece will regularly provide guidance to banks on such matters as assumptions pertaining to deposit growth (which should be in line with the projected recovery), and the projected pace of re-access to wholesale markets (in line with the government's projected return to market access).

21. **Banks will be required to maintain an adequate capital buffer.** This will help them manage increasing balance sheet risks, and over time should facilitate earlier access to wholesale funding markets. To ensure that banks have an adequate capital base, several steps will be taken:

- Banks will be required to maintain minimum Core Tier 1 capital of 10 percent from the beginning of 2012. The Core Tier 1 capital requirements will exclude hybrid capital, but include preference shares issued by banks and subscribed by the Greek government at the outset of global financial crisis in 2008-09. The Bank of Greece will also require additional capital buffers against potential further deterioration of the operational environment, based on each bank's specific risk profile and the European stress test results.

- As part of the Pillar II exercise to increase capital buffers, a single reputable and qualified international advisory firm (paid for by banks) will be commissioned by the Bank of Greece to perform a diagnostic of banks' loan portfolios. The Bank of Greece, in consultation with the EC/ECB/IMF, will agree on the terms of reference for the diagnostic. This exercise is to be completed by end-2011 and will be carried out in coordination with the EC/ECB/IMF. Banks will be required to present plans to the Bank of Greece by end-January 2012 on how they intend to reach the new capital requirements through market solutions. The Bank of Greece will require banks to meet higher capital buffers, taking into account the outcome of the diagnostic exercise, no later than end-September 2012. Banks will be required to exhaust all efforts to meet new capital requirements within this timeframe. In the interim, banks not meeting the capital requirements will be subject to intensive supervision.

- The Greek authorities will continue to encourage banks to step up their exploration of strategic alliances with domestic and foreign partners to strengthen capital and address their structural funding issues. State representatives on the Boards of banks which receive government support will not use their veto right to block measures favorable to financial stability, such as a cross-border alliance.

22. We will continue to strengthen our framework for supporting bank restructuring and resolution:

- **We will revise the FSF operating framework and the bank resolution framework to make them more effective**. Legislation to this effect will be submitted to parliament by mid-August, and we propose that the passage of the legislation be a new program **structural benchmark** for September 15, 2011:

    - **The Financial Stability Fund (FSF) operational framework.** The FSF is available as a capital backstop for viable banks, to safeguard macrofinancial stability. The State commits not to request FSF resources to recapitalize state-owned banks, but will instead exercise its full responsibilities as the main shareholder. Concerning private banks, we will amend the FSF law in line with EU State aid rules and other necessary laws to require existing shareholders of listed and non-listed banks to absorb the full loss coming out of the forward-looking Pillar II assessments prior to any recapitalization by the FSF. In order to avoid that private shareholders are effectively subsidized by the public sector, and to enhance the prospect for private capital injection, the FSF will also require that, before banks and their shareholders can receive any funds, they must demonstrate that they have tried everything to achieve the necessary capital increase via private sources. Thus listed firms should demonstrate that they offered new shares (right issues) at prices substantially below the average market price prevailing after the announcement of bank capital needs. If banks are nevertheless not able to raise capital from the private sector, the FSF may decide to offer a capital injection at prices substantially below the average market price prevailing after the announcement of bank capital needs, subject to conditions to minimize downside risks and thus the burden on taxpayers. The FSF will dispose of any acquired bank holdings within 24 months of the recapitalization, and to this end take measures to facilitate a merger or takeover or transfer of activities to another financial organization.

- **The resolution framework**. In the context of ongoing initiatives at the EU level, we will strengthen the resolution framework for problem banks and to allow timely and effective intervention and resolution consistent with EU Treaty rules and international sound practices. In this context, we have been preparing to introduce a broad set of tools to ensure that a resolution regime for financial institutions is put into place to safeguard financial stability and ensure effective depositor protection.

- **FSF funding.** The Bank of Greece will, on a quarterly basis, continue to undertake forward looking assessments of bank profitability in the context of its regular Pillar II reviews. This will allow it to project more precisely the potential use of FSF funding in consultation with the EC/ECB/IMF, in the context of program reviews. The next such assessment will be completed by end-September. At this point an assessment will also be made, in consultation with the EC/ECB/IMF, of any impact of the revised program financing strategy (paragraph 29, below) on banks' balance sheets. If necessary, the government will establish a revised total level for FSF capital, and an amended schedule for transfers into the dedicated government account used to fund the FSF. Transfers from this account to the FSF will be made as required.

- **Supervisory capacity and inter-agency coordination.** The Bank of Greece needs to strengthen its supervisory capacity to deal with growing responsibilities. However, there have been long delays in the recruitment of appropriately qualified staff through ASEP. Thus, the Bank of Greece will transfer staff with prerequisite specialist skills (banking, financial analysis, accounting, data management and IT) into the bank supervision department by end-July. The Bank of Greece will also consider requesting long-term technical assistance to be resourced from other European supervisory authorities by this date. By end-July, the FSF will address its staffing shortfall. Finally, by end-July the Bank of Greece and FSF will complete a memorandum of understanding to further strengthen their cooperation, including sharing of appropriate supervisory information.

23. **We will take action to address banks that have a capital base that falls short of regulatory requirements at present**. The Bank of Greece will require capital shortages to be addressed by end-September, or take other appropriate actions to deal with the situation. Until capital shortages have been resolved, the Bank of Greece will closely monitor affected banks and continuously enforce appropriate remedial measures.

24. **Plans to restructure two state banks have been approved, and a schedule has been set for their implementation.** All state banks have been included in the government's strengthened privatization program.

- At the beginning of April, **ATE Bank** announced plans for a share capital increase of €1,260 billion through a rights issue. The Commission approved the restructuring plan of ATE Bank on May 23, 2011. By 2013, the plan foresees (i) a reduction in balance sheet size by 25.7 percent (from the end-2009 level), (ii) a cost reduction by 25 percent, (iii) the sale of non-core subsidiaries and banking participations, and (iv) the run-off of certain portfolios. Moreover, ATE Bank remains committed to the asset quality reinforcement policy, by maintaining a coverage ratio above 50 percent throughout the duration of the restructuring plan.

- At the beginning of May 2011, the government adopted a law on the unbundling of the **HCLF.** The law stipulates the carve-out of the commercial activities into a separate entity. An implementing decree will establish that the remaining activities in the fund will not be in competition with commercial activities, and specify a detailed timetable for the steps necessary to fully dispose of commercial activities during the next 12 months.

25. **Work to strengthen the insurance sector is underway.** The Bank of Greece has developed a supervisory watch list for weak insurance companies, and will complete comprehensive on-site inspections by end-June. Several weak insurance entities have been closed, and capital raising initiatives are underway for other entities in the sector. The Bank of Greece is participating in the European Insurance and Occupational Pensions Authority's second Europe-wide stress testing exercise for the insurance sector. Results are anticipated by end-July, and the Bank of Greece will use its supervisory powers to deal with firms which do not pass the stress test. This would include requiring them to increase capital or take structural measures to address the situation within a specific timeframe.

Privatization

26. **The government is committed to transferring assets to more productive uses, and to use the proceeds to reduce Greece's debt**. Transferring assets in key sectors of the economy (such as ports, airports, energy and real estate) to more productive use through privatization and concessions should help encourage higher investment and thereby support a swifter economic recovery. It will also help to deleverage Greece's balance sheet, which can contribute to stronger market sentiment over time, and help Greece return to bond markets.

27. **The government has prepared a privatization and real estate development strategy.** It has been approved by parliament, in the context of the medium-term fiscal strategy, as a **prior action** for the program. It aims at proceeds of €5 billion by end-2011, €15 billion by end-2012, and €50 billion by end-2015. The strategy includes (Annex II):

- **A detailed inventory of targeted assets.** The targeted assets include: shareholdings in listed and non-listed state companies and banks; and shareholdings in public infrastructure (e.g. airports, highways, and digital dividends). Public control will be limited only to cases of critical network infrastructure and will be implemented in the context of minority shareholdings (consistent with Annex II). The targeted assets also include commercial real estate and publicly held land (with location and zoning specified). The inventory of assets targeted under the plan has an estimated value in excess of €50 billion (i.e. valuing listed companies at their market price, unlisted companies by reference to discounted projected cash flows, and real estate by reference to market comparators and other internationally accepted methods of valuation).

- **A timeline for divesting each asset.** The strategy provides for a quarterly schedule of transactions through 2013, and an annual schedule for 2014 and 2015. For 2011, the government has initiated the sale procedure and will sell 10 percent of the shares it holds in the national telephone company (OTE) by end-June 2011. During the third and fourth quarters of 2011, the government will sell holdings in Hellenic Postbank, Piraeus and Thessaloniki Port, Thessaloniki Water, the Public Gas Corporation, Trainose, Larco, Casino Mont Parnes, ETA, as well as other assets listed in Annex II. Sales of listed companies, non-listed company holdings, public infrastructure concession SPVs, are targeted for completion by end-2012. Proceeds from the development of real estate would commence in Q4 2011, and continue through 2015. We propose a new program quantitative **performance criterion** on cumulative privatization proceeds to support monitoring of progress against our timeline. If necessary we will adjust the scheduling of transactions to ensure achievement of the cumulative proceeds target.

- **An action plan to prepare assets for privatization.** This covers:

  - Intermediate steps to be taken before shareholdings can be sold. The key steps during the remainder of 2011 and 2012 include: (i) the unbundling of Athens water by Q2 2012; (ii) the unbundling of PPC by Q3 2011; (iii) the unbundling of the public gas company (DEPA) by Q3 2011; (iv) the extension of the concession for the Athens International Airport by end-Q3 2011; (v) the extension of the concession for the OPAP gaming company and granting of new concessions to it by end-Q3 2011; (vi) incorporation of regional airports by Q2 2012; and (vii) concerning the privatization of ATE, enacting legislation to establish equal treatment of farm collateral across financial institutions for end-September 2011.

  - Steps towards the development of real estate. Steps already taken in the context of the MTFS implementation law include: (ii) laws for surface rights and long-term leaseholds; (ii) laws to develop tourism properties and establish clear land titles; and (iii) a framework law to assign land use. As a key additional step a single asset inventory will be set up in four tranches, starting with the first tranche in June 2011 and completed with a fourth tranche by Q4 2012;

28. **To facilitate transactions, the government will establish a Privatization Fund (the National Wealth Fund) into which to place assets ready for privatization**. Legislation creating the fund will be a **prior action** for the review and the Fund will become operational within a month of the legislation entering into force. It will have the following features:

- **Governance.** The fund will be established under Greek law for a period of 6 years, professionally run, and governed by a Board of Directors. Directors will be appointed by parliament, upon the proposal of the Minister of Finance for a renewable fixed term. The Board will be comprised of individuals known for their international expertise in the field and will be vested with broad powers to perform all acts of divestment and administration within the Fund's purpose and interest. The European Commission and the Eurogroup will have the right to appoint two observers in the Board of Directors. The fund may also establish an Advisory Board to allow it to benefit from international experience and technical expertise. Directors and staff of the fund will be indemnified for actions undertaken in the context of their official duties.

- **Transparency**. The Board will, on a quarterly basis, publish a report on its activities, along with an audited report of its finances. The activity report will be submitted to parliament and will cover where each asset held stands in the transaction process.

- **Asset Transfer and Management**. Full legal and economic ownership of the assets to be privatized (including all rights attached to them such as voting rights) will be transferred to the fund in an irreversible manner. Neither the state nor the transferring entity will have any residual rights of ownership or otherwise over these assets without prejudice to the regulatory power of the state.

- **Mandate.** The fund will have a mandate to privatize these assets at prevailing market conditions as soon as technically feasible and in an open and transparent manner. The fund will not be able to transfer assets back to the general government unless the transaction has been completed (i.e. a concession or lease). The Ministry of Finance will retain the responsibility for any operating subsidies for the assets in question. If it is determined by the Board (on the advice of the fund’s panel of experts) that an asset cannot be sold, it will be unbundled and sold by the fund (with liquidation retained as an option). The fund will be provided with quarterly targets for proceeds to be transferred back to the government.

- **Operations.** The fund will finance its operations by an initial €30 million capital injection by the state and subsequently from an appropriate portion of privatization proceeds (as determined by the Board in consultation with the advisory board). The fund will be entitled to hire advisors for each transaction to enable it to conduct its activities with sufficient flexibility. Advisors already hired for transactions by the Special Secretariat for Asset Restructuring and Privatizations (at the Ministry of Finance) will be retained and their mandates transferred. All advisors for transactions in 2011-12 will be appointed by end-June 2011.

- **Limits on borrowing**. The fund will be able to raise money, on market terms, including by discounting or selling revenue streams of specified assets (such as interests in concessions). The fund many not grant liens over any of its assets if this might prevent or delay the relevant assets from being privatized.. Net proceeds generated as a result of money raising operations will be paid over to the State, as will net proceeds of other privatizations. Any borrowing would be coordinated with the Ministry of Finance and the PDMA.

29. **Assets will be transferred to this Fund upon the decision of the Inter-Ministerial Committee of Asset Restructuring and Privatization (ICARP)**. Non real estate assets will be transferred to the Fund within 1 month of the completion of any intermediate steps necessary to mature the assets for sale (Annex II). Concerning real estate, marketable portfolios will be formed in August and December 2011, and June and December of 2012, with an estimated total value of at least €35 billion, and transferred to the fund within 1 month of formation.

Structural reform policies

30. **The government's priority is to accelerate the implementation of structural reforms aimed at promoting employment, investment, and market efficiency**. Greece's competitiveness has suffered due to a lack of contested markets coupled with an unfriendly business environment. These have discouraged labor force participation and have stymied private sector investment, productivity, and exports. To address these issues, in mid-2010 we launched a comprehensive structural reform program covering all key sectors described in our May 2010 Memorandum of Understanding (MoU) and Memorandum of Economic and Financial Policies (MEFP). Our updated program represents a continuation of the 2010 agenda, enhanced to also cover reforms of the judicial system and reforms to tackle Greece's high labor tax wedge. Looking forward, effective and timely implementation of our reform agenda—covering labor, product and service market reforms, reductions in red tape, and judicial reforms—will be crucial to reap its benefits and start a new growth cycle.

31. **The government is committed to creating a well-functioning labor market.** This is crucial to help Greece improve its competitiveness, including by facilitating a shift of labor resources toward the tradable sector. We had some early success in this area, with legislation enacted to introduce changes in minimum wages, improve arbitration, and reduce entry and exit costs. However, unemployment has been rising. Towards stronger job growth, the

government will focus on establishing an appropriate employment and bargaining framework and on cutting the labor tax wedge:

- **Employment and bargaining framework**. Recent developments suggest that firms are taking advantage of part-time, irregular, and individual contracts to manage their labor costs but have not made wide use of the special firm-level collective agreements allowed by the new law. The government will continue to closely monitor the implementation of this reform and underscore the right of social partners at the firm level to utilize special firm level agreements, as well as reaffirm the nonbinding nature of the Labor Inspectorate assessments. The government is prepared to amend the legislation by end-July 2011 if it proves necessary to support greater firm-level wage flexibility. In addition, we have passed legislation providing for more flexibility in working-time management (by permitting individuals to work longer hours for a longer period, while reducing the use of overtime pay) and in the use of fixed-term contracts (by lowering severance pay associated with such contracts and limiting the times they can be renewed), as well as for an introduction of term contracts for youth to gain work experience at sub-minimum wages.

- **Cutting the labor tax wedge**. Given our fiscal constraint, any reduction in the social contribution rate will require a broadening of the base. To this end, we will gradually raise the income ceilings for social security contributions and subsequently reduce the rates in an offsetting way (ensuring that the reform does not affect pension obligations). A first step will be taken by January 1, 2012. We will also step up our efforts to boost payment compliance, for instance by strengthening the effectiveness of the labor inspectorate in combating the informal economy and launching the electronic labor card pilot project evaluating how incentives could encourage stronger compliance. We will evaluate realized collections against our projections, and to the extent any unforeseen compliance improvement occurs beyond present program projections, we will reduce rates (again ensuring that the reform does not affect pension obligations).

32. **The government is committed to removing barriers to investment and exports.** This is essential to jump-start the recovery and support long-run growth. Visible progress has been made over the last year with the implementation of one-stop shops for business start-ups, which has cut procedures, cost, and time to set up a business. We will next focus on:

- **The fast-track law for investment projects**. To help the new system begin to operate and complement our privatization agenda, we will take one large project through the approvals by end-September 2011. We will also work to attract new investments and finalize the applications currently in the pipeline. As soon as the system is functioning, the thresholds for qualifying for the framework will be significantly lowered and generalized.

- **Licensing procedures.** We will pass the new law for environmental permits by end-July 2011. The main ministerial decisions required to make operational this law and the recently passed licensing law for technical professions and industry will be published by end-October 2011. Thereafter, we will start to integrate the provision of manufacturing licenses within the one-stop-shop framework and to develop an electronic environmental-licensing registry.

- **Export procedures**. By end-September 2011, new legislation will be finalized removing obstacles to exports (e.g. by simplifying customs procedures). We will also develop a single electronic window centralizing standardized trade-related information and documents by end-September 2011.

- **Simplification of legislation.** Within the government's new better regulation agenda, by end-July 2011 we will identify priority areas, set targets, and develop a timetable for the screening of the entire body of existing regulation with the aim to codify, recast, consolidate, repeal obsolete legislation, and simplify existing legislation.

33. We will continue to implement reforms to liberalize service markets. This will lower the cost of doing business in Greece and create opportunities for entry and new investment. Over the past year we have enacted legislation liberalizing the transportation sector and regulated professions. Our efforts in both areas will continue and expand to encompass the electricity sector:

- **The recent liberalization of regulated professions** will become fully operational on July 2 2011. A list of professions subject to the new law—comprised of 128 professions beyond those already explicitly identified in the law—was published in May. The government is committed to evaluate any requests for exemptions from the liberalization according to the principles of non-discrimination, necessity, and proportionality and implement them no later than July 2, 2011. Similarly, as regards notaries, all required decisions significantly reducing pro-rata and other fees will be published by end-September, 2011. Once the new law enters into effect, we will prepare a timetable to screen and amend existing legislation to bring it into consistency with the new law.

- We are advancing with reforms of the **transportation sector**. Regarding the new road haulage law, a secondary decree will be published by end-December 2011 establishing the new, lower licensing fees, which should not exceed administrative costs. Legislation liberalizing tourist coaches has been finalized and will be passed by end-July. The required Ministerial decisions establishing the cost (also proportionate to administrative costs) and required timing (20 business days) to receive licenses will be issued no later than end-September 2011.

- The liberalization of the **energy sector—**expected to foster competition and improve services—is proceeding. The new energy law will be passed by end-July 2011. It will strengthen the power of the regulatory authority, provide for consumer protection, and allow for unbundling electricity and gas transmission (to be completed by end-March 2012). Meanwhile, we will liberalize tariffs for all customers except vulnerable households by Q2 2013. Finally, the government will take all measures needed, including legislation where required, to ensure competitive access to lignite-fired generation by end-July, 2011.

34. **We are diagnosing obstacles to growth in key sectors and will on this basis identify concrete actions needed to jump-start the recovery**:

- **Tourism.** The external study has been finalized, pointing to a need to develop and upgrade infrastructure, ports and marinas, facilitate investment in integrated resorts and vacation home complexes, and increase flight connectivity with high-growth markets. The fast-track law, sales of publicly-owned real estate, and laws on land use and title will support achievement of these objectives. A tourism law, to be passed by end-August 2011 will address specific remaining barriers related to vacation homes and resorts.

- **Other sectors.** A number of studies are in progress, covering specific sectors where we believe there is upside growth potential (including manufacturing, energy, retail and wholesale trade), as well as on cross-sectoral barriers to growth. Based on these, we will finalize a plan defining concrete actions and a timeline for implementation for the retail sector by end-September 2011, and for the additional sectors by end-December 2011.

35. **The government will implement a medium-term reform of the judicial system (without prejudice to the constitutional principles and the independence of justice).** Inefficiencies in the system—due to excessively low cost of litigation, complex procedures, incentives to postpone cases, cumbersome execution of court decisions, and lack of transparency and lack of linkage between court performance and budgeting—have led to a large backlog of unresolved civil and administrative cases (including tax cases) and have negatively affected private investment, FDI, entrepreneurship, exports, and fiscal performance. Reform will focus on the following key dimensions:

- **Simplification of procedures for tax cases.** Building on recently adopted legislation—which also supports other reforms in tax administration—by end-September 2011 the government will finalize the process of establishing and fully operationalizing specialized tax chambers in administrative tribunals and courts with at least three chambers, staff them with experienced judges who will have received special tax training, and monitor their activities by starting to publish on a quarterly basis their recovery rates, number of filings, and number of decisions. Moreover, by end-December 2011, the Ministry of Justice will conduct assessments of: (i) the impact of the recently introduced rule of the 50 percent deposit requirement for appeal in tax and customs matters; (ii) the effectiveness of the measures limiting the maximum number of suspensions by tax courts; (iii) the effectiveness of the e-filing and e-tracking systems introduced in the tax chambers of the four largest administrative tribunals and related courts of appeal. We stand ready to modify the relevant legislation as well as the e-filing and e-tracking systems as required.

- **Clearing the existing case backlog in courts.** The Ministry of Justice will conduct, jointly with an external body, a study of the backlog in all administrative tribunals and courts of appeal by end-January 2011. Based on the recommendations of the study, we will develop an action plan by end-March 2012 with a timetable for a targeted reduction of at least 50 percent of the backlog of tax cases by end-July 2012, with a view to achieving full clearance of such backlog by end-July 2013. For all other courts, including the Supreme Court and the Supreme Administrative Court, a similar study will be finalized by end-June 2012.

- **Improving case processing.** By end-September 2011, the government will reduce the processing time of cases through the adoption of specific additional efficiency measures, including: (i) simplifying case registration; (ii) rationalizing docket management with a view to allowing the resolution of docketed cases, and by providing computer support to judges in order to allow the issuance of formal written decisions within two weeks from the judges taking the decision. The government will also increase the court registration fees in civil and administrative matters by end-December 2011.

- **Reviewing the Code of Civil Procedure.** By end-June 2012, the government will establish a task force—to broadly represent the legal community and include independent representatives of the legal professions—to review the Code of Civil Procedure so as to bring it in line with international best practices, including on: (i) case management; (ii) the execution of decisions and orders to pay, in particular small claims cases, with a view to reducing the role of the judge in these procedures; and (iii) enforcing statutory deadlines for court processes (especially for injunction procedures), as well as for debt enforcement and insolvency cases. This task force will make specific recommendations by end-December 2012.

- **Designing a performance and accountability framework for courts**. By end-December 2011, the government will establish a task force that will design a performance framework for courts by end-September 2012, including the development of a dependable data management system, a workload measurement system, and a management structure, that is conducive to a more cost effective, responsive, and accountable judicial management. Also by end-September 2012 we will fully operationalize and make publicly available a database with case data for each court (as well as consolidated data for all courts), providing basic performance data, including number of judges and staff, number of cases (including by case type) and backlogs. Finally, by end-September 2012, we will develop a work plan on benchmarking cases for workload measurement, including focusing on delays in case processing, and the types of cases where such delays are most acute.

36. **To help our structural reform efforts deliver the expected outcomes, we will establish a formal project-management framework.** We will amend legislation as necessary to set up a committee to oversee the structural reform work. It will be mandated to identify where more capacity and technical assistance are required, and propose any required adjustments to the growth strategy. The committee will appoint project managers for each initiative to be carried out in the various areas (labor market reform, product and service market reform, investment promotion, and judicial reform), establishing clear lines of responsibility and accountability. The committee will also be responsible to develop, utilize, and publish on the government's website monitoring indicators for each of the key structural reform initiatives, on a quarterly basis, starting with end-June 2011 data.

External financing

37. **Additional financing will be needed to help support the policies under the program.** In light of the current difficult circumstances, Greece is unlikely to meet its programmed return to private market access by early 2012, leaving additional public sector financing needs of €55 billion for the remainder of the program period.

38. **To fill our additional financing need we will seek financing commitments from the private sector and official sector**. The precise modalities of private sector involvement and additional funding from official sources will be determined in the coming weeks so as to ensure that, inter alia, required program financing is in place. Consultations with Greece's creditors have begun in order to define the modalities for voluntary private sector involvement with a view to achieving a substantial reduction in Greece's financing needs. This financing strategy is intended also to form the basis for launching a new medium-term program to support Greece's adjustment efforts.

Technical assistance

To support timely and effective implementation of our program we will expand our use of technical assistance. The government has been facing significant capacity constraints in implementing its broad fiscal and structural agenda. Technical assistance from the IMF and the EC has to date provided vital support to our efforts. Looking forward, we will expand this process by making use of bilateral expert assistance from the EU member states. Areas identified for additional assistance are tightly linked to the execution of our reform initiatives. They include: health and social security reforms (e.g. e-procurement, e-prescription, and IT systems); state enterprise reforms (e.g. performance reviews); and growth enhancing structural reforms (e.g. labor training). They also include: fiscal management reforms (e.g. administrative reorganization and budget monitoring systems); and taxation reforms (e.g. anti-corruption reforms and audit techniques), which will be closely coordinated under our existing TA program and long-term advisors

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

	2011							Medium Term 4/	
	Mar-11		Jun-11		Jul-11	Sep-11	Dec-11	Dec-12	Dec-13
	Progr. 1/	Actual	Progr. 1/	Actual	Progr. 1/	Progr. 1/	Progr. 1/	Progr. 2/	Progr. 3/
Performance Criteria (unless otherwise indicated)									
1. Floor on the modified general government primary cash balance	-2.0	-0.9	-4.3	..	-5.1	-5.0	-1.5	2.4	7.4
2. Ceiling on State Budget primary spending	15	13	30	..	34.7	44.5	60.1	68	69
3. Ceiling on the overall stock of central government debt	394	366	394	..	394	394	394	..	..
4. Ceiling on the new guarantees granted by the central government	1.0	0.1	1.0	..	1.0	1.0	1.0	0.0	0.0
5. Ceiling on the accumulation of new external payments arrears on external debt contracted or guaranteed by general government 5/	0.0	0.0	0.0	[0.0]	0.0	0.0	0.0	0.0	0.0
6. Floor on privatization receipts 6/	..	..	..	..	0.39	1.70	5.00	15.00	22.00
Indicative Targets									
7. Ceiling on the accumulation of new domestic arrears by the general government	0.0	4.3	0.0	..	0.0	0.0	0.0	0.0	0.0

1/ Cumulatively from January 1, 2011 (unless otherwise indicated).
2/ Cumulatively from January 1, 2012 (unless otherwise indicated).
3/ Cumulatively from January 1, 2013 (unless otherwise indicated).
4/ Indicative targets.
5/ Applies on a continuous basis from January 1, 2010 onward.
6/ Cumulatively from January 1, 2011.

Table 2. Greece: Structural Conditionality for the 4th Review and Proposed Structural Conditionality

Measures	Macrocritical relevance	Status
End-March structural benchmarks		
1. Appointment of financial accounting officers in all line ministries and major general government entities (with the responsibility to ensure sound financial controls).	Improves control and transparency of budget expenditures.	Met with a delay. Interim accounting officers have been appointed in line ministries and financial officers appointed accouting officers in general government entities.
2. Pass legislation to separate the core consignment activity from the commercial activities of the HCLF.	Fosters banking sector stability.	Met with a delay.
3. The National Actuarial Authority to produce a report for the main supplementary funds 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.	Met with a delay.
4. Government to put forward for legislative adoption a new tranche of government guarantees for uncovered bank bonds.	Assures sufficient banking system liquidity.	Observed.
End-April structural benchmarks		
5. 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 ot public administration; (v) the public wage bill; and (vi) military spending.	Supports fiscal consolidation.	Converted to prior action (below)
End-May structural benchmarks		
6. Commercial banks to submit medium-term funding plans to the ECB and the Bank of Greece (end-May 2011)	Aims at reducing banks' reliance on Eurosystem refinancing operations and state guarantees over the medium term.	Observed.
End-June structural benchmarks		
7. Articulate a strategic plan of medium-term revenue administration reforms to fight tax evasion (end-June 2011).	Institutionalizes and consolidates the results of the anti-evasion plan.	In progress. Preliminary draft plan has been elaborated.
8. Publish three consecutive months of consistent arrears and consolidated general government fiscal reports (excluding small local governments) (end-June 2011).	Supports measures to reduce arrears across general government.	In progress
9. Adopt the necessary changes to enact the plan to reform the general government personnel system (end-June 2011)	Supports the medium term fiscal adjustment plan.	In progress.
End-July structural benchmarks		
10. The Council of Ministers to adopt a comprehensive privatization plan through 2015 (end-July, 2011).	Upscaled privatization program to contribute to debt reduction and to support higher investment and growth.	Converted to prior action (below)
Prior actions		
1. Parliament to approve medium-term budget strategy (MTFS).	To reduce the overall deficit to below 3 percent of GDP by 2014.	Observed.
2. Government to legislate key fiscal-structural reforms in an MTFS Implementation Bill (detailed in Annex I).	To improve the efficiency and quality of public spending, to reduce waste and inefficiency in the broader public sector, and to broaden the tax base, and to reduce tax and social contribution evasion.	Observed.
3. Parliament to approve privatization and real estate development strategy.	To transfer public assets to more productive uses, and to use proceeds to reduce Greece's debt.	Observed.
4. Government to legislatively establish a Privatization Agency (a private law vehicle into which privatizable assets will be transferred to be sold).	To facilitate privatization transactions.	Observed.
Proposed structural benchmarks		
August 15		
1. Government to enact legislation in the context of MTFS implementation (phase II) to: (i) introduce pension adjustment bill stipulating freezes through 2015, introducing individual social security numbers, caps, means testing, and rationalizing benefits of pension funds; (ii) introduce single public pay scale bill, temporarily freeze automatic progression, and halve productivity allowance; and (iii) close 40 small public entities, merge 25 more small entities, and close an additional 10 large entities under line ministries and in the social security sector.	To reduce the overall deficit to below 3 percent of GDP by 2014.	Proposed.
September 15		
2. Parliament to pass legislation revising the FSF operating framework (to address conditions for recapitalization) and revising the bank resolution framework (in particular, the deposit guarantee scheme, and the early intervention and bank liquidation frameworks).	To strengthen the resolution framework for problem banks and to allow timely and effective intervention and resolution.	Proposed.
end-December		
3. Government to achieve quantitative targets set under its anti-tax evasion plan.	To combat tax evasion and improve tax collection.	Proposed.

MEFP Annex I. The MTFS Implementation Bill

	Action	Description
1	Wages and employment	• Application of the 1:10 employment rule during 2011 and extension of the 1:5 rule until 2015 • Reduction of civil servants' overtime compensation to not more than 20 hours per month • Reduction in fixed term and temporary contracts (50 percent in 2011 and 10 percent thereafter) • Introduction of part-time employment and extension of unpaid leave
2	Tax measures	a. VAT and PIT exemptions • Eliminate preferential reduced rate on food and drinks sold by restaurants and bars (from 13 percent to 23 percent) • Reduce the tax free threshold from €12,000 to €8,000 and introduce a 10 percent tax rate on income between €8,000-€12,000 (with some exclusions for pensioners, young people and disabled) • Impose a solidarity contribution on individual incomes (without deduction) at 1-5 percent rate depending on income. • Eliminate selected tax credits and deductions and set an overall cap on total tax credits and deductions to be used • Eliminate invoice based tax refunds in 2012 • Increase the criteria for presumptive taxation by 60 percent • Introduce a minimum tax of €300 on self-employed for financial year 2011 and of at least €400 for 2012 with the exception of professionals of less than five years activity or of less than three years to retirement. b. Property tax exemptions • Reduce the threshold for the individual property tax to €200,000 and increase the minimum rate to 0.2 percent. c. Excises and other indirect tax • Increase the specific component of the excise on cigarettes • Introduce excises on natural gas, LPG, and non alcoholic beverages • Increase the excise tax on heating oil for households and legal entities • Introduce a luxury levy on vehicles, with an exemption regarding cars hired by disable people, motorbikes and pools • Increase circulation fee for cars • Introduction of a special levy on permits for smoking spaces

3	State owned enterprises	• Establishment of a labor reserve for staff furloughed by SOEs at 60 percent of the base wage
4	Social contributions and pension adjustments	• Increase of unemployment solidarity contribution for private sector employees by 1 percent, civil servants by 2-3 percent, and a monthly fee for self-employed • Increase of the pension solidarity contribution rates for monthly pensions exceeding €1.700, and an additional increase in the special contribution for pensioners younger than 60 years old who have monthly pensions exceeding €1.700 • Introduction of special income-scaled contribution on supplementary pensions above €300 per month • Sector-specific percentage of annual corporate turnover to be paid to OAEE starting 2013 • Increase in contribution rates for professional pension funds and OAEE • Reduction in lump-sum pensions for public enterprises by 10 percent (except PPC at 15 percent) • Reduction of NAT (sail men pension fund) pensions by 6 percent and cut in subsidy to OTE. • Family allowance to be included in the ceiling on maximum pensions • Tighten criteria for seasonal unemployment benefits.
5	Other	• Suspend the sharing formula with sub-national governments for the additional revenue deriving from anti-crisis measures and reduce transfers to them, consistent with the local government adjustment measures included in the MTFP.

Annex III. Greece--Privatization Plan

Date		Name	Participation to be sold	Type of Sale	Intermediate steps
2011	Q2	OTE	10.0%	share sale	
	Q3	Thessaloniki Water (EYATH)	at least 40%	share sale of SPV	
	Q3	Athens Intl Airport	100.0%	Concession	
	Q3	OPAP 1	100.0%	Concession	
	Q3	OPAP 2	100.0%	New games	Gaming law enacted by end-August
	Q3	Thessaloniki Port	23.3%	share sale of SPV	
	Q3	State Lotteries	100.0%	share sale of SPV	
	Q4	Piraeus Port	23.1%	share sale of SPV	
	Q4	Hellenic Defense Systems (EAS)	99.8%	share/asset sale	
	Q4	Hellenic Postbank	34.0%	share sale	
	Q4	Public Gas Company (DEPA)	65.0%	share sale	Operations and infrastructure
	Q4	Public Gas Company (DESFA)	31.0%	share sale	to be separated by Q3-2011
	Q4	Railway Operator (TRAINOSE)	100.0%	share sale	
	Q4	Larco	55.2%	share sale	
	Q4	Alpha bank	0.6%	share sale	
	Q4	National Bank of Greece (NBG)	1.2%	share sale	
	Q4	Hellenic Horse Racing (ODIE)	100.0%	share sale	Gaming law enacted by end-August
	Q4	Mobile Telephony Licenses	100.0%	sale of rights	
	Q4	Casino Mont Parnes	49.0%	share sale	
	Q4	Hellenic Vehicle Industry (ELBO)	72.6%	share sale	
	Q4	OPAP	34.0%	share sale	
	Q4	Hellenikon 1	100.0%	share sale of SPV	Land use assigned by Q3-2011
	Q4	Four Airbus Aircraft	100.0%	Sale	
	Q4	Real Estate Assets 1 (incl. office spa	100.0%	share sale of SPV	Land use assigned by Q3-2011
2012	Q1	Athens Intl Airport (AIA)	at least 21%	share sale of SPV	
	Q1	Hellenic Petroleum (ELP)	35.5%	share sale	Resolve issue of strategic reserves, sale of DEPA by Q4-2011
	Q1	Piraeus Bank	1.3%	share sale	
	Q1	Hellenic Agricultural Bank (ATE)	at least 38.6%	share sale	Collateral issue to be solved by Q3-2011
	Q1	Egnatia Odos Rd	100.0%	share sale of SPV	
	Q1	Hellenic Post (ELTA)	at least 40%	share sale	
	Q1	Ports 1	100.0%	share sale of SPV	Ports group being created by Q4-2011
	Q2	Athens Water (EYDAP)	27.3%	share sale of SPV	To be unbundled by Q2-2012
	Q2	Loan and Consignment Fund	100.0%	share sale of SPV	
	Q2	Real Estate Assets 2	100.0%	share sale of SPV	Portfolio to be created by Q4-2011, land use assigned Q1-2012
	Q3	Public Power Corporation	17.0%	share/asset sale	To be unbundled by Q3-2011
	Q3	Hellenic Motorways 1	100.0%	share sale of SPV	Renegotiate of concession agreements by Q4-2011
	Q3	Regional airports 1	100.0%	share sale of SPV	Incorporatized and grouped by Q2-2012
	Q4	Hellenikon 2	100.0%	share sale of SPV	
	Q4	Real Estate Assets 3	100.0%	share sale of SPV	Portfolio to be created by Q2-2012, land use assigned Q3-2012
	Q4	Digital dividend 1	100.0%	sale of rights	Law on digitial broadcasting by Q3-2011
	Q4	Thessaloniki Water (EYATH)	34.0%	share sale of SPV	Market to be regulated by Q2-2012
	Q4	Hellenic Goldmines 1	100.0%	share sale of SPV	Licencing of exising 3 concessionaries by Q1-2012
2013	Q1	Offshore Gas Storage Fac.	100.0%	share sale of SPV	
	Q2	Regional airports 2	100.0%	share sale of SPV	Incorporatized and grouped by Q4-2012
	Q2	Ports 2	100.0%	share sale of SPV	Incorporatized and grouped by Q1-2013
	Q3	Real Estate Assets 4	100.0%	share sale of SPV	Portfolio to be created by Q4-2012, land use assigned Q1-2013
	Q3	Hellenic Goldmines 2	100.0%	share sale of SPV	
	Q4	Digital dividend 2	100.0%	sale of rights	
	Q4	Athens Water (EYDAP)	34.0%	share sale of SPV	Market to be regulated by Q2-2012.
	Q4	Hellenic Motorways 2	100.0%	share sale of SPV	
2014		Real Estate/Land	100.0%	share sale of SPV	Portfolio to be created by Q4-2012, land use assigned Q2-2013
		Hellenic Motorways 3	100.0%	share sale of SPV	
2015		Real Estate/Land	100.0%	share sale of SPV	Portfolio to be created by Q4-2012, land use assigned Q2-2014
		Hellenic Motorways 4	100.0%	share sale of SPV	

GREECE—TECHNICAL MEMORANDUM OF UNDERSTANDING
July 4, 2011

39. 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.

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

General Government

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

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

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

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

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

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

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

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

A. Quantitative Performance Criteria, Indicative Ceilings, and Continuous Performance Criteria: Definitions and Reporting Standards

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

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

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

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

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

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

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

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

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

    - Financial assets include

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

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

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

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

- Holdings of bonds issued abroad and other foreign assets.

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

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

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

  - Financial assets include

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

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

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

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

    - Financial assets include

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

    - Financial liabilities include the short and long term loans from the domestic credit institutions to RPEs, measured consistently with monetary survey data, short and long term loans from the foreign banking system, as well as loans from the EIB or other official lenders.

- **The expenditures of the National Wealth Fund** are defined from below the line as the change in deposits of the NWF net of deposit changes due to borrowing for securitization purposes that are remitted to the central government as privatization receipts. Changes in net deposits of the NWF and borrowing are to be measured from the monetary survey data for data on borrowing and on deposits held in commercial banks. For deposits held at the central bank, net deposits are measured directly from the Bank of Greece. Remittance of privatization proceeds to the state will be measured from the inflows into the Treasury Single Account.

44. **Other provisions.**

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

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

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

45. **Supporting material**.

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

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

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

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

47. **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)

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

49. **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)

50. **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.

51. **Adjusters**. For 2011, the ceiling on the overall stock of ESA95 central government debt will be adjusted upward (downward) by the amount of any upward (downward) revision to the stock of end-December 2010 ESA95 central government debt of 353.761 billion.

52. **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)

53. **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.

54. **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)

55. **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.

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

G. Floor on Privatization Proceeds (Performance Criterion)

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

58. **Supporting material**. Quarterly information on the cash receipts from asset sales, quarterly balances of the privatization account, inflows to the account (by project), and outflows to the state budget, will be made available by the Minister of Finance, in collaboration with the National Wealth Fund, no later than two weeks after the end of each quarter. The Ministry of Finance will also provide a quarterly progress report on the

Sovereign Wealth Fund activity, including a description of its operations, information on any borrowing (amounts, terms, and collateral), updates on the key steps in the operational plan, and latest estimates of the expected proceeds and timeline for completion of the transactions. In addition, quarterly reports on the National Wealth Fund's activities, along with an audited report of its finances will be published on the website of the Ministry of Finance as from end-December 2011.

H. Overall Monitoring and Reporting Requirements

59. 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.

I. Monitoring of Structural Benchmarks

60. **Public financial management reforms**. The authorities will publish (i) monthly reports on arrears of the general government; and (ii) monthly consolidated general government reports with aggregate revenue, expenditures and intra-governmental transfers for each sub-sector of the general government, within four weeks after the end of each month. The arrears reports will include both ordinary and investment budget arrears across all line ministries, public hospitals, and the largest social security funds, extra-budgetary funds and local governments, with the latter defined as follows:

- The "largest" social security funds will cover at least the top 50 funds in terms of spending as from ELSTAT reporting.
- The "largest" extra-budgetary funds will cover 80 percent of existing extra budgetary funds, including at least all public enterprises classified under the general government, ETERPS, and the top 100 entities in terms of expenses as from ELSTAT reporting.
- The largest local governments will be defined to include at least the 100 largest local authorities in terms of population out of the 324 authorities as defined under the "kallikrates" law.
- To meet the end-July 2011 benchmark, three consecutive months of reports will need to be published.

61. **Benchmarks on progress in revenue administration.** Progress in revenue administration, to be reported by the authorities on a monthly basis and assessed quarterly, will be defined as follows:

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

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

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

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

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

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

63. **Benchmark on progress in MTFS implementation (Phase II).** As part of the second phase of the MTFS implementation, the authorities will enact the following legislation by August 15, 2011:

1. Single public wage scale bill:

- Introduction of a single pay scale for the public sector;
- Reduction in productivity allowance (by 50 percent);
- Tightening of the ceiling on overtime;
- Reduction in the remuneration for committee participation;
- Hiring from state-owned enterprises, private law entities and from the furlough scheme to count against the hiring rule.

2. Pension adjustment bill:

- Introduction of individual social security numbers and a cap on total pensions paid to a single pensioner;
- Expansion of means testing of pensioners' social solidarity benefit to include all types of income and wealth (EKAS);
- Reduction in lump-sum pensions for civil servants, starting in 2011;
- Extend freeze of main and supplementary pensions to 2015;
- Reduction in the core pension of OGA and in the lower pension thresholds of other SSFs, and tightening of beneficiary criteria based on location of permanent residence.

3. Closing non essential public entities and other miscellaneous legislation

- Closure and downsizing of 40+11, and merger of 25 already identified general government entities;
- Reduce penalties to allow the registration of boats currently registered as commercial boats (for tax avoidance) as privately owned boats, provided VAT and other taxes are paid;
- Revaluate fines on unauthorized buildings and settlement of planning infringements

GREECE—LETTER OF INTENT TO EC AND ECB

Athens, July 4, 2011

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

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

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

Dear Messers. Juncker, Rehn and Trichet,

- In the attached update to the Memorandum of Economic and Financial Policies (MEFP) and the Memorandum of Understanding on Specific Economic Policy Conditionality (MoU) from 3 May, 6 August, 22 November 2010 and 23 February 2011, 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.

We continue to make progress with our economic program:

- Quarterly quantitative performance criteria for end-March have been met, along with the continuous criterion on external arrears for end-June. Information on other end-June performance criteria is not yet available. However, regarding our end-March indicative target on the accumulation of new domestic arrears by the general government, was again exceeded. The deep recession and associated revenue slump has complicated the achievement of fiscal targets, but we will take appropriate measures to overcome this challenge, as laid out in the attached MEFP and MoU.

- Fiscal-structural reforms have been moving forward. A comprehensive medium-term fiscal strategy has been approved by parliament as well as first-stage legislation to implement policy reforms, in each case as a prior action for this review. Parliament has also approved a detailed time-bound privatization plan (a prior action for the review), and a law establishing a privatization agency has been passed: also a prior action for the review. A structural benchmark on appointing financial accounting officers in line ministries and general government entities, and a benchmark covering an actuarial study on the main supplementary pension funds were observed with delay. Earlier end-December benchmarks covering a study on public employment and compensation, and on improving the statistical reporting to Elstat are now fully implemented.

- Our policy efforts to support financial system stability continue. In March we submitted legislation to parliament allowing for the unbundling of the commercial activities of the HLCF and authorizing a new EUR 30 billion tranche of government guarantees for uncovered bank bonds. The legislation was passed in May. Furthermore, banks have submitted draft medium-term funding plans to the ECB and Bank of Greece, and the Bank of Greece has issued guidance to banks to refine the plans in line with the program's macroeconomic framework.

- To support these efforts with an appropriate level of financing, we have defined a strategy to achieve substantial and credible contributions from the private sector and we aim to finalize their contributions by the time of the Fifth Review. In parallel, the ECB is working with Greek banks on medium-term funding plans to ensure that they reduce their exposure to exceptional Eurosystem liquidity support at a pace consistent with the program's macroeconomic framework.

- On this basis, we request the disbursement of the fifth installment of financial assistance by the euro-area Member States, pooled by the European Commission, in the amount of EUR 8 700 million.

- We believe that the policies set forth in the 3 May 2010 Letter of Intent, MEFP and MoU and subsequent updates (including the one now attached), are adequate to achieve the objectives under the program. We stand ready to take any corrective actions that may become appropriate for this purpose as circumstances change. We will consult with the 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 Lipsky.

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

GREECE—MEMORANDUM OF UNDERSTANDING ON SPECIFIC ECONOMIC POLICY CONDITIONALITY

(fourth update)

July 4, 2011

The quarterly disbursements of bilateral financial assistance from euro-area Member States are subject to quarterly reviews of conditionality for the duration of the arrangement. The release of the tranches will be based on observance of quantitative performance criteria and a positive evaluation of progress made with respect to policy criteria in Council Decision 2010/320/EU of 10 May 2010 (as amended; hereinafter the Council Decision), the memorandum of economic and financial policies (MEFP) and in this Memorandum. These criteria have been updated and further specified during the May 2011 review.

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

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

1 FISCAL CONSOLIDATION

Achieving 2011 fiscal target

Adoption of additional fiscal measures for 2011 with the aim of reducing the deficit to EUR 17 065 million (see Annex 1) **[Q2-2011]**.

Medium-term fiscal strategy

Adoption by Parliament of the medium-term fiscal strategy (hereinafter MTFS) through 2015 and respective implementing bill. The MTFS elaborates on the permanent fiscal consolidation measures, which ensure that the deficit ceiling for 2011-15 as established by the Council Decision are not exceeded, and that the debt-to-GDP ratio is put on a sustainable downward path. **[Q2-2011]**

The MTFS includes, in particular:

- prudent macroeconomic forecasts;
- baseline revenue and expenditure projections for the state and for the other government entities;
- a description of permanent fiscal measures, their timing and quantification;
- annual spending ceilings for each ministry and fiscal targets for other government entities through 2015;
- post-measures fiscal projections for general government in line with the deficit and debt targets;
- longer-term debt projections based on prudent macroeconomic and fiscal projections, and privatisation plans.

The MTFS provides for fiscal consolidation measures as described in Annex 1.

Budget implementation

Government rigorously implements the budget for 2011, including supplementary measures. Government stands ready to define and enact additional measures if needed to respect the budgetary ceilings established in Council Decision 2010/320/EU. **[continuous]**

The Ministry of Finance ensures tight supervision of expenditure commitments by the government departments, including extra-budgetary funds, the public investment budget, social security funds and hospitals, local governments and state-owned enterprises, and effective tax collection, to secure the attainment of the programme quantitative criteria (Article 1 (2 and 3) of Council Decision 2010/320/EU, as amended, and Table 2 of the MEFP). **[continuous]**

The Ministry of Finance releases not more than 1/14 of the annual budgetary appropriation (excluding wages, pensions and interest) per month to each ministry. The remaining budgetary appropriations will not be released before September of each year, and may be cancelled by the Ministry of Finance, according to the need to respect the government deficit ceiling. **[continuous]**

Government will adopt and implement the budget for 2012 and subsequent years in line with the MTFS, this Memorandum, and Council Decision 2010/320/EU.

2 STRUCTURAL FISCAL REFORMS

2.1 Asset management and privatisation

Government privatises assets worth at least EUR 390 million, and adopts a privatisation programme **[Q2-2011]** with the aim of collecting at least EUR 15 billion by end-2012, and at least EUR 50 billion by end-2015 (see the list of assets to be privatised in Annex III of the MEFP)

Proceeds from privatisation of financial and non-financial assets are to be used to redeem outstanding medium- and long-term debt and do not substitute fiscal consolidation efforts. When restructuring state-owned enterprises with a view to preparing them for privatisation, specific attention will be given to a timely clearance of state aid issues. **[continuous]**

A privatisation fund with sound governance is established to accelerate the privatisation process and guarantee its irreversibility and professional management (see Annex 2). **[Q2-2011]**

Government privatises assets (listed and non-listed companies, concessions and real estate) to collect receipts in line with Annex 3. **[continuous]**

Government publishes an inventory of state-owned assets, including stakes in listed and non-listed enterprises and commercially viable real estate and land. **[Q2-2011]** The inventory will continue to be updated until **end-2011** to ensure it is comprehensive.

A new General Secretariat of Real Estate Development is established with the aim of improving management of real estate assets, clear them of encumbrances and prepare them for privatisation. **[July 2011]**

Government adopts an act enabling the promotion of investment in the tourism sector (tourist resorts and secondary tourist housing). This act, together with the bill on land use will allow for accelerating the privatisation process of land plots managed by the Greek Tourist Real Estate Agency (ETA). [**August 2011**]

Government adopts the legal framework enabling fast assignment of land use and accelerates state land ownership registration. **[Q3-2011]**

2.2 Fighting waste in public enterprises and other public entities

Legislation to close, merge and downsize non-viable entities will be tabled by the government **[July 2011]** and adopted by Parliament. **[mid-August 2011]** Among other, the legislation will relate to large entities which will be closed with functions transferred accordingly, merged or substantially downsized: KED[4], ETA[5], ODDY,[6] National Youth Institute, EOMEX[7], IGME,[8] (closure), OSK[9], DEPANOM[10], THEMIS[11], ETHYAGE,[12] DIMITRA[13] (merger), ERT[14] (downsizing). **[Q3-2011]**

Government takes measures enabling a reduction in procurement and third party costs in state-owned enterprises, updating tariffs, and creating new business lines, and reduce personnel costs by completing and implementing an employment retrenchment plan. **[Q3-2011]** Excess staff that cannot be removed by the hiring rule of 1 recruitment for 5 exits (1 for 10 in 2011) will be dealt with through non-voluntary redundancies and furlough (labour reserve). This rule is without sectoral exceptions; it also applies to staff transferred from public enterprises to other government entities after screening of professional qualifications by ASEP under its regular evaluation criteria. Staff in the labour reserve will be paid at 60 percent of their wage (excluding overtime and other extra payments) for not more than 12 months, after which they will be dismissed. **[continuous starting Q3-2011]**

Tariffs in OASA and OSE and other state-owned enterprises will increase by at least 25 percent. **[Q1-2013]**

2.3 Tax reform and revenue administration reforms

In line with the recent anti-tax evasion action plan, the Government will step up audits of large-scale tax payers, high-wealth individuals and self-employed, and accelerate the resolution of tax arrears. Progress will be monitored by quantitative indicators. **[continuous]**
To simplify the tax system, improve tax administration, and achieve fairer taxation, Government

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4 Real estate manager.
5 Tourism-related real estate manager.
6 Mobile public property.
7 Organisation for SME support.
8 Institute of Geological and Mining Studies.
9 School-building organisation.
10 Hospital-building organisation.
11 Court- and prison-building organisation.
12 Agriculture Research Institute.
13 Agriculture Research
14 Public broadcasting corporation.

- broadens the personal income tax base by limiting the application of the basic allowance, introducing a ceiling to deductions; **[July 2011]**
- moves non-basic goods and services (restaurants and bars) from the VAT reduced rate to the standard rate; **[July 2011]**
- widens the property tax base and increases rates; **[July 2011]**
- reduces investment-related tax expenditure. **[**ministerial decision in **July 2011]**

To avoid that measures to increase revenue translate into additional spending by local government, Government introduces mechanisms to adjust revenue-sharing agreements. **[Q3-2011]**

To advance the reforms of revenue administration, Government will

- prepare a strategic plan for medium term reforms **[July 2011]**, setting the priorities and timeline for reform of the tax administration, including adopting risk management approaches, establishing a large taxpayer unit, reshaping tax audit, debt collection, and administrative dispute resolution and introducing taxpayer services.
- establish a central directorate general for debt collection, and a large-scale tax payers unit. **[Q3-2011]**
- overhaul the administration into a more modern functionally-based organization including the work of the 5 task forces which have designed short-term anti-tax evasion action plans, and identified barriers to effective administration that need to be removed. **[Q3-2011]**
- implement the recently announced anti-tax evasion action plan. **[continuous]**
- remove barriers to effective tax administration by implementing the key reforms of the new tax law, including reassessing tax auditors' qualifications and hiring new auditors by **Q3-2011.**
- make operational the newly established arbitration agency and set up an independent fast track administrative dispute resolution process to deal rapidly with large dispute cases (i.e. within 90 days). **[Q3-2011]**
- merge, transfer competences and close 200 local tax offices identified as inefficient by starting **Q3-2011**, completed **Q4-2011**.

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

The government will adopt further measures to simplify the tax system, broaden bases and reduce tax rates in a fiscally-neutral manner. This relates to the personal income tax, corporate income tax and VAT. **[September 2011]**

2.4 Public financial management reforms

Government clears payment arrears accumulated until end-2010 and ensures that no payment arrears are accumulated from **Q3-2011** on. To strengthen expenditure control, Government

- adopts a decision specifying the qualification and responsibilities of accounting officers to be appointed in all line ministries with the responsibility to ensure sound financial controls; **[July 2011]**
- appoints financial accounting officers; **[July 2011]**
- accelerates the process of establishing commitment registries. It will make operational registries covering the whole general government (except the smallest entities); **[July 2011]**
- undertakes inspections in the several ministries and general government entities with the largest arrears, to ensure the application of registers. Inspections cover entities accounting for at least 75 percent of arrears; **[July 2011]**
- creates general directorates for financial services in each ministry. **[Q3-2011]**

2.5 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. These recommendations should determine how to achieve a more streamlined and effective public service, define clear responsibilities and command lines of ministerial departments, eliminating overlapping competences, and improving inter- and intra-mobility. **[Q2-2011]**

The functional review of existing social programmes is finalised. **[Q3-2011]**

Government assesses the results of the second and 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. **[Q3-2011]**

Government assesses the results of the second and final phase of the independent functional review of central administration **[Q4-2011]**

Public sector wages and human resource management

Government finalises a medium-term staffing plan for the period up to 2015 in line with the rule of 1 recruitment for 5 exits (1 for 10 in 2011). The plan will include tighter rules for temporary staff, cancellation of vacant job post and reallocation of qualified staff to priority areas and takes into account the extension of working hours in the public sector. **[July 2011]**

A detailed action plan with a timeline to complete and implement the simplified remuneration system is presented, in line with private sector wages, achieving a reduction in the total wage bill. This plan is based on the results of the report published by the Ministry of Finance and the Single Payment Authority. The legislation for a simplified remuneration system will be introduced in Parliament by **July 2011** and phased in over 3 years. Wages of state-owned enterprises employees will be in line with the new wage grid for the public sector.

Publication of monthly data on staff movements (entries, exits, transfers among entities) of the several government departments commences. **[July 2011]**

Public procurement

Legislation is adopted to establish the Single Public Procurement Authority (SPPA) with the mandate, objectives, competences, powers and schedule for entry into force, in line with the Action Plan agreed with the European Commission in November 2010. **[July 2011]**

Government launches the development of an e-procurement IT platform and sets intermediate milestones in line with the action plan. This includes testing a pilot version (*agora.gov.gr*), availability of all functionalities for all contracts and phasing-in of the mandatory use of e-procurement system for supplies and services. **[July 2011]**, Works contracts will also be added to the e-procurement platform, **promptly**.

A thorough review of the system of redress against award procedures and the role to confer to the SPPA is carried out, in agreement with the European Commission. **[Q3 2011]**

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

Government issues decisions

- to provide for the institution and establishment of positions for the SPPA's personnel, as well as for the organization of human resources and services of the Authority in accordance with the provisions of the law on the SPPA

- to appoint the members of the SPPA. **[Q3-2011]**

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

The e-procurement framework is fully operational, and a common website is created for the publication of all procurement procedures and outcomes. **[Q2-2012]**

2.6 To complete the pension reform

The National Actuarial Authority (NAA) continues the submission of long-term projections of pension expenditure up to 2060 under the adopted reform. The projections shall encompass the main supplementary (auxiliary) schemes (ETEAM, TEADY, MTPY), based on comprehensive data collected and elaborated by the NAA. **[Q2-2011]**The projection will be peer-reviewed and validated by the EU Economic Policy Committee and the European Commission, ECB, and IMF staff. For the remaining supplementary schemes, the same procedure is followed. **[Q3-2011]**

The list of heavy and arduous professions is revised and its coverage is reduced to no more than 10 percent of employment. The new list of difficult and hazardous occupations (Law 3863/2010) applies with effect from 1 August 2011 to all current and future workers.

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

- a further reduction in the number of existing funds;
- the elimination of imbalances in those funds with deficits;
- the stabilisation of the current spending at sustainable level, through appropriate adjustments to be made from 1 January 2012;
- the long-term sustainability of secondary schemes through a strict link between contributions and benefits. **[Q3-2011]**

The reform of the secondary/supplementary schemes is designed in consultation with European Commission, ECB and IMF staff, and its estimated impact on long-term sustainability is validated by the EU Economic Policy Committee. The parameters of the new secondary notional defined-contribution system ensure long-term actuarial balance, as assessed by the NAA. **[**legislation: **Q3-2011**; implementation: **Q1-2012]** Government identifies the schemes for which lump sums paid on retirement are out of line with contributions paid, **[Q3-2011]** and adjusts the payments. **[Q4-2011]**

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

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

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

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

2.7 To modernise the health care system

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

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

More specifically, the following measures are implemented:

Governance

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

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

Government equalises the common benefit package for the insurers of EOPYY, with the aim of full equalisation of benefits and contributions across funds by December 2011, and align the contributions paid by OGA members to those of other members of EOPYY, as envisaged in the medium-term fiscal strategy. **[July 2011]**

All necessary steps are taken for EOPYY to initiate its operations as planned 6 months after the adoption of Law 3918/2011, including the appointment of the necessary and qualified staff. To this aim, government sets up a selection committee and devises objective criteria to ensure transparent procedures to govern the selection of the management of EOPYY. Members will be required to be qualified experts of recognised standing in health, management and health administration. **[July 2011]**

EOPYY starts operating. The new fund will lead to a substantial reduction of administrative staff of at least 50 percent and of contracted doctors of at least 25 percent as compared to the four originating funds combined. The aim is to achieve a ratio of patients per doctor in line with the European average. **[Q3-2011]**

Government revokes market regulation 40 (17.12.1990) to abolish the 0.4 percent contribution of wholesale sales prices in favour of the Panhellenic Pharmaceutical Association. **[Q3-2011]**

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

Pricing of medicines and medical services

Government

- collects the rebates from pharmacies with sales above a designated threshold against the payment due to pharmacies; it continues to do so on a monthly basis;
- publishes the complete price list for the medicines in the market, using a new pricing mechanism based on the three EU countries with the lowest prices. The list will be updated on a quarterly basis.
- lifts the caps to the price reductions used when the price list was first introduced. **[Q2-2011]**

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

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

Prescribing and monitoring

Government

- publishes binding prescription guidelines for physicians defined by EOF on the basis of international prescription guidelines to ensure a cost-effective use of medicines; **[July 2011]**
- publishes and continuously updates the positive list of reimbursed medicines using the reference price system developed by EOF. **[Q2-2011]**

Government takes further measures to extend in a cost-effective way the e-prescribing of medicines, diagnostics and doctors' referrals to all social security funds, health centres and hospitals. In compliance with EU procurement rules, Government conducts the necessary tendering procedures to implement a comprehensive and uniform health care information system (e-health system). **[Q3-2011]**

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

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

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

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

- compulsory e-prescription by active substance and of less expensive generics when available;
- 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 with similar active substance. **[Q2-2011]**

Government takes further measures to ensure that at least 30 percent of the volume of medicines used by public hospitals is composed of generics with a price below that of similar branded products and off-patent medicines, in particular by making compulsory that all public hospitals procure pharmaceutical products by active substance. **[Q3-2011]**

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

NHS (ESY) service provision

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

- adjusting public hospital provision within and between hospitals within the same district and health region;
- revising the activity of small hospitals towards specialisation in areas such as rehabilitation, cancer treatment or terminal care where relevant;
- increasing the mobility of healthcare staff (including doctors) within and across health facilities and health regions;
- preparing a joint management/operation system in districts with more than one hospital, excluding university hospitals. **[Q2-2011]**

Government sets up selection criteria to ensure transparent procedures to govern the selection of the management of hospitals. Members will be required to be persons of recognised standing in health, management and health administration. **[Q2-2011]**

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

Wages and human resource management in the health care sector

The Ministries of Health and Labour, in cooperation with the Ministry of Finance, prepare the first draft report presenting the structure (age, specialty, grade, regional distribution), levels of remuneration (including fees provisions to consultants and doctors) and the volume and dynamics of employment in hospitals, health centres, and health funds. This report will be updated annually and be used as a human resources planning instrument. The 2011 report will present plans for the allocation and re-qualification of human resources for the period up to 2013 as well as providing guidance for the education system. It specifies a plan to reallocate qualified and support staff within the NHS and health funds. **[Q3-2011]**

Government extends the use of capitation payments of physicians, currently used by OAEE, to all contracts between social security funds and the doctors they contract. The new payment mechanism starts for each new contract renewed in 2011 and for all contracts from 2012. It defines a minimum number of patients per doctor, on the basis of the experience of other EU countries. The new system will lead to a reduction in the overall compensation cost (wages and fees) of physicians by at least 10 percent in 2011, and an additional 15 percent in 2012 as compared to the previous year. **[Q3-2011]**

Accounting and control

Internal controllers are assigned to all major hospitals. **[Q3-2011]**

By **Q2-2011**, Government starts publishing the monthly report with analysis and description of detailed data on healthcare expenditure by all social security funds with a lag of three weeks after the end of the respective month.

Social security funds start publishing an annual report on medicine prescription. Individual prescription reports serve as regular feedback to each physician (at least semi-annually). The annual report and the individual prescription reports examine prescription behaviour with particular reference to the most costly and most used medicines. **[Q1-2012]**

Hospital computerisation and monitoring system

The necessary tendering procedures are carried out to develop the full and integrated system of hospitals' IT systems. **[Q3-2011]**

The Ministry of Health completes the programme of hospital computerisation. Building on the web-based platform ESY.net, it finalises the process of centralisation of information. The Ministry of Health, through a dedicated service/unit, collects and scrutinises data and produces monthly and annual reports, which are published. **[Q2-2011]**

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

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

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

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

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

Centralised procurement

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

Independent task force of health policy experts

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

- health system governance to reduce the fragmentation of the system;

- financing: pooling, collection and distribution of funds;
- harmonisation of health packages across funds;
- service provision and incentives for providers including:
  - integration between private and public provision;
  - primary care vis-à-vis specialist and hospital care;
  - efficiency in the provision of hospital services;
  - pharmaceutical consumption;
  - human resources;
- public health priorities, health promotion and disease prevention;
- data collection, health technology assessment and assessment of performance;
- expenditure control mechanisms. **[Q2-2011]**

The report will provide preliminary quantitative targets in the fields above, in order to contribute to keep public health expenditure --constant at, or below, 6 percent of GDP. The task force of health policy experts produces the final comprehensive policy report, with specific recommendations on policies to be implemented. **[Q3-2011]**

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

The taskforce produces an implementation report, revising the policies implemented so far. **[Q1-2012]**

3 FINANCIAL SECTOR REGULATION AND SUPERVISION

Each quarter Government transfers EUR 1 000 million to a dedicated government account opened by the General Accounting Office. Funds from this account are regularly released to the HFSF (Hellenic Financial Stability Fund) to ensure the latter keeps a cash balance of EUR 1 500 million and if programme reviews of bank capital suggest that the resources are necessary. The release of the funds is subject to agreement by the European Commission, ECB and IMF staffs.

The Bank of Greece transfers staff with prerequisite specialist skills (banking, financial analysis, accounting, data management and IT) into the bank supervision department. It will also consider requesting long-term technical assistance to be resourced from other European supervisory authorities **[July- 2011]**. The Hellenic Financial Stability Fund (HFSF) addresses its staffing shortfall **[end-July2011].** The Bank of Greece and the HFSF complete a memorandum of understanding to further strengthen their cooperation, including sharing of appropriate supervisory information **[end-July 2011]**.

The Bank of Greece has developed a supervisory watch list for weak insurance companies and will complete comprehensive on-site inspections. **[Q2-2011]** It participates in the European Insurance and Occupational Pensions Authority's second Europe-wide stress testing exercise for the insurance sector [results are anticipated by **end-July 2011**]. The Bank of Greece will use its supervisory powers to deal with firms which do not pass the stress test. This would include requiring them to increase capital or take structural measures to address the situation within a specific timeframe.

Concerning the banks whose capital base now has already fallen short of regulatory requirements, the Bank of Greece will require the capital shortage to be addressed, or take other appropriate actions via capital injections or restructuring to deal with the situation by **September 2011**. Should the strategy to address capital shortages include the involvement of other local financial institutions, the Bank of Greece will submit a financial impact analysis and legal opinion regarding the proposed strategy to the Ministry of Finance and Commission, ECB and IMF. This will be done in a manner which will not compromise the viability of the other institutions involved. **[continuous]**
Legislation to revise the HFSF operating framework, with the aim of making it more effective, is submitted to Parliament by **mid-August 2011**, and adopted by **mid-September2011.**

Following ongoing initiatives at the EU level, the government will improve the legislation on financial institutions to allow timely and effective intervention and resolution consistent with EU Treaty and international sound practices. Legislation will be tabled by **mid-August 2011** and will be enacted by Parliament by **mid-September 2011**.

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The Bank of Greece will, on a **quarterly** basis, continue to undertake forward-looking profitability assessments in the context of its regular Pillar II reviews. That will allow the Bank of Greece, in consultation with the European Commission, ECB and IMF staffs, to project the potential use of the funding by the HFSF. The next assessment will be complete by **end-September 2011.**

Banks will be required by the Bank of Greece to maintain minimum Core Tier 1 capital at 10 percent. **[January 2012]** The Core Tier 1 capital requirements will exclude hybrid capital, but include preference shares issued by banks and subscribed by the Greek government. The Bank of Greece also requires additional capital buffers against potential further deterioration of the operational environment, based on each bank's specific risk profile and the European stress test results.

As part of the Pillar II exercise to increase capital buffers, a single reputable and qualified international advisory firm (paid for by banks) will be commissioned by the Bank of Greece to perform a diagnostic of banks' loan portfolios. The Bank of Greece, in consultation with the EC/ECB/IMF, will agree on the terms of reference for the diagnostic. This exercise will be completed by **December 2011**. Banks will be required to present plans to the Bank of Greece on how they intend to reach the new capital requirements through market solutions **[end-January 2012]**. The Bank of Greece will require banks to meet higher capital buffers, taking into account the outcome of the diagnostic exercise **[end-September 2012]**. Banks will be required to exhaust all efforts to meet new capital requirements within this timeframe. In the interim, banks not meeting the capital requirements will be subject to intensive supervision

The Bank of Greece will ensure that immediate and appropriate actions are taken to address capital shortages in all banks. These measures should ensure viability of banks involved. If the measures involve State aid, this will be subject to assessment under EU State aid rules. **[continuous]**

The capital increase of ATE is completed. **[Q3-2011]**

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

4 GROWTH-ENHANCING STRUCTURAL REFORMS

4.1 To strengthen labour market institutions

Government reforms legislation on fixed-term contracts (including by establishing specific fixed-term contracts for youth at sub-minima wages) and on working-time management, and simplifies the procedure for the creation of firm-level trade unions. **[Q2-2011]**

Government adapts legislation on tackling undeclared work to require the registration of new employees before they start working. **[July 2011]**

The reform to strengthen the Labour Inspectorate is completed, with the appropriately qualified staff. Quantitative targets on the number of controls to be executed are set for the Labour Inspectorate. A pilot study is be implemented to verify the favourable financial net impact on the overall social security budget of a discount of up to 10 percent on social contributions for those enterprises introducing the labour card. The pilot study covers a limited scope of firms (maximum 100), over a short period of time (maximum four months). **[Q3-2011]**

Government promotes, monitors and assesses the implementation of the new special firm-level collective agreements. It ensures that there is no formal or effective impediment to these agreements and that they contribute to improve the adaptability of firms to market conditions, with a view to create and preserve jobs and improve the firms' competitiveness, by aligning wage developments with productivity developments at firm level, thereby promoting competitiveness and creating and preserving jobs. It provides a report on its assessment. Any other amendment to the law on sectoral collective bargaining is adopted before **end-July 2011**.

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

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

Regulated professions

In the implementation of Law 3919/2011, restrictions to be reinstated consider the need to promote competition and take into account international best practice. Government consults widely before the adoption of these restrictions. **[Q2-2011]**

A Ministerial Decision is issued setting the value of a transaction above which the notaries' *pro rata* fee for drafting contracts is the maximum permissible fee. For transactions below this maximum value, *pro rata* fees are set at successively decreasing rates in inverse proportion to the graduated increase, with the starting fee, ending fee and the number of tranches set so as to ensure a sharp reduction of the average fee by, at least, 50 percent. The Ministerial Decision also lowers fees for company creation, for copies and for additional pages. **[Q3-2011]**

For the legal profession, Government issues a Presidential Decree revising the percentages applicable to the reference amounts (Article 96(2) of the Code of Lawyers, as amended), which sets prepaid amounts for each procedural act or court appearances (i.e., it sets a system of prepaid fixed/contract sums for each procedural act or appearance by a lawyer which is not linked to a specific 'reference amount'). **[Q3-2011]**

Government screens the laws and other regulations of the professional chambers to identify rules on pricing, on access to, and exercise of, the profession that are against Law 3919/2011, EU law and competition rules. **[July 2011]**

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

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

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

Government starts screening legislation on the main regulated professions in order to assess the justification and the proportionality of requirements in force reserving certain activities to providers with specific professional qualifications. **[July 2011]**

Government publishes a report on the implementation of Law 3919/2011, including

- the list of professions falling under the scope of the law;
- the list of professions exempted from the lifting of restrictions by Presidential Decree and the justifications for such exemptions;
- an assessment of whether further measures are needed on the rules on access to, and exercise of the profession and on pricing to align Greek legislation with EU law and competition rules;
- a timetable to screen existing legislation and to adopt the necessary changes to the existing specific regulations of the professions (i.e., Presidential Decrees, Ministerial Decisions and Circulars) to make them fully compatible with chapter A of Law 3919/2011, EU law and competition rules. **[July 2011]**

The said Presidential Decrees, Ministerial Decisions and Circulars are promptly adopted. **[Q3-2011]**

Government identifies measures to reinforce transparency in the functioning of professional bodies by requiring them to publish an annual report on their webpage regarding their financial performance and statistics on disciplinary actions in defence of consumers' interests. **[Q3-2011]**

Government monitors the implementation of Law 3919/2011 and publishes a study on how effective such a law is in increasing competition and reducing prices. **[Q3-2011]**. Adjustments to the law with the aim of increasing competition are adopted by **Q1 2012**.

Government presents the results of screening of the requirements reserving certain activities to providers with specific professional qualifications for the main regulated professions. **[Q3-2011]**

All Presidential Decrees needed for the implementation of the law on fast-track licensing procedure for technical professions are adopted. **[October 2011]**

Government prepares acts by **end-2011,** to be adopted by **Q1-2012**, to

- abolish provisions of the regulations of the professional chambers on access to, and exercise of, the profession and on pricing, that are against Law 3919/2011 and EU law including competition rules (see requirement for Q2 2011).

- ensure that providers of services are not subject to requirements which oblige them to exercise a given specific activity exclusively, or which restrict the exercise jointly or in partnership of different activities, except in the circumstances and under the conditions set in the Services Directive.
- remove complete prohibitions on commercial communications by the regulated professions and to ensure that professional rules on commercial communications are non-discriminatory, justified by an overriding reason relating to the public interest and proportionate.
- reinforce transparency in the functioning of professional bodies (see requirement for Q3-2011).
- set up contributions of lawyers and engineers to their professional associations that reflect the operating costs of the services provided by those associations.
- simplify the requirements reserving certain activities to the legal and engineering professions that are not justified or proportionate.
- tackle any other issues identified in the assessment of the implementation of Law 3919/2011 carried out by the government in Q3-2011. **[Q4-2011]**

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

Recognition of professional qualifications

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

- updates information on the number of pending applications for recognition of professional qualifications, and sends it to the Commission.
- presents draft legislation amending Law 3328/2005 on the Hellenic Academic Recognition and Information Center and other provisions in order to remove the prohibition to recognise the professional qualifications derived from franchised degrees. Holders of franchised degrees from other Member States should have the right to work in Greece under the same conditions as holders of Greek degrees. **[Q3-2011]**

Legislation amending Law 3328/2005 is adopted to ensure that holders of franchised diplomas from other Member States have the right to work in Greece, accordingly, under the same conditions as holders of Greek degrees. **[Q4-2011]**

Services Directive

Government completes the adoption of changes to existing sectoral legislation in key services sectors such as retail (e.g. open air markets and outdoor trade), wholesale (e.g. central markets), agriculture (e.g. veterinary services), employment (employment agencies), and technical services. Government specifies, for any remaining services sector, a timetable for adopting sectoral regulations by **end-2011** that ensures full compliance with the requirements of the Services Directive. New regulations should:

– facilitate establishment by

  - abolishing or amending requirements which are prohibited by the Services Directive;
  - abolishing or amending unjustified and disproportionate requirements, including those relating to quantitative and territorial restrictions, legal form requirements, shareholding requirements, fixed minimum and/or maximum tariffs and restrictions to multidisciplinary activities.

– facilitate the provision of cross-border services, so that providers of cross-border services are required to comply with specific requirements of the Greek legislation only in exceptional cases (when admitted by Articles 16 or 17 of the Services Directive).

– provide legal certainty for providers of cross-border services by setting out in the respective (sectoral) legislation which requirements can and which requirements cannot be applied to cross-border services. **[Q3-2011]**

Government ensures

– that the point of single contact (PSC) distinguishes between procedures applicable to service providers established in Greece and those applicable to cross-border providers (in particular for the regulated professions). **[July 2011]**

– adequate connection between the PSC and other relevant authorities (including professional associations). **[July 2011]**

The online completion of procedures covers, at least, the procedures in the distribution services, tourism, education and construction sectors as well as in food and beverage services, services of the regulated professions, real estate services, and business services. **[July 2011]**

The PSC is fully operational and the completion of procedures by electronic means is possible in *all* sectors covered by the Services Directive. **[Q3-2011]**

Any remaining sectoral regulation is adopted ensuring full compliance with the Services Directive. **[Q4-2011]**

Sectoral growth drivers

Government publishes reports which analyse

- 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. **[July 2011]**

- the potential contribution of the retail sector to price flexibility, growth and jobs. It should identify legislative, administrative and other obstacles hindering competition and market entry to the realisation of sector potential. **[July 2011]**

Legislation and other structural actions are prepared **[Q3-2011]** and adopted **[Q4-2011]** to implement the findings of the reports which analyse the potential contribution of the tourism and retail sectors to growth and jobs, and price flexibility, in the Greek economy.

Government initiates additional studies on manufacturing, energy, and wholesale sectors with a view to removing remaining obstacles to growth in these sectors. **[Q3-2011]** On the basis of these studies, Government prepares concrete actions and a timetable for implementation [**Q4 2011**].

Business environment

Government presents a plan **[Q2-2011]** for a "Business-Friendly Greece" to tackle 30 remaining restrictions to business activities, investment and innovation. The plan identifies hurdles to innovation and entrepreneurship - ranging from company creation to company liquidation - and presents the corresponding corrective actions. The plan includes measures, among others, to

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

Government starts implementing the "Business-Friendly Greece" action plan. **[Q2-2011]**.
Government starts screening Ministerial Decision A2-3391/2009 on market regulations as well as any other related regulations. The screening is carried out, in cooperation with the Hellenic Competition Commission, with a view to identifying administrative burdens and unnecessary barriers to competition to be eliminated, and developing alternative, less restrictive, policies to achieve government objectives. **[Q2-2011]**

A comprehensive list of non-reciprocating charges in favour of third parties is presented, identifying beneficiaries and quantifies contributions paid by consumers in favour of those beneficiaries. **[Q3-2011]**.

Legislation is adopted to simplify and shorten procedures to complete studies on environmental impact and to get the approval of environmental terms with a view to reducing the number of projects subject to environmental licensing and the duration of approval procedures to EU average levels. The acceleration of the environmental licensing is assured by committing the authorising authority to proceed with the approval procedure after a specified time period. **[July 2011]**

Government reviews and codifies the legislative framework of exports (i.e., Law 936/79 and Law Order 3999/59), simplifies the process to clear customs for exports and imports and gives larger companies or industrial areas the possibility to be certified to clear cargo for the customs themselves. **[Q3-2011]**

The obligation of registration with the exporters' registry of the Chamber of Commerce is abolished; such a registration is simplified and becomes voluntary. **[Q3-2011]**

To help attract investment in key sectors, including tourism, energy and real estate, government speeds up the review of private project applications in the pipeline and advances at least one large public sector project. **[Q3-2011]**

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

Government introduces 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. **[Q3-2011]**

An impact assessment is presented to evaluate 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. **[Q3-2011]**

Government submits to the European Commission the draft regulation on the market surveillance service, as provided for in Article 53(2) of the Competition law. **[Q3-2011]**

Government provides sufficient resources for accelerating the completion of the land registry, with a view to

- tendering cadastral projects for additional 4 million rights by December 2011;
- digitalising the operations of all mortgage and notaries' offices and conveying all newly registered deeds to the cadastre by 2015;
- exclusively-operating cadastral offices for large urban centres by 2015;
- establishing a complete cadastral register and exclusively operating cadastral offices nationwide by 2020. **[Q4-2011]**

A Ministerial Decision on market regulations is issued following the screening launched in Q2-2011. **[Q1-2012]**

Transport

Government ensures a quarterly update of the existing business plans of OSE/TRAINOSE and OASA, with detailed monitoring and enforcement mechanisms and including realistic key performance indicators and benchmarks per line of activity. By **Q2-2011**, OASA Group's merging process is terminated and monitored to ensure the group breaks even.

Legislation liberalizing tourist coaches is passed by end-July. Secondary legislation establishing the costs and the time required for issuing new licenses will be adopted by end-September. Such costs will not exceed the administrative costs and the required timing will not exceed 20 business days in total.

TRAINOSE breaks even **[Q3-2011]** and is prepared for privatisation [**Q4-2011**].

Government submits a policy paper, indicating how all regional airports will be merged into groups ensuring that regional airports become economically viable in compliance with state-aid rules, including realistic projections identified by the appointed financial advisors. **[Q3-2011]** After ensuring that regional airports are economically viable, Government launches an effective transaction strategy leading to their privatisation. **[Q4-2011]**

A report is submitted on the functioning of the regular passenger transport services (KTEL), presenting options for liberalisation. **[Q3-2011]**

The necessary secondary legislation as foreseen in Law 3887/2010 (Article 14(11)) is adopted, specifying the cost for issuing new road transport operator licences. This cost is transparent, objectively calculated in relation to the number of vehicles of the road transport operator and does not exceed the relevant administrative cost. **[Q4-2011]**

Energy

Government finalises the remedies to ensure the access of third-parties to lignite-fired electricity generation. **[Q2-2011]**

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

To ensure that network activities are unbundled from supply activities,

- the law on the unbundling modalities of the Transmission System Operator (TSO) and the Distribution System Operator (DSO) is adopted, in compliance with the third energy liberalisation package; [**July -2011]**
- the TSO is established as a legal entity [**July -2011]**. All necessary transfers of staff and assets are completed; [**Q3 2011]**
- the DSO is established as a legal entity [**July -2011].** All necessary transfers of staff are completed. **[Q1-2012]**

All regulatory powers assigned to EU energy regulators in the third energy liberalisation package (licensing, network access, network charges, market monitoring, etc.) are transferred to the Regulatory Authority for Energy (RAE). **[July -2011]**

Measures are adopted to ensure the independence of RAE, i.e. impartial and transparent nomination of board, management authority with regard to budget and personnel, etc. in line with the third energy liberalisation package. **[July -2011]**

Government starts implementing the measures ensuring the access by third parties to lignite-fired electricity generation. **[Q3-2011]**

Detailed plans are presented for ensuring a maximum market opening as regards the non-interconnected system, covering among others, access of suppliers to the non-interconnected system markets in particular in Rhodes and Crete. Government submits a request for derogation under certain conditions of Art 44 Directive 2009/72 for small isolated systems. **[Q3-2011]**

Hydro reserves are effectively and fairly managed by an independent body. **[Q3-2011]**

The unbundling of the TSO (for electricity and gas) and DSO (for electricity) is effectively completed. **[Q1-2012]**

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

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

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

R&D and innovation

Government pursues an up-to-date and in-depth evaluation of all R&D and ongoing innovation actions, including in various operational programmes, and presents a strategic action plan for policies aimed at enhancing the quality and the synergies between public and private R&D and innovation, as well as tertiary education. This action plan identifies a clear timetable for relevant measures to be taken, taking the budgetary impact into account and harmonising these actions with other relevant initiatives in these areas, in particular the investment law. **[Q4-2011]**

Better regulation

Government adopts legislation to improve regulatory governance covering in particular:

- the principles of better regulation;
- the obligations of the regulator for the fulfilment of those principles;
- the tools of better regulation, including the codification, recast, consolidation, repeal of obsolete legislation, simplification of legislation, screening of the entire body of existing regulation, *ex-ante* and *ex-post* impact assessments and public consultation processes;
- the transposition and implementation of EU law and exclusion of *gold plating*;
- the setting-up of better regulation structures in each ministry as well as the creation of a Central Better Regulation unit;
- the requirement that draft laws and the most important draft legislative acts (Presidential Decrees and Ministerial Decisions) are accompanied by an implementation timetable;
- electronic access to a directory of existing legislation and an annual progress report on Better Regulation. **[July 2011]**

On impact assessments, legislation provides that

- implementing legislation with potentially large significant impact is also subject to the requirement to produce an impact assessment;

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

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

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

4.3 To raise the absorption rates of structural and cohesion funds

Legislation is adopted, and immediately implemented, to shorten deadlines and simplify procedures on contract award and land expropriations, including the deadlines needed for the relevant legal proceedings. **[Q3-2011]**

Government meets targets for payment claims in the absorption of EU structural and cohesion funds set down in the table below. Compliance with the targets shall be measured by certified data. In addition, Government achieves a semi-annual target of submitting 5 major project applications to the European Commission. It provides data on expenditure for non-targeted *de minimis* state aid measures declared to the European Commission in 2010. **[Q2-2011]**

Government adopts and implements the appropriate acts to ensure the smooth and timely implementation of structural-fund programmes in the framework of the recent local administration reform. **[Q2-2011]**

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

	2010	**2011**	**201 2**	**201 3**
European Regional Fund and Cohesion Fund	*target:* 2 330.0 *outcome:* 2 372.4	2 600	2 850	3 000
European Social Fund	*target:* 420.0 *outcome:* 447.6	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	*target:* **2 750** *outcome* **2 820**	**3 350**	**3 730**	**3 890**

Government launches an internal pilot web-based monitoring tool of procedures for approval of project proposals and for implementation of public projects. **[Q3-2011]**

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. In addition, Government submits 10 additional major project applications to the Commission, in view of achieving an annual target of submitting 15 major projects. In meeting absorption rate targets, recourse to non-targeted *de minimis* state aid measures should be gradually reduced. Government provides data on expenditure for non-targeted *de minimis* state aid measures co-financed by the structural funds in 2011. **[Q4-2011]**

The web-based open-access monitoring tool of procedures for approval of project proposals and for implementation of public projects is fully operational. **[Q4-2011]**

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

A report is presented on the activities of the task force assessing progress in ensuring the rapid implementation absorption of structural funds, and proposing improvements when necessary. **[Q4-2011]**

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

4.4 To upgrade the education system

The independent taskforce on education publishes a detailed blueprint for improvement of the efficiency and effectiveness in the use of resources in the public education system. This blueprint includes concrete policy recommendations that the Ministry of Education takes into account for implementation. **[Q2-2011]**

Governments prepares, and starts implementing, an action plan for the improvement of the effectiveness and efficiency of the education system taking into account the measures recommended by the independent taskforce. **[Q3-2011]**

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

4.5 To reform the judicial system

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

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

Specifically, Government:

- establishes a work plan for the clearance of the backlog of tax cases in all administrative tribunals and administrative courts of appeal by the end of July 2013, which provides for semi-annual intermediate targets for reducing the backlog by at least 15% by end-2011, 50% by end-July 2012 and 80% by end-2012; **[Q2-2011]**
- conducts, jointly with an external body of experts, a study of the backlog of cases in all remaining courts, including the Supreme Court and the Supreme Administrative Court, with data available by end-March 2012 and analysis by end-June 2012. **[Q2-2011]**

- introduces flanking measures for the bill on the rationalisation and improvement of the administration of civil justice promoting the wide-spread use of e-filing, e-signature and e-tracking of the status of individual cases; **[Q3-2011]**
- puts in place implementing rules for Law 3898/2010 on mediation in civil and commercial matters; **[Q3-2011]**
- improves alternative dispute resolution for out-of-court settlement and actively promotes pre-trial conciliation, mediation, and arbitration; **[Q3-2011]**
- identifies dormant cases; **[Q3-2011]**
- reduces the processing time of cases through the adoption of specific additional efficiency measures, including simplifying case registration, rationalizing docket management with a view to allowing the resolution of docketed cases, and by providing computer support to judges in order to allow the issuance of written decisions within two weeks from the judge taking the decision. **[Q3-2011]**

- Government adopts measures to ensure that enforcement cases concerning agreements arising from alternative dispute resolution are treated in the courts in the same way as enforcement cases concerning judicial decisions; **[Q4-2011]**
- To improve efficiency of courts, Government amends Law 1756/1988 on the organisation of the courts and the situation of court officials, and relevant implementing rules, always respecting the independence of justice, to allow and facilitate the introduction of human resource management measures in courts, such as mobility of court officials, incentives for the efficient administration of courts and continuous management training programmes for court officials with management tasks; **[Q1-2012]**
- takes the necessary measures to be able to publish quarterly reports on recovery rates, duration and costs of corporate insolvency and tax cases; **[Q4-2011]**
- conducts an assessment of whether the reform of the Code of Administrative Procedure and the enactment of Law 3898/2010 on mediation in civil and commercial matters have delivered the results which the legislation had set out to do; **[Q4-2011]**
- increases court registration fees in civil and administrative matters; **[Q4-2011]**
- establishes a task force that will design a performance framework for courts with a view to considering links to resource allocation in future revisions of this Memorandum. The task force will develop by September 2012 i) a dependable data management system, a workload measurement system, and a management structure, that is conducive to a more effective, responsible, and accountable judicial management; ii) a fully operational and publicly available database with case data for each court (as well as consolidated data for all courts), giving basic performance data, including number of judges and staff, number of cases (including by case type) and backlogs; iii) a work plan on benchmarking cases for workload measurement, including focusing on delays in case processing, and the types of cases where such delays are most acute. **[Q4-2011]**

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

- Government broadens the skills' base of court officials to whom court management tasks have been assigned through a continuous management training programme; **[Q1-2012]**
- Government opens access to the regulated profession of mediator to non-lawyers in line with the MoU conditionality on regulated professions. **[Q1-2012]**

- Government establishes a Task Force, which is broadly representative of the legal community, including independent representatives of the legal professions, to review the Code of Civil Procedure to bring it in line with international best practices on, *inter alia,* (i) case management, including the possibility of removing dormant cases from court registers, (ii) the execution of decisions and orders to pay, in particular small claims cases with a view to reducing the role of the judge in these procedures, and (iii) enforcing statutory deadlines for court processes, in particular for injunction procedures and debt enforcement and insolvency cases; **[Q2-2012]**

- Government evaluates the backlog reduction plan of tax cases in all administrative tribunals established in Q2-2011 and takes remedial action in case of deviations to achieve full clearance of the backlog by end-July 2013; **[Q3-2012]**
- By end-August 2012, Government presents, based on the study conducted jointly with an external body of experts, an action plan with specific targets for a reduction of the backlog of the cases of the remaining courts of at least 50 per cent by end-July 2013 and starts implementing the action plan. **[Q3-2012]**

- The taskforce on the review of the Code of Civil Procedure makes specific recommendations on (i) case management, (ii) the reduction of the role of the judge in the execution of decisions and orders to pay and (iii) on enforcing statutory deadlines for court processes. **[Q4-2012]**

5 TECHNICAL ASSISTANCE AND REFORM MONITORING

Government sets up a committee to oversee structural reforms, identify where more capacity and technical assistance are required. The committee will appoint project managers for each initiative to be carried out in the various areas (labour market reform, product and service market reform, investment promotion, and judicial reform), establishing clear lines of responsibility and accountability. The committee will also be responsible to develop, utilise, and publish monitoring indicators for each of the key structural reform initiatives, on a quarterly basis. **[July 2011]**

As a complement to the technical assistance provided by the European Commission and the IMF, Government will request resident long-term technical assistance to be provided by the EU Member States in priority areas, such as health and social security reforms (e.g. e-procurement, e-prescription and IT systems), state enterprises restructuring (e.g. performance reviews), growth-enhancing structural reforms (e.g. labour training), fiscal management (e.g. administrative reorganisation and expenditure monitoring) and taxation (e.g. anti-corruption reforms and audit techniques). **[Q3-2011]**

Annex 1: Additional fiscal measures for 2011 and Medium-Term Fiscal Strategy 2012-15

The additional measures for 2011 and the medium-term fiscal strategy (MTFS) through 2015 will include the following:

– **Cuts in wage bill by at least EUR 770 million in 2011, and additional EUR 600 million in 2012, EUR 448 million in 2013, EUR 306 million in 2014 and EUR 71 million in 2015**, through the implementation of attrition beyond the rule of 1 recruitment for 5 exits (1 for 10 in 2011); an increase in weekly working hours for public sector employees from 37.5 to 40 hours and reduction in overtime payments; reduction in the number of remunerated committees and councils; reduction in other additional compensation, allowances and bonus schemes; reduction in contractors (50 percent in 2011 and additional 10 percent in 2012 and onwards); temporary freeze of automatic progression; the implementation of a new remuneration grid; the introduction of part-time public sector employment and unpaid leave; a reduction in the number of admissions to military and policy academies, the transfer of excess staff to a labour reserve paid on average at 60 percent of their wage (excluding overtime and other extra payments) up to 12 months, and a cut in the productivity allowance by 50 percent.

– **Cuts in the state's operation expenditure by at least EUR 190 million in 2011, and additional EUR 92 million in 2012, EUR 161 million in 2013, EUR 323 million in 2014 and EUR 370 million in 2015**, through the implementation of e-procurement for all public procurement; rationalization of energy expenses by public services; reduction in rental expenses following more efficient use of public property; reduction of all telecommunication expenses, abolition of free distribution of newspapers; cuts in operational expenditure in the ordinary budget, across the board; implementation of benchmarks in public spending following a one-year full operation of MIS for the general government expenditure.

– **Cuts in extra-budgetary funds' expenses and transfer to other entities by at least EUR 540 million in 2011, and additional EUR 150 million in 2012, EUR 200 million in 2013, EUR 200 million in 2014 and EUR 150 million in 2015**, through the assessment of the mandate, viability and expenses of all entities subsidized by the public sector and their mergers and closure; merger/closure and reduction in subsidies to educational institutions (schools, higher education institutions); reduction in State grants to entities outside general government, and an action plan on closing, merging and downsizing entities.

– **Savings in state-owned enterprises by at least EUR 414 million in 2012, and additional EUR 329 million in 2013, EUR 297 million in 2014 and EUR 274 million in 2015**, through increase in revenue of OSE, OASA and other enterprises, the implementation of restructuring plans and privatisation in Hellenic Defence Systems, Hellenic Aeronautical Industry, Hellenic Horse Racing Corporation; sale of enterprises' assets associated with non-core activities; reduction in personnel expenses; reduction in operational expenses and mergers and closure of enterprises.

– **Cuts in operational defense-related expenditure by at least EUR 133 million in 2013 and additional EUR 133 million in 2014 and EUR 134 million in 2015 ,** on top of the reduction in military equipment procurement (deliveries) of EUR 830 million from 2010 to 2015.

– **Cuts in healthcare and pharmaceutical expenditure by at least EUR 310 million in 2011, and additional EUR 697 million in 2012, EUR 349 million in 2013, EUR 303 million in 2014 and EUR 463 million in 2015**, through the implementation of a new 'health map' and associated reduction in hospitals expenses; a re-evaluation of mandate and expenses of non-hospital supervised entities; the implementation of central procurement system; reduction of average cost per case through case mixing; reduction in the services provided to the non-insured (gate-keeping function); introduction of charges for services provided to foreign citizens; the operation of the National Organization for Primary Healthcare (EOPI); the scanning by IKA of hand-written prescriptions; the expansion of the list of pharmaceuticals that do not require prescriptions; new prices of medicines; the establishment of insurance price by social security sector and the full implementation of e-prescription.

– **Cuts in social benefits by at least EUR 1 188 million in 2011, and additional EUR 1 230 million in 2012, EUR 1 025 million in 2013, EUR 1 010 million in 2014 and EUR 700 million in 2015**, through an adjustment in supplementary pension schemes and subsequent freeze through 2015; a freeze in the base pensions; the reform of the disability pension system; a census of pensioners and cross-checking of personal data with full implementation of social security number and upper cap on pensions; a rationalization of criteria for pensioners (EKAS); a rationalisation of benefits and beneficiaries of OEE-OEK and OAED; cuts in the lump-sums paid on retirement; the cross-checking of personal data from introduction of ceilings for employers who can join OAED schemes; a reduction in the core pension of OGA and in the lower pension thresholds of other social security funds and tightening of criteria based on the permanent residence; reduction in expenses on social benefits though cross-checking of data; uniform regulation of health benefits for all social security funds; uniform contracts with private hospitals and medical centres; the review of social benefits in cash and in kind leading to the abolition of the least effective; an increase in the special pensioner contribution (Law 3863/2010) for pensioners whose monthly pension exceeds EUR 1 700; an increase in the special social contribution paid by pensioners below 60 years old with monthly pensions above EUR 1 700; the introduction of special tiered contribution for supplementary pensions above EUR 300 per month and reduction in transfers to NAT (sailors' pension scheme) and the OTE pension scheme with concomitant reduction in pension expenditure or increase in contributions from beneficiaries.

– **Cuts in state transfers to local governments by at least EUR 150 million in 2011, and additional EUR 355 million in 2012, EUR 345 million in 2013, EUR 350 million in 2014 and EUR 305 in 2015.** These reductions will be achieved primarily through cuts in expenses of local government equal to at least EUR 150 in 2011, and additional EUR 250 million in 2012, EUR 175 million in 2013, EUR 170 million in 2014 and EUR 160 in 2015. Additionally, local governments' own revenue will rise by at least EUR 105 million in 2012 and additional EUR 170 million in 2013, EUR 130 million in 2014 and EUR 145 million in 2015, through an increase in revenues from tolls, fees, rights and other revenue streams following the merging of local administrations, and an increase in local tax compliance following the introduction of a local tax clearance certificate requirement.

– **Cuts in expenditure by the public investment budget (domestically-financed public investment, and investment-related grants) and administrative costs by EUR 950 million in 2011**, of which EUR 350 million will be permanent, and additional EUR 154 million (administrative costs) in 2012.

– **Increases in taxes by at least EUR 2017 million in 2011, and additional EUR 3 678 million in 2012, EUR 156 million in 2013 and EUR 685 million in 2014**, through an increase in VAT rate on restaurants and bars from 13 to 23 percent from September 2011 on; increase in property taxes; reduction of income tax-free threshold to EUR 8 000 and establishment of a progressive solidarity contribution; increases in presumptive taxation and levies on self-employed; reduction of tax exemptions/expenditures; changes in tax regime for tobacco products with an accelerated payment of excise duty and in tax structure; an excise on soft drinks; excises on natural gas and liquefied gas; abolition of the tax advantage for heating oil (for enterprises from October 2011 on, and progressively for households from October 2011 to October 2013); an increase in the vehicles tax; an emergency contributions on vehicle, motorbikes and pools; increase fines of unauthorised buildings and settlement of planning infringements; the taxation on private boats and yachts; a special levy on high-value real estate; and special levy on smoking spaces.

– **Improvements in tax compliance by at least EUR 878 million in 2013, and additional EUR 975 million in 2014 and EUR 1147 million in 2015.**

– **Increases in social contributions by at least EUR 629 million in 2011, and additional EUR 259 million in 2012, EUR 714 million in 2013, EUR 1 139 million in 2014 and EUR 504 in 2015**, through the full implementation of a single unified payroll and insurance contribution payment method; an increase in contribution rates for OGA and ETAA beneficiaries; the establishment of OAEE beneficiary solidarity fund; the adjustment of unemployment contribution for private sector employees; the introduction of unemployment contribution for self-employed; and a contribution for unemployed paid the employees of the public sector, including state-owned enterprises, local government and other public entities.

If necessary, after consultation with the European Commission, ECB and IMF staff, these measures may be replaced with other measures yielding comparable or higher savings.

Annex 2: Terms of reference for the privatisation fund

The privatisation fund (national wealth fund) will have the following features:

Governance.

The fund will be established under Greek law for a period of 6 years, professionally run, and governed by a Board of Directors. Directors will be appointed by parliament, upon the proposal of the Minister of Finance for a renewable fixed term. The Board will be comprised of individuals known for their international expertise in the field and will be vested with broad powers to perform all acts of divestment and administration within the Fund's purpose and interest. The European Commission and the Eurogroup will have the right to appoint two observers in the Board of Directors. The fund may also establish an Advisory Board to allow it to benefit from international experience and technical expertise. Directors and staff of the fund will be indemnified for actions undertaken in the context of their official duties. Parliament will approve the acts of the Board of Directors and release them from liability, at least semi-annually.

Transparency.

The Board will, on a quarterly basis, publish a report on its activities, along with an audited report of its finances. The activity report will be submitted to parliament and will cover where each asset held stands in the transaction process.

Asset Transfer and Management.

Full legal and economic ownership of the assets to be privatized (including all rights attached to them such as voting rights) will be transferred to the fund in an irreversible manner. Neither the state nor the transferring entity will have any residual rights of ownership or otherwise over these assets without prejudice to the regulatory power of the state.

Mandate.

The fund will have a mandate to privatize these assets at prevailing market conditions as soon as technically feasible and in an open and transparent manner. The fund will not be able to transfer assets back to the general government unless the transaction has been completed (i.e. a concession or lease). The Ministry of Finance will retain the responsibility for any operating subsidies for the assets in question. If it is determined by the Board (on the advice of the fund’s panel of experts) that an asset cannot be sold, it will be unbundled and sold by the fund (with liquidation retained as an option). The fund will be provided with quarterly targets for proceeds to be transferred back to the government.

Operations.

The fund will finance its operations by an initial EUR 30 million capital injection by the state and subsequently from an appropriate portion of privatization proceeds (as determined by the Board in consultation with the advisory board). The fund will be entitled to hire advisors for each transaction to enable it to conduct its activities with sufficient flexibility. Advisors already hired for transactions by the Special Secretariat for Asset Restructuring and Privatizations (at the Ministry of Finance) will be retained and their mandates transferred. All advisors for transactions in 2011-12 will be appointed by end-June 2011.

Limits on borrowing.

The fund will be able to raise money, on market terms, including by discounting or selling revenue streams of specified assets (such as interests in concessions). The fund many not grant liens over any of its assets if this might prevent or delay the relevant assets from being privatized. Net proceeds generated as a result of money raising operations will be paid over to the State, as will net proceeds of other privatizations. Any borrowing would be coordinated with the Ministry of Finance and the PDMA.

Annex 3: Planned privatisation proceeds

By end of:		Privatization Receipts (€ Millions)
2011	Q2	390
	Q3	1700
	Q4	5000
2012	Q1	7000
	Q2	9000
	Q3	11000
	Q4	15000
2013	Q1	17000
	Q2	18000
	Q3	20000
	Q4	22000
2014		35000
2015		50000

Annex 4. 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

Preliminary monthly data on the state budget execution (including breakdown by main categories of revenue and expenditure and by line ministry). *(Data compiled by the Ministry of Finance)*	Monthly, 15 days after the end of each month; these data should also be included in subsequent transmissions in case of revision.
Updated monthly plans for the state budget execution for the remainder of the year, including breakdown by main categories of revenue and expenditure and by line ministry. *(Data compiled by the Ministry of Finance)*	Monthly, 30 days after the end of each month.
Preliminary monthly cash data on general government entities other than the state. *(Data compiled by the Ministry of Finance)*	Monthly, 30 days after the end of each month, these data should also be included in subsequent transmissions in case of revision.
Monthly data on the public wage bill (of general government, including a breakdown in nominal wage and allowances paid to government employees per line ministry and public entity), number of employees (including a breakdown per ministry and public entities outside the central government) and average wage (including the relative shares of the base wage, allowances and bonuses). *(Data compiled by the Ministries of Interior and Finance)*	Monthly, 30 days after the end of each month (starting in June 2010).

Monthly data on staff: number of employees, entries, exits, transfers among government entities; and from and into the labour reserve, per entity. *(Data compiled by the Ministries of Interior and Finance)*	Monthly, 30 days after the end of each month.
Weekly information on the Government's cash position with indication of sources and uses as well of number of days covered. *(Data compiled by the Ministry of Finance)*	Weekly on Friday, reporting on the previous Thursday.
Data on below-the-line financing for the general government. *(Data compiled by the Ministry of Finance)*	Monthly, no later than 15 days after the end of each month; these data should also be included in subsequent transmissions in case of revision.
Data on expenditure pending payment (including arrears) of the general government, including the State, local government, social security, hospitals and legal entities. *(Data compiled by the Ministry of Finance on the basis of basic data from the several line ministries)*	Quarterly, within 55 days after the end of each quarter.
Data on use of international assistance loans split among following categories: Financial stability fund, escrow account, debt redemption, interest payments, other fiscal needs, building of cash buffer; per quarter and cumulative	Quarterly, by the end of each quarter

Data on public debt and new guarantees issued by the general government to public enterprises and the private sector. Data on maturing debt (planned redemptions per month, split between short-term (Treasury bills and other short-term debt) and long-term (bonds and other long-term) debt). Data on planned monthly interest outflows. *(Data compiled by the Ministry of Finance)*	Monthly, within one month.
Data on assets privatised and proceeds collected. *(Data compiled by the Ministry of Finance)*	Quarterly
Data on debt redeemed with privatisation proceeds. *(Data compiled by the Debt Management Office)*	Monthly, by the end of each month
Data on public enterprises: revenue, costs, payroll, number of employees and liabilities (including maturities of public enterprises' debts) *(Data compiled by the Ministry of Finance)*	Monthly, within three weeks of the end of each month for the ten largest enterprises. Quarterly within three weeks of the end of each quarter for the other enterprises. Quarterly for the maturities of public enterprises' liabilities.
Monthly statement of the transactions through off-budget accounts. *(Data compiled by the Ministries of Finance and Education)*	Monthly, at the end of each month.

Monthly statement of the operations on the special accounts. *(Data compiled by the Ministry of Finance)*	Monthly, at the end of each month.
Report on progress with fulfilment of policy conditionality. *(Report prepared by the Ministry of Finance)*	Quarterly before the respective review starts.
Monthly data on healthcare expenditure by the social security funds with a lag of three weeks after the end of the respective quarter. *(Data compiled by the Ministries of Labour and Health)*	Monthly, within three weeks of the end of each month. Starting with data for January 2011 for IKA, OAEE, OGA and OPAD, and from April 2011 on for the other funds

To be provided by the Bank of Greece

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

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

To be provided by the Hellenic Financial Stability Fund

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

INTERNATIONAL MONETARY FUND

GREECE

Greece—Fourth Review Under the Stand-By Arrangement and Request for Modification and Waiver of Applicability of Performance Criteria—Supplement and Request for Waiver of Non-Observance of Performance Criterion, and Supplementary Letter of Intent

Prepared by European Department in Consultation with other Departments

Approved by Antonio Borges and Lorenzo Giorgianni

July 8, 2011

1. **On July 7, the Greek authorities informed the Fund staff that they had just become aware of external payment arrears in two general government entities**. Arrears in an amount of about €6 million have accumulated during 2010–11. There is also a stock from the pre-2010 period amounting to about €3 million. The arrears relate to loans contracted by two municipalities.

2. **The authorities are taking steps to address this issue**. On July 8th, the arrears of one municipality—amounting to €4.2 million—were paid down. In the other case, the authorities indicate that the Court of Auditors has raised questions about whether certain ex ante examination requirements were observed, which has impeded the ability of the municipality to repay the loan or to pay interest on it. The authorities are addressing the issue and have committed to resolve the situation in the near future.

3. **The authorities have requested a waiver of nonobservance of the continuous performance criterion on non-accumulation of external payment arrears specified in paragraph 3(b)(1) of the Stand-by Arrangement for Greece.** Staff supports this request. The amounts involved are not large and appear to be minor, and the authorities have taken rapid action to address the situation.

ANNEX I. GREECE—LETTER OF INTENT

Athens, July 8, 2011

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

Dear Ms. Lagarde:

It has come to our attention that two Greek general government entities have accumulated external payment arrears, including over the period of the Stand-By Arrangement (since May 5, 2010). We have provided this information to Fund staff as soon as we received it. The possible total amount is €6 million. There is a further pre-2010 stock of about €3 million. We have reviewed all available information concerning external payments in general government entities and have no indication of any arrears elsewhere.

We request a waiver of non-observance for the continuous program quantitative performance criterion on no new accumulation of external arrears. On July 8, they have taken corrective steps, and one of the two general government entities repaid in full their arrears (in an amount of €4.7 million). In the other case there is a procedural issue that we expect to overcome soon. We consider this deviation to be minor, and are committed to fully meet program targets going forward.

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

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

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

Press Release No. 11/273
FOR IMMEDIATE RELEASE
July 8, 2011

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Fourth Review Under Stand-By Arrangement for Greece and Approves €3.2 Billion Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the fourth 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 2.9 billion (about €3.2 billion), bringing total Fund disbursements under the SBA to an amount equivalent to SDR 15.6 billion (about €17.4 billion).

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

Greece's economic adjustment program has continued to make some progress toward its objectives. The economy is rebalancing and competitiveness is gradually improving, and a return to positive economic growth is projected for the first half of 2012. Greece has specified the policies necessary to overcome recent fiscal adjustment and structural reform implementation problems, which should allow the country to make further progress toward program objectives in the period ahead.

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

"The program is delivering important results: the fiscal deficit is being reduced, the economy is rebalancing, and competitiveness is gradually improving. However, with many important structural reforms still to be implemented, significant policy challenges remain. A durable fiscal adjustment is needed, lest the deficit get entrenched at an unsustainably high level, and productivity-enhancing reforms should be accelerated, lest growth fail to recover.

"The authorities have made progress in the fiscal area. A new medium-term strategy was approved, defining the measures required to reduce the general government deficit below 3 percent of GDP by 2014. The strategy confronts difficult issues, including the generous terms of public sector employment, the possibility to close inefficient public entities, and tax evasion. Steadfast and timely implementation will be crucial, together with complementary institutional reforms improving revenue administration and public financial management.

"The government's privatization strategy is a critical step toward boosting investment and growth and reducing Greece's high debt burden. While the target of selling €50 billion of state assets by 2015 is very ambitious, the establishment of an independent privatization agency should help realize transparent and timely implementation.

"To strengthen Greece's competitiveness, structural reform implementation needs to be accelerated. This will help achieve synergies, such as between privatization and reducing administrative barriers to investment. The reform agenda should be expanded to address Greece's high labor tax wedge and inefficient judicial system.

"To preserve financial sector stability, banks' capital buffers need to be raised, and an adequate support and resolution framework should be put in place. Continued liquidity support from the ECB remains critical to manage liquidity needs.

"Greece's debt sustainability hinges critically on timely and vigorous implementation of the adjustment program, with no margin for slippage, and continued support from European partners and private sector involvement," Ms. Lagarde said.

Statement by Mr. Panagiotis Roumeliotis, Alternate Executive Director for Greece
July 8, 2011

We thank staff for the comprehensive report on the fourth review under Greece's Stand-By Arrangement (SBA).

Although the authorities succeeded in bringing the deficit down by 5 percentage points in 2010, it remained above 10 percent of GDP, while public debt is approaching 150 percent of GDP. Against a deteriorated market sentiment, the government reaffirmed its strong determination to bring fiscal policy back to a sustainable position. As a demonstration of such a determination, all the fiscal performance criteria for end-March 2011 were met.

Going ahead, the government is firmly decided to achieve a 7½ percent of GDP general government deficit for 2011(on an ESA 95 basis) to pave the way for an overall deficit reduction to below 3 percent of GDP by 2014; and a decline of the debt-to-GDP ratio will begin in 2013. In order to achieve such ambitious targets, a far-reaching multipronged strategy was recently approved, based on revenues strengthening measures, spending rationalization and institutional reforms as well as an enhanced privatization strategy.

The Medium-Term Fiscal Strategy (MTFS), and the related implementation law, is a groundbreaking plan that reinforces the fiscal consolidation effort already in motion, while laying out a detailed strategy of ambitious measures amounting to 10.4 percent of GDP for the period 2011-14, with euro 6.5 billion (3.0 percent of GDP) frontloaded in 2011. With a view to enhancing and locking-in the fiscal consolidation efforts, the government will identify and rapidly implement significant fiscal policy reforms, both in the area of revenues and expenditures.

In parallel, the government reaffirmed its commitment to a comprehensive privatization plan, specifying assets, amounting to euro 50 billion by end-2015, and the institutional framework needed to implement this ambitious strategy.

Against a background of continued weaknesses in the banking sector, the authorities are also committed to supporting sufficient liquidity to the banking system and will reinforce measures aimed at safeguarding financial stability.

With the objective of contributing to improving Greece's competitiveness, the authorities will build on the recent outcomes in several key areas and accelerate the implementation of structural reforms aimed at promoting employment, investment, and market efficiency.

Economic Outlook

According to revised estimates published by ELSTAT, GDP declined by 4.4 percent in 2010 on account of a deep recession, which is still reflected in the GDP figures for 2011Q1, when activity increased only marginally (0.2 percent) quarter-on-quarter (q-o-q). According to the last European Commission projections, GDP's contraction is expected to continue throughout 2011, with a decrease of 3.5 percent, and a moderate upturn of 1.1 percent is envisaged in 2012.

While manufacturing production is still contracting, at 7.4 percent year-on-year (y-o-y) in 2011Q1, industrial turnover and industrial new orders suggest a somewhat rosier picture, rising by 9.9 and 3.9 percent y-o-y in 2011Q1, respectively.

Total employment is on a downward trend, with a reduction of 5.4 percent in March 2011, while the unemployment rate has reached 16.2 percent in the same period.

According to the Bank of Greece's (BoG) figures, in 2010 inflation was increasing, reaching an average of 4.7 percent, on the heels of the impact of indirect taxation hikes (estimated at 3.3 percentage points). However, after peaking in December 2010, inflation started plummeting to 3.1 percent in May 2011 as the effects of the tax increases dissipated. According to BoG's projections, inflation will slow down to 3.2 percent and 1.7 percent in 2011 and 2012, respectively.

In January-April 2011 the current account deficit shrank by 23.4 percent y-o-y, mainly as a consequence of a substantial increase in transfers to the general government, a fall in the non-fuel import bill (by 12 percent), and an increase in exports' goods receipts (by 22 percent). According to the BoG's projections, which are more conservative than those made by staff, the current account deficit may fall below 9½ percent of GDP in 2011 and below 8½ percent in 2012.

It is finally estimated by the BoG that competitiveness is improving and unit labor cost growth in total economy turned negative (-3.0 percent) in 2010. This trend is also expected to continue in 2011, when unit labor costs are projected to further contract by 2.9 percent, reflecting the projected sharp reduction in the wage bill of public enterprises and the effects of new labor market legislation. Such developments would help boost external competitiveness.

Fiscal Policy

According to Eurostat figures published on April 26th, the 2010 general government deficit was 10½ percent of GDP, markedly down from 15.4 percent in 2009.

Nevertheless, in 2010 the deficit turned out higher than projected (9.4 percent) because of the joint effect of several factors: lower-than-expected tax revenues, owing to GDP dynamics more subdued than envisaged; deteriorated fiscal balances of local governments and social security funds, reflecting past debt repayments and increases in unemployment benefits respectively; and the worsening in the financial performance of public hospitals.

According to the Ministry of Finance's figures, for the period January–May 2011, the state deficit amounted to euro 10,275 million on an accrual basis, slightly higher than previously envisaged (euro 9,072 million set in the 2011 budget), reflecting a revenue underperformance that outpaced significant expenditure cuts' over-performance. The revenue shortfall can be mainly attributed to the larger-than-projected recession in the last quarter of 2010, lower receipts from vehicle's circulation fees, withholding personal income tax in 2011 as a result of the new tax law, and the increase of refunds for the settlement of past years' obligations.

In order to meet the deficit target for 2011 (7½ percent of GDP), the government decided to frontload a significant part of the recently approved MTFS. The MTFS is a longer-term, broadly-based fiscal plan, which aims to rein in the fiscal policy and encompasses both revenue-enhancing and expenditure-plummeting measures, while improving the core of social safety nets. In particular, it envisages a substantial reduction of public employees, a pension and health sector reform, the rationalization of non-essential public agencies, adjustments in public employees' compensation, and streamlining and better targeting social benefits.

The envisaged upsurge of total revenue is expected from increases in direct and indirect taxes, including by the elimination of special tax regimes, as well as in social contribution. Stringent measures to fight tax evasion are also expected to raise receipts.

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

Finally, the MTFS includes an ambitious privatization program amounting to euro 50 billion that aims at reducing Greece's public debt, attracting know-how and capital into critical sectors of the Greek economy, boosting investment and growth, as well as alleviating fiscal costs. In order to further strengthen the authorities' commitment to implementing the program, the privatization timeline will be supported by quarterly performance criteria. In this context, intermediate targets are set for end-2011, with overall privatization proceeds of euro 5 billion, and for end-2012, with privatization proceeds totaling euro 15 billion. To implement the privatization strategy, the authorities will establish a Privatization Agency (the National Wealth Fund) where assets for privatization will be placed. The Fund will become the sole shareholder of transferred assets, with a mandate to privatize them at prevailing market conditions, and will not be able to transfer assets back to the government unless the transaction is completed. The Board of Directors of the Fund will be appointed by Parliament, and at the same time the European Commission and the Eurogroup may appoint two observers.

Financial Sector Policies

The banking sector remains under pressure as a consequence of deposits outflows, with credit and liquidity conditions still tight, while asset quality and profitability are decreasing. Banks' capital has been affected by the impact of the recession through a deterioration of the loans' quality; however, systemic problems have been avoided thanks to the expansion of a government program of guarantees for uncovered bank bonds and the exceptional liquidity support provided by the ECB.

Against this background, Parliament has passed the legislation for a euro 30 billion expansion of the government program guarantees for uncovered bank bonds. In May, legislation was also passed permitting the Ministry of Finance to guarantee the BoG's financial exposure from support provided to credit institutions. Looking forward, the authorities will continue to take all of the necessary measures to safeguard financial stability, and are committed to preserving sufficient system liquidity, in consultation with the ECB. In particular, banks will be required to maintain an adequate capital buffer (Core Tier 1 capital of 10 percent) starting from the beginning of 2012. On its part, the authorities are in the process of revising the Financial Stability Fund, including its funding, and the banking resolution framework, while supervision capacity is being strengthened and inter-agency coordination is being stepped up. Finally, all state banks have been included in the government's strengthened privatization program.