IMF Country Report No. 17/229

GREECE

July 2017

REQUEST FOR STAND-BY ARRANGEMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR GREECE

In the context of the request for Stand-By Arrangement, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on July 20, 2017, following discussions that ended on May 2, 2017, with the officials of Greece on economic developments and policies underpinning the IMF arrangement under the Stand-By Arrangement. Based on information available at the time of these discussions, the staff report was completed on July 7, 2017.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Greece.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Greece*
Technical Memorandum of Understanding*
*Also included in Staff Report

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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Press Release No. 17/294
FOR IMMEDIATE RELEASE
July 20, 2017

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Washington, D.C. 20431 USA

IMF Executive Board Approves in Principle €1.6 Billion Stand-By Arrangement for Greece

The Executive Board of the International Monetary Fund (IMF) today approved in principle an SDR 1.3 billion (about €1.6 billion, or US$1.8 billion, 55 percent of quota) precautionary Stand-By Arrangement (SBA) for Greece.

The arrangement, which supports the authorities' economic adjustment program, has been approved *in principle*, which means it will become effective only after the Fund receives specific and credible assurances from Greece's European partners to ensure debt sustainability, and provided that Greece's economic program remains on track. A second Executive Board decision is needed to make the arrangement effective. The arrangement will expire on August 31, 2018, shortly after the expiration of the European Stability Mechanism program.

Following the Executive Board's discussion, IMF Managing Director and Chair of the Executive Board, Christine Lagarde said in a statement:

"I strongly welcome Greece's new economic adjustment program, which focuses on policies that will help restore medium-term macroeconomic stability and growth, and supports the authorities' efforts to return to market financing on a sustainable basis. The program provides both breathing space to mobilize support for the deeper structural reforms that Greece needs to prosper within the euro area, and a framework for Greece's European partners to deliver further debt relief to restore Greece's debt sustainability.

"The newly-legislated measures broadening the income-tax base and reforming pension spending are critical to rebalancing the budget toward more growth-friendly policies. In the medium run, they will help achieve an ambitious primary surplus target of 3.5 percent of GDP. However, this target should be reduced to a more sustainable level of 1.5 percent of GDP as soon as possible, to create fiscal space for better targeting social assistance, stimulating public investment, and lowering tax rates to support growth. Protecting vulnerable groups, while maintaining fiscal soundness, is key to preserving the sustainability and fairness of Greece's adjustment effort.

"Rehabilitating the financial sector is essential to restoring credit and fostering growth. The new program will support efforts to reduce Greece's exceptionally high non-performing loans by strengthening the debt restructuring legal framework. Moreover, to safeguard the banking sector's soundness and facilitate the rapid relaxation of capital controls, the supervisory authorities should take additional steps, including undertaking an updated asset quality review and stress test, to ensure that banks are adequately capitalized before the end of the program.

"Despite progress on the structural front, Greece's overarching challenge remains the liberalization of restrictions that impair its investment climate. Thus, the authorities should reconsider their plans to reverse cornerstone collective-bargaining reforms after the end of the program, and should instead focus on redoubling efforts to open up still protected product and service markets, so as to facilitate investment and create new jobs. They should also redouble efforts to protect the credibility of the statistical agency and guarantee its independence.

"As we have said many times, even with full program implementation, Greece will not be able to restore debt sustainability and needs further debt relief from its European partners. A debt strategy anchored in more realistic assumptions needs to be agreed. I expect a plan to restore debt sustainability to be agreed soon between Greece and its European partners. Effectiveness of the new Stand-By Arrangement is contingent on this agreement on debt relief, as well as implementation of the program."

ANNEX

Recent Economic Developments

GDP was flat in the last three years. The economy has stabilized after a crisis of confidence in 2015, but economic uncertainty, limited access to financing, record-high non-performing loans, and remaining capital controls are holding back investment.

Growth resumed modestly in the first quarter of 2017, on the back of resilient consumption and an inventory buildup. The labor market has recovered gradually, although mainly due to an increase in part-time employment. Poverty and inequality remain among the highest in the euro area.

The primary fiscal balance was in surplus in the last two years, supported by ongoing fiscal consolidation. Last year, the surplus exceeded the authorities' fiscal target by a large margin, owing to additional spending compression relative to budget, better-than-expected wage and profit outturns, and also large one-off factors. This year, the cumulative primary balance outturn through May 2017 is lower than a year ago, due to lower tax revenues and EU investment-related transfers.

Program Summary

The Greek authorities' economic program is narrowly focused on policies that can help restore macroeconomic stability in the medium run and facilitate market access. It seeks thereby to provide breathing space to mobilize broad political support for the deeper structural reforms needed for Greece to liberalize its economy and prosper within the euro area in the long run. The program will also provide a framework for Greece's European partners to deliver debt relief to restore Greece's debt sustainability.

Fiscal policy: The program focuses on rebalancing the budget toward more growth-friendly and socially-inclusive policies in the long run. A package of income tax and pension reforms—aimed at reducing exceptionally generous tax exemptions for the middle classes and unaffordably high pension spending—has been legislated upfront and will be implemented once the output gap narrows. These measures help support the authorities' ambitious medium-term primary surplus target of 3.5 percent of GDP agreed with the European partners for 2019-22. After 2022, the surplus target is expected to be lowered—the level remains to be agreed in the context of debt discussions—and the resultant fiscal space be used to bolster Greece's social safety net, boost public investment, and lower taxes to support jobs and growth

Financial sector reforms: The financial sector strategy is narrowly focused on creating the conditions for addressing high non-performing loans by strengthening and implementing the legal framework for debt restructuring. The authorities are committed to relaxing capital controls rapidly but prudently, while safeguarding financial stability.

Structural reforms: In addition to preserving the cornerstone labor market reforms during the program period, the program supports a reform of collective dismissals and implementation steps for ongoing reforms fostering competition, liberalizing Sunday trade and select closed professions, and facilitating investment.

Debt relief: Greece's debt remains unsustainable. Further discussions are needed to converge on a strategy based on realistic assumptions and on a broadened scope for debt relief to restore Greece's debt sustainability.

Growth Expectations

Predicated on full implementation of the reforms above, output is projected to rebound strongly over the medium term. It is projected to grow by 2.1 percent this year and 2.6 percent next year, on the back of continued resilient private consumption and a recovery of investment from low levels, supported by EU funds and improved confidence. Over the long run, growth is expected to converge to its potential steady-state rate of 1 percent, driven by the effects of continued structural reforms required to overcome the negative impact of population aging.

Additional Background

Greece became a member of the IMF on December 27, 1945, and has a quota of SDR 2.4 billion (about €3.0 billion, or US$3.4 billion).

For additional background on the IMF and Greece, see:
http://www.imf.org/external/country/GRC/index.htm

Greece: Selected Economic Indicators 1/

Population (millions of people)	10.8	Per capita GDP (€'000)	16.3
IMF quota (millions of SDRs)	2,428.9	Literacy rate (percent)	97.5
(Percent of total)	0.51	Poverty rate (percent)	35.7

Main products and exports: tourism services; shipping services; food and beverages; industrial products; petroleum products; chemical products.
Key export markets: E.U. (Italy, Germany, Bulgaria, Cyprus, U. K.), Turkey, U.S.

	2015	2016	2017	2018	2019	2020	2021	2022
						(est.)	(proj.)	
Output								
Real GDP growth (percent)	-0.2	0.0	2.1	2.6	1.9	1.9	1.8	1.0
Employment								
Unemployment rate (percent)	24.9	23.6	22.3	20.7	19.5	18.4	17.8	17.1
Prices								
CPI inflation (period avg., percent)	-1.1	0.0	1.2	1.3	1.4	1.6	1.7	1.7
General government finances (percent of GDP)								
Revenue	48.2	50.0	48.4	46.8	46.7	46.1	45.2	45.0
Expenditure	51.3	49.2	50.1	47.7	46.3	45.9	45.1	45.2
Fiscal overall balance	-3.1	0.8	-1.7	-0.9	0.4	0.2	0.1	-0.2
Fiscal primary balance	0.5	4.2	1.7	2.2	3.5	3.5	3.5	3.5
Public debt	179.4	181.6	178.8	183.2	176.5	170.0	163.9	159.5
Money and credit								
Broad money (percent change)	-17.8	2.2	...	...	...	...	...	...
Credit to private sector (percent change)	-3.6	-4.5	...	...	...	...	...	...
3-month T-bill rate (percent)	4.5	3.1	...	...	...	...	...	...
Balance of payments								
Current account (percent of GDP)	0.1	-0.6	-0.3	-0.1	-0.1	-0.1	0.1	0.0
FDI (percent of GDP)	0.5	-1.9	-1.6	-1.3	-1.7	-1.7	-1.7	-1.7
Reserves (months of imports)	-1.3	-1.5	-1.5	-1.4	-1.3	-1.3	-1.2	-1.2
External debt (percent of GDP)	251.1	245.8	240.1	234.0	228.7	223.1	217.5	214.5
Exchange rate								
REER (percent change)	-4.9	0.6	-0.4	-0.4	-0.4	-0.2	-0.4	-2.1

Sources: Elstat; Ministry of Finance; Bank of Greece; World Bank, World Development Indicators; IMF, International Finance Statistics; IMF, Direction of Trade Statistics; and IMF staff projections.

1/ Data according to ESA-2010 methodology.

GREECE

REQUEST FOR STAND-BY ARRANGEMENT

July 7, 2017

KEY ISSUES

Fund-supported arrangement: The Greek authorities have requested a precautionary Stand-By Arrangement in an amount of SDR 1.3 billion (55 percent of quota, about €1.6 billion). Unutilized resources under the European Stability Mechanism (ESM)-supported program amount to €54 billion. The arrangement is proposed to be approved in principle, to become effective once specific and credible assurances on debt relief are received from Greece's European partners to restore debt sustainability, and to expire on August 31, 2018, shortly after the expiration of the ESM program.

Context: The new arrangement follows a previous extended arrangement, which was cancelled in January 2016, after being off track since late 2014. Following a period of reform reversals in early 2015, Greece reinvigorated the reform agenda supported by a new ESM program, by legislating reforms to strengthen the public finances and the banking sector, but structural reforms to liberalize the economy have continued to lag. While fiscal efforts helped generate a significant primary surplus last year, growth has remained elusive, reflecting in part a growth-unfriendly structure of the public finances, impaired bank and private sector balance sheets, structural impediments to growth, and an unsustainable public debt.

Main elements of the program: The program will be narrowly focused on policies that can help restore macroeconomic stability in the medium run and facilitate market access. It seeks thereby to provide breathing space to mobilize broad political support for the deeper structural reforms needed for Greece to liberalize its economy and prosper within the euro area in the long run. The program will also provide a framework for Greece's European partners to deliver debt relief to restore Greece's debt sustainability.

- ***Fiscal policy***: Policies are focused on rebalancing the budget toward more growth friendly and socially-inclusive policies in the long run. A package of income tax and pension reforms—aimed at reducing exceptionally generous tax exemptions for the middle classes and un-affordably high pension spending—has been legislated upfront but will be implemented once the output gap narrows. These measures will help support the authorities' ambitious medium-term primary surplus target of 3.5 percent of GDP agreed with the European partners for 2019-22. After 2022, staff considers that the surplus should be allowed to decline to 1.5 percent of GDP, and the resultant fiscal space be used to bolster Greece's social safety net, boost public investment, and lower taxes to support jobs and growth. At this time, Greece's European partners expect a more ambitious long-run primary surplus. This issue remains to be resolved in the context of debt discussions. Fiscal structural reforms will complement the budget rebalancing by fighting tax evasion and strengthening the public administration, as well as protecting vulnerable groups through a well-targeted and modern safety net.

- ***Financial sector***: Reforms are narrowly focused on creating the conditions for addressing high non-performing loans (NPLs) by strengthening and implementing the legal framework for debt restructuring. But cleaning up bank balance sheets and restoring credit growth may take significant time, and staff is concerned that the financial sector strategy relies on excessively optimistic assumptions about banks' ability to grow out of their NPL problems. Thus, it is critical that the supervisory authorities strengthen supervisory action to incentivize NPL reductions and complete an asset quality review to ensure that the banks are adequately capitalized before end-program. Such actions are also key to support the relaxation of capital controls rapidly but prudently by the end of the program, while safeguarding financial stability.

- ***Structural reforms***: In addition to preserving cornerstone labor market reforms during the program period, the program supports a reform of collective dismissals and implementation steps for ongoing reforms fostering competition, liberalizing Sunday trade and select closed professions, and facilitating investment. Still, reforms to open and liberalize the economy are not progressing at a speed commensurate with the formidable obstacles to a sustained improvement in the investment climate. Mobilizing broad political support for such reforms remains the unresolved challenge facing Greece if it is to prosper in the euro zone.

- ***Debt relief:*** Greece's debt remains unsustainable. While differences of view between staff and Greece's European partners have narrowed, staff believes that a debt-reduction strategy that is based on maintaining unprecedentedly high primary surpluses or output growth rates for extended periods is not credible, even with full implementation of planned policies. Thus, further discussions are needed to converge on a strategy based on realistic assumptions and on a broadened scope for debt relief to restore Greece's debt sustainability.

Approved By
Philip Gerson and Hugh Bredenkamp

Discussions were held during July 2015-May 2017. The missions met with the Minister of Finance, Governor of the Bank of Greece, other cabinet ministers, and staff in these and other ministries. The missions also met with private banks and other private sector representatives. The staff team comprised, at various times, D. Velculescu (head), I. Petrova, J. Bersch, E. Flores, A. Kangur, D. Kim, N. Novikova, P. Lopez-Murphy, A. Roitman, S. Saksonovs (all EUR), H. Jin, I. Razafimahefa (FAD), O. Frecaut, D. Monaghan, O. Wuensch, J. Yoo (MCM), W. Bergthaler, C. Claver, C. El Khoury, J. Garrido, A. Rosha (LEG), R. Perrelli, C. Saborowski (SPR), and V. Karolova (STA). D. Botman, W. McGrew, S. Eble, G. Gatopoulos, N. Kalavrezou, M. Kalimeri (IMF, resident representative office) assisted the mission. S. Chen, E. Rojas and J. Yang (EUR) assisted from headquarters. M. Psalidopoulos (OED) participated in some meetings.

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CONTEXT AND RECENT DEVELOPMENTS

1. **The Greek authorities have requested a new precautionary Stand-By Arrangement from the IMF until August 31, 2018.** The new program will succeed the extended arrangement, which was cancelled in January 2016, after being off track since late 2014 (with only 5 of 16 planned reviews completed). The EFF-supported program made progress with fiscal policies that helped bring the primary surplus roughly to balance and with labor market reforms that helped close Greece's wage competitiveness gap with trading partners. However, other structural reforms aimed at liberalizing the economy lagged, reflecting increasing reform fatigue in the face of large social costs and weak ownership, which were exacerbated by continued political uncertainty. In part because a number of reforms supported by the EFF program were reversed in early 2015, the program fell short of achieving its objectives to restore growth, fiscal sustainability, and financial stability.[1] Indeed, growth has been stagnant since 2014, public debt has continued to rise, peaking at about 180 percent of GDP in 2016, and the banking sector experienced a crisis in 2015, which required the introduction of capital controls that are still in place.

2. **The new arrangement will complement the program supported by the ESM.** Greece secured fresh official support from the ESM amounting to up to €86 billion in August 2015. In return, the authorities halted the reform reversals and legislated an important fiscal package (e.g. VAT, pension, income tax measures), coupled with reforms to set up an autonomous revenue agency and a modern minimum income scheme to protect vulnerable groups. They also recapitalized the large banks and adopted legislation to strengthen the insolvency framework and enable a market for NPL sales and servicing (Box 1). However, broader structural reforms continued to lag. While the authorities initially achieved wide political backing for their reform agenda, support subsequently waned. To date, only two out of seven planned reviews have been completed.

3. **As noted in the recently concluded 2016 Article IV Consultation Staff Report, Greece continues to face fundamental challenges**:[2]

- **The fiscal policy mix is unsustainable**. Policy is characterized by high tax rates applied to narrow bases (with exemptions relieving more than half of wage earners from paying personal income tax), by an unsustainable compression of discretionary spending, and by an unaffordable pension system (whose deficit is four times the euro area average) that limit the government's ability to protect vulnerable groups.
- **Public sector institutions are ineffective.** In particular, the authorities have been unable to enforce tax collections (collection rates relative to assessed obligations have dropped from over 70 percent in 2010 to around 46 percent by end-2016) and thus have not managed to prevent an increase in tax and social security contribution debt to about 65 percent of GDP

[1] See IMF (2017c).

[2] See IMF (2017a).

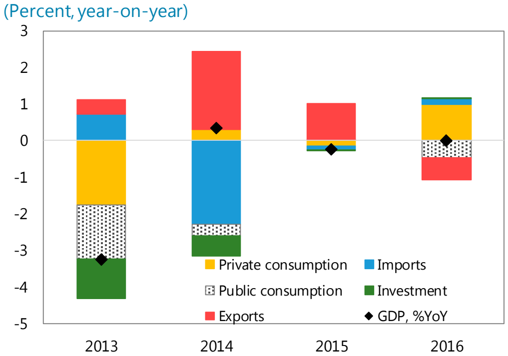
at end-March 2017, the highest level in the euro area.[3] At the same time, the government's domestic arrears with its suppliers and unprocessed claims total over €7 billion (4 percent of GDP) at end-April 2017. These developments are reinforcing the already-weak payment culture.

- **Bank balance sheets are weak,** featuring the highest non-performing loan (NPL) ratio in the euro area (49 percent at end-March 2017), low quality bank capital (over half of which is comprised of deferred tax assets) despite three rounds of recapitalizations, and a tight liquidity situation, requiring continued reliance on ELA. These weaknesses are evident in a continued lack of depositor confidence, which has required keeping capital controls in place, and in a compression of credit, which has declined for eight years in a row.

- **Obstacles to growth are pervasive**, reflecting insufficient progress in opening the economy. The lack of ambitious product market reforms has hampered the price adjustment needed to restore external competitiveness within the currency union, leaving the burden of adjustment on wages, which in turn ratcheted up resistance to reforms and led to pressures to unwind key labor market measures.

4. Growth has thus remained elusive (Figure 1)**.** GDP was flat in the last three years, while poverty and inequality have remained among the highest in the euro area.[4] In 2016, a nascent recovery supported by private consumption growth sputtered in the latter part of the year, largely owing to public sector spending compression, weak export performance, and economic uncertainty due to the inability to complete the ongoing ESM review. Growth resumed modestly in the first quarter of 2017 on the back of resilient consumption and a buildup of inventories. The labor market has recovered only gradually, with a modest decline in unemployment supported by higher part-time employment growth; however, the share of long-term unemployed remains close to 60 percent of the total. Harmonized consumer prices stabilized in 2016, but increased by 1.2 percent in May 2017, driven by oil price and indirect tax increases.

Greece: Contributions to Real GDP Growth, 2013–2016
(Percent, year-on-year)



Sources: ELSTAT; Haver Analytics; and IMF staff calculations.

[3] See IMF (2017b), "Addressing the Burden of Tax and Social Security Debt." The tax collection rate is defined as the ratio of collected to assessed obligations, and includes taxes, penalties, and fines, the latter of which are largely uncollectible, pointing to an ineffective tax administration.

[4] See IMF (2017b), which highlighted that inequality and poverty have increased during the crisis, as wage-earners and the unemployed suffered the brunt of the adjustment, while better-off groups were protected.

5. The primary fiscal surplus, however, overperformed expectations, reaching 4.2 percent of GDP last year. The ongoing fiscal consolidation, additional spending compression beyond what had been budgeted, and several one-offs helped to produce one of the highest primary surpluses on record for Greece, well above the ESM program target of 0.5 percent of GDP. Structural measures (including due to VAT and income tax rate increases) contributed an estimated 1½ percent of GDP to the surplus, with the rest due to one-off revenues from SOE liquidations, stockpiling in anticipation of tax hikes, tax offsets related to arrears clearance with ESM funds, and, to some extent, also better-than-expected wage and profit outturns in 2015-16. The large role of temporary factors means this significant overperformance is unlikely to be sustained. Indeed, the outturns through May 2017 point to a decline in tax revenues despite legislated increases in the top VAT rate and in excise and consumption taxes (Figure 2). Other revenues also declined due to lower EU investment-related transfers, while pension spending fell due to measures that came into effect.

Greece: General Government Operations (ESA 2010)

(Accrual basis, percent GDP)

	2015	2016	Δ 2016
Revenue	**48.2**	**50.0**	**1.8**
Taxes	25.8	27.4	1.6
Social Contributions	13.9	14.2	0.3
Capital Revenue	3.0	1.8	-1.2
Other 1/	5.5	6.6	1.1
Expenditure	**47.7**	**45.8**	**-1.9**
Wages	12.3	12.3	0.0
Social Benefits	22.2	22.3	0.1
Intermediate Consumption	4.9	4.7	-0.2
Investment 1/	4.7	3.5	-1.2
Other 2/	3.6	3.0	-0.6
Primary Balance	**0.5**	**4.2**	**3.6**

Sources: Eurostat; and IMF staff estimates.
1/ Includes changes in inventories and acquisitions less disposals of valuables.
2/ Includes program adjustors.

Greece: General Government Fiscal Performance

(Cash basis; percent of 2016 GDP)

	Jan - May 2016	Jan - May 2017	Difference
Revenues	**16.7**	**15.9**	**-0.9**
Taxes	9.6	9.3	-0.3
Social Contributions	4.4	4.8	0.4
Other 1/	2.8	1.8	-1.0
Expenditure	**15.5**	**15.3**	**-0.2**
Social Benefits	9.0	8.7	-0.3
Other	6.6	6.7	0.1
Primary Balance	**1.2**	**0.5**	**-0.7**

Sources: Ministry of Finance; and IMF staff calculations.
1/ Excluding privatization and ANFA revenue.

PROGRAM STRATEGY

6. The new Fund-supported program will focus on policies that can help restore macroeconomic stability in the medium run, while protecting vulnerable groups. The program will be centered on fiscal reforms to improve the policy mix and facilitate a more growth-friendly and socially-inclusive budget. It will also help advance reforms to improve fiscal institutions, strengthen the legal framework to deal with NPLs, and liberalize product markets, while supporting the continuation of key collective bargaining reforms during the program period. These reforms, together with expected debt relief, should bolster confidence, restore macroeconomic stability, and facilitate Greece's access to markets. The program seeks to create breathing space to mobilize broad political support for the deeper long-term structural reforms that are needed for Greece to modernize its economy and prosper within the euro area.

7. The arrangement will also provide a framework for Greece's European partners to provide debt relief. Ensuring debt sustainability is essential to the success of the program and to Greece's ability to re-access markets on sustainable terms. This will require further debt relief from Greece's European partners, in addition to the generous relief received since 2012. Having ruled out upfront haircuts and direct fiscal transfers, European member states have recently pledged further flow relief—including interest deferrals and extension of grace and maturity periods on select European loans—to achieve agreed Gross Financing Needs (GFN) sustainability thresholds of 15 percent of GDP in the medium term and 20 percent in the long run. The delivery of such relief is conditional on Greece's successful completion of its adjustment program in mid-2018.[5] Staff believes that more relief will be required to achieve these thresholds, and additional time is needed to secure specific and credible commitments on the type and scope of debt relief measures that European partners would be willing to take to do so under staff's DSA assumptions.

8. Staff proposes that the IMF arrangement be approved in principle only, with effectiveness conditional on receipt of debt relief assurances from Greece's European partners, which are expected in the coming months. The approval-in-principle procedure is in line with the IMF's established practices, although it has not been adopted recently (Annex I provides a historical perspective on this practice). In Greece's case, the approach allows the IMF to support Greece's policies while facilitating continued financing from the ESM—with European member states having agreed to disburse based on an approved IMF-supported program—at a time when large repayments come due, thus avoiding potentially disruptive arrears on external debt. At the same time, the procedure allows more time to help catalyze the necessary debt relief from Greece's official creditors. In many past cases, a deadline was set after which the approval-in-principle procedure would lapse; in others, no deadline was set. In the case of Greece, staff proposes not to set a specific deadline after which the approval-in-principle procedure would lapse so as to avoid setting expectations that, if unfulfilled, could lead to market disruptions. While agreeing on debt relief will be a difficult process that may require more time than envisaged, all sides have an interest to finish it soon because failure to do so could adversely affect the economic situation in Greece, which might necessitate reopening negotiations of policies. In the meantime, staff will actively monitor implementation of the program commitments that underpin the requested arrangement, in consultation with the Greek authorities as needed. If, prior to the receipt of the necessary debt relief assurances, it becomes apparent that there are significant problems in program implementation, the basis for the approval in principle would no longer apply and there would need to be a Board discussion and a new decision taken on the terms of future Fund financial support. In any case, the approval in principle would expire at the expected end of the arrangement on August 31, 2018.

[5] Eurogroup Statement on Greece, 375/17, June 15, 2017.

MACROECONOMIC FRAMEWORK

Greece: Key Economic Indicators

	2016	2017	2018	2019	2020	2021
	(percent change unless otherwise indicated)					
Real GDP	0.0	2.1	2.6	1.9	1.9	1.8
Total Domestic Demand	0.6	0.9	2.3	1.9	1.9	1.9
Private Consumption	1.4	1.4	1.4	0.5	0.8	1.0
Public Consumption	-2.1	0.5	0.6	0.5	0.4	0.4
Gross Fixed Capital Formation	0.1	6.6	10.3	11.5	9.9	7.5
Foreign Balance (contribution)	-0.5	0.1	0.3	0.0	0.0	0.0
Exports	-2.0	3.3	4.0	4.0	3.9	3.5
Imports	-0.4	2.8	3.0	3.7	3.5	3.4
Unemployment Rate (percent)	23.6	22.3	20.7	19.5	18.4	17.8
HICP (period average)	0.0	1.2	1.3	1.4	1.6	1.7

Sources: ELSTAT; Bank of Greece; and IMF staff estimates.

9. **Output is projected to rebound over the medium term.** Growth is expected to reach 2.1 percent this year and 2.6 percent next year, on the back of continued resilient private consumption growth and a rebound of investment from low levels, supported by EU funds and firms' internal cash flow.[6] The approval in principle of the IMF-supported program and the completion of the second ESM program review, together with the prospect for delivery of debt relief by end-program and full and timely program implementation, are expected to support confidence and facilitate the restoration of market access and the removal of capital controls before the end of the program. In the medium run, growth is projected to slow, as the output gap closes and the drag from additional fiscal consolidation that will enter into effect in 2019-20 offsets EU-fund supported investment.[7] Unemployment will remain in the double digits.

10. **Growth is expected to stabilize at around 1 percent in the long run.** Rapid aging will lower Greece's working-age population by about 30 percent during 2020-2060, which will weigh negatively on long-run growth. Capital accumulation, supported by EU funds, will boost growth for some time, but its impact will fade as the economy converges to its new long-run capital ratio. Thus, long-run growth will depend critically on Greece's ability to improve its productivity through structural reforms. Combining the historical growth in labor productivity (0.4 percent) with expected growth in the number of workers (-0.9 percent) would imply long-term annual growth of -0.5 percent. To arrive at growth rates of 1 percent in the long run, staff assumes an increase in labor force participation to well above current euro-area levels, sustained employment gains, and an increase in TFP growth to a rate more than triple its historical average. These developments in turn rest on ambitious assumptions regarding the impact of structural reforms, considering Greece's weak track record and the international experience (Annex II provides further details behind staff's analysis of long-term growth prospects). This highlights the importance of continuing and deepening structural reforms after the end of the program to halt the widening of the gap between Greek and euro area real per capita GDP.[8]

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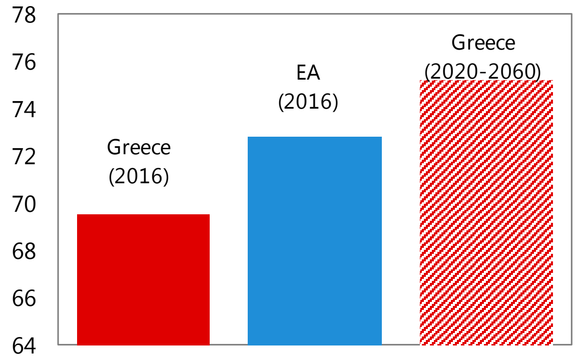
[6] The contribution from public consumption is also expected to turn positive in 2017, which, coupled with arrears clearance financed by recently-approved funds can help support growth this year.

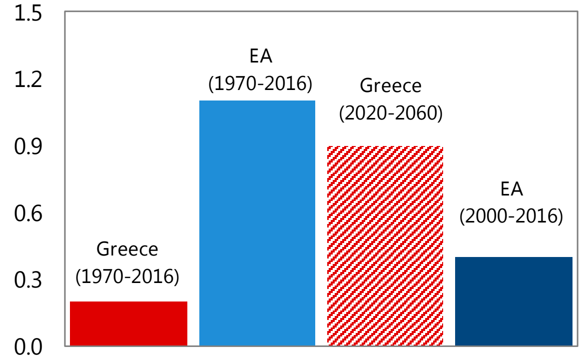
[7] Greece is the beneficiary of large EU funds (about €25 billion have been committed through 2020, but are yet undisbursed). These funds, together with other investment-related support from international institutions (EIB, EBRD), sum up to about 4 percent of GDP per year during 2017-2020.

[8] See Box 3 in IMF (2017a).

Labor Force Participation (15-64 age group)
(Percent)



Average TFP Growth
(Percent, annualized)



Sources: AMECO database; European Commission 2015 Aging Report, and IMF staff estimates.

11. Inflation is expected to remain subdued, and below the ECB's target for the euro area. Stronger demand is expected to contribute to a gradual increase in inflation in the medium run. In the long run, however, inflation is projected to stabilize at about 1.7 percent. This reflects Greece's lower labor productivity relative to the euro area average, which, together with persistently high unemployment—expected to gradually decline but remain in the double digits until 2040—will result in relatively lower wage growth.

12. Significant downside risks weigh on the outlook. A continuation of program implementation problems could result in a suspension of debt relief with attendant effects on confidence, growth, debt sustainability, liquidity and potentially on perceptions of Grexit risk. But even if Greece's adjustment program is implemented as planned, risks remain that staff's medium- and long-term macroeconomic forecasts may not materialize, including due to a more-adverse-than-expected impact of high primary surpluses on growth, a lower-than-expected output gap, smaller gains from fiscal and structural reforms, or the need for more protracted efforts to stabilize the banking sector and remove capital controls. External risks related to a weaker-than-expected recovery in Europe could affect Greece's exports and growth. On the upside, the authorities could exceed short-run fiscal targets temporarily through one-off measures or compression of spending.

POLICY DISCUSSIONS

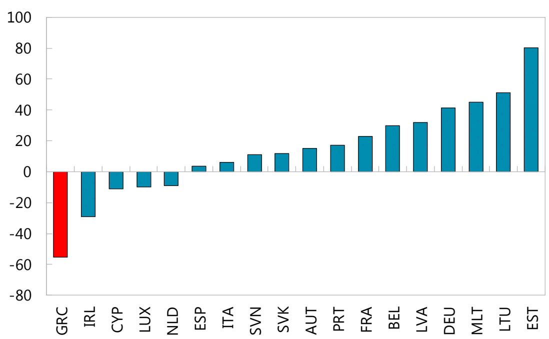
A. Fiscal Policy

13. Fiscal policy will focus on rebalancing the public finances toward more growth-friendly policies in the long run. The strategy builds on important reforms already legislated and aims to support the authorities' medium-term fiscal targets while strengthening the structure of public finances. In the short run, fiscal consolidation will proceed gradually to contain the associated negative fiscal impulse as the output gap narrows. Over the medium term, additional reforms will allow a rebalancing of the policy mix toward more growth-friendly and equitable policies with increased spending on public investment and social protection, and lower tax rates that will support jobs and growth, while still allowing for a steady reduction in debt.

14. Program targets allow for some recovery of expenditure, partially offset by gains from revenue and pension reforms, but the authorities expect significant overperformance next year. The primary surplus target for this year has been agreed at 1.8 percent of GDP, supported by previously legislated pension, VAT, and income tax reforms, which partly offset the expiration of one-offs from 2016 and a budgeted rebound of spending. Next year's primary surplus target has been set at 2.2 percent of GDP, with additional savings from ongoing pension reforms and from newly-legislated measures that will rationalize redundant social programs. The authorities expect the 2018 surplus to reach the ESM program target of 3.5 percent of GDP owing to their more optimistic tax-revenue and pension-spending assumptions (Box 2). Should Greece fully satisfy policy commitments and achieve the fiscal targets established in the Fund arrangement but not the ESM program targets, European partners have agreed that access to ESM disbursements would continue and that ESM targets would be reviewed.

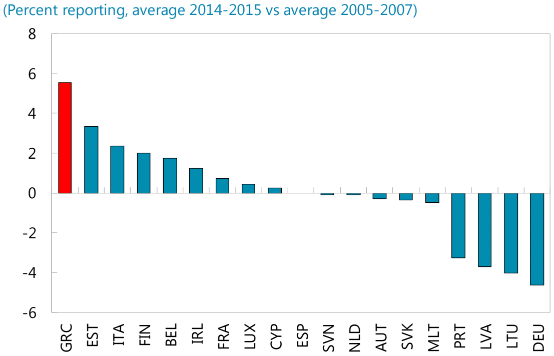
15. There was agreement that program targets should be reached without growth-detrimental measures. In view of the significant compression of discretionary spending to date, the program includes a floor on discretionary intermediate consumption spending to ensure it does not fall below last year's level as a share of GDP.[9] While some of the compression over the last decade reflects a correction of unsustainable pre-crisis spending, there is evidence that cuts have compromised the provision of public services, such as transportation and healthcare.

Change in Intermediate Consumption Spending
(Real terms, average 2014-2016 vs average 2001-2007)



Sources: Eurostat; and IMF staff calculations.

Increase in Unmet Healthcare Needs
(Percent reporting, average 2014-2015 vs average 2005-2007)



Sources: Eurostat; and IMF staff calculations.

16. Greece and its European partners have agreed on a target of 3.5 percent of GDP for 2019-22. To strengthen the credibility of this target, which is included in the authorities' medium-term fiscal strategy (MTFS, legislated as a prior action, LOI ¶2), the authorities have legislated additional reforms (also as prior actions) that would come into effect once the output gap narrows, to minimize their impact on the recovery:

Greece: General Government Operations, 2016–21 (ESA 2010)
(Percent of GDP)

	2016	2017	2018	2019	2020	2021
Total Primary Revenue	50.0	48.4	46.8	46.7	46.1	45.2
Indirect taxes	17.1	17.3	16.9	16.5	16.3	16.0
Direct taxes	10.3	9.9	9.6	10.3	10.3	10.3
Social contributions	14.2	13.9	13.8	13.5	13.3	13.1
Other revenue	8.4	7.3	6.6	6.5	6.2	5.9
Total Primary Expenditure	45.8	46.7	44.6	43.1	42.6	41.7
Social benefits	22.3	21.6	20.8	19.5	19.2	18.8
Compensation of employees	12.3	12.1	11.9	11.8	11.6	11.3
Other expenditure	11.2	13.1	11.9	11.9	11.8	11.6
Primary Balance	4.2	1.7	2.2	3.5	3.5	3.5

Sources: Ministry of Finance, and IMF staff estimates.

[9] IMF staff argued against continued spending compression under the EFF-supported program; see IMF (2014b).

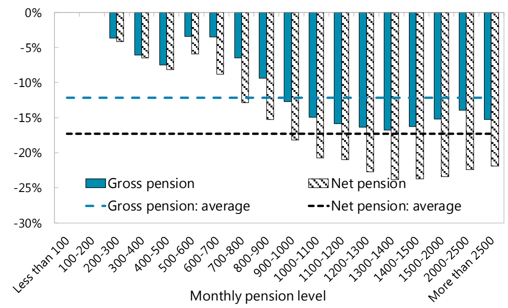
- ***A pension reform*** will reduce main and supplementary pensions of current retirees in line with the new benefit formula introduced by the 2016 reform.[10] Average pensions are expected to fall by 12 percent, and there is an 18 percent cap on the decline in any individual pension. By constraining the savings from pension reductions at the upper end of the distribution, the cap also prevents retirees at the lower end from receiving the full increase in benefits to which they are entitled under the new formula, limiting its intended redistributive effect. Pensions will also be frozen until 2022. The reform is expected to reduce the system's deficit by 1 percent of GDP in 2019-22 and improve intergenerational fairness. Given reversals of previous pension reforms, and recent (non-binding) negative legal opinions by the Court of Auditors and the Scientific Committee of Parliament, the authorities have provided a distributional study and a legal opinion supporting the reform.

Greece: Net Savings from Pension Reform
(Percent of GDP)

	2019	2020	2021	2022
Recalibration of main pensions	0.9	0.8	0.8	0.7
Recalibration of supplementary pensions	0.1	0.1	0.1	0.1
Freeze of pension indexation	0.1	0.1	0.2	0.2
Total	1.0	1.0	1.0	1.0

Sources: Ministry of Finance; and IMF staff estimates.

Greece: Reduction of Main Pensions
(Percent)



Sources: Ministry of Labor; and IMF staff estimates.

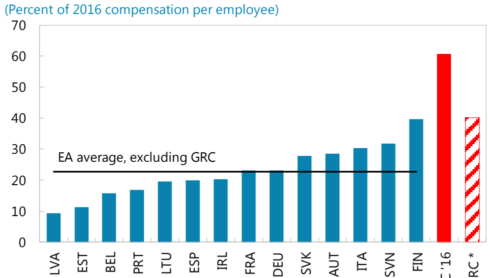
- ***A personal income tax reform*** will broaden the tax base by reducing the personal income tax credit by €650. This implies a reduction of the tax-free income threshold from more than 60 percent of the average worker's compensation to 40 percent, lowering the share of wage and pension earners who are exempt from taxation from 55 to 35 percent. The reform, which is expected to yield 1 percent of GDP, is legislated to take effect in 2020. Its implementation can be advanced to 2019 if a forward-looking assessment leads Fund staff to consider it necessary to reach the agreed 3.5 percent primary surplus target in 2019. Indeed, staff expects the reform to be fully implemented in 2019.

Greece: Income Tax Credit

Number of	Tax credit (€)		Tax-free income (€)	
children	Current	Reform	Current	Reform
0	1,900	1,250	8,636	5,682
1	1,950	1,300	8,864	5,909
2	2,000	1,350	9,091	6,136
3 or more	2,100	1,450	9,545	6,591

Sources: Ministry of Finance; and IMF staff calculations.

Euro Area: Tax-Free Income Threshold
(Percent of 2016 compensation per employee)



Sources: Eurostat; Greece Ministry of Finance; and IMF staff calculations.
Note: * denotes the tax-free income threshold in percent of compensation per employee after implementation of the income tax reform in Greece.

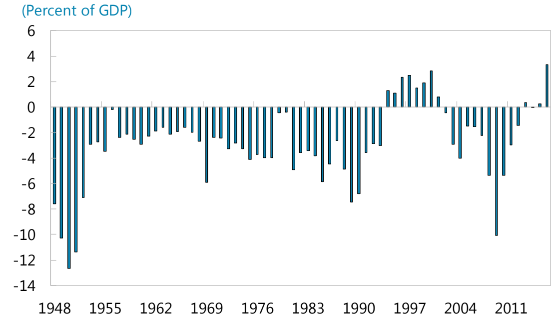
17. Important growth-enhancing and social-welfare reforms will be implemented when fiscal targets are relaxed after 2022 (LOI ¶12). Under staff's baseline, these reforms will come into

[10] See IMF (2017b), "Reforming the Greek Pension System."

effect at the earliest in 2023. The authorities, however, expect the reforms to be implemented as soon as 2019, given their more optimistic revenue and pension spending forecasts. The package comprises revenue measures (up to 1 percent of GDP) including reductions in the income tax rate, the solidarity surcharge, and the CIT rate. To increase support for the package, the authorities, against staff's advice, also added a modest reduction in property taxes (benefitting mostly owners of low-value properties). On the spending side, measures (up to 1 percent of GDP) are focused on targeted social programs, active labor market policies, and public investment.

18. In the long run, staff expects the primary balance to stabilize at 1½ percent of GDP, although Greece's European partners project a more ambitious surplus. Staff's projection is based in part on cross-country experience, which suggests that prolonged periods of high primary surpluses are rare and dependent on tailwinds from strong initial growth and low unemployment. (Annex III illustrates the cross-country experience with maintaining high primary surpluses). Greece's own historical record is consistent with this, and the significant spending compression that has already occurred and the impact of population aging going forward likewise suggest that it will be difficult for Greece to maintain high primary surpluses indefinitely. Differences in view between Fund staff and Greece's European partners on the long-run primary surplus remain to be resolved in the context of ongoing debt discussions.

Greece: Primary Balance, 1948–2016
(Percent of GDP)



Sources: data for 1948-87 from Mauro et. al. (2013) based on UN statistical Yearbook definitions (e.g. grants excluded from revenues), IMF WEO, and OECD; data for 1988-2016 from IMF WEO.

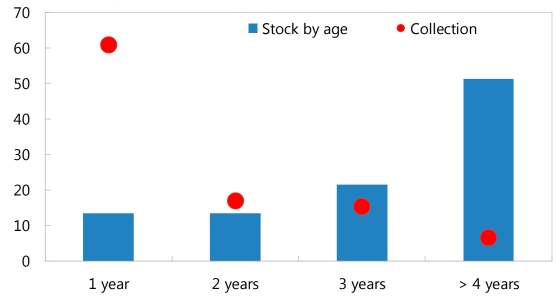
B. Fiscal Structural Reforms

19. Ongoing reforms focus on improving revenue and public administrations and the social safety net, but Greece will need additional time and effort to succeed in these areas (LOI ¶3)**.** The program aims to support efforts to improve the efficiency of the new autonomous revenue agency, tighten public-employment rules, improve public financial management, and better protect vulnerable groups. These efforts are expected to help modernize the Greek public administration and restore the public's trust in it. Technical assistance will reinforce the reform effort.

20. The authorities are taking steps to help the autonomous revenue agency address tax evasion and the large stock of tax debt. The newly legislated revenue agency will take several years to become fully effective. The program supports the early stages of the agency's implementation, which are critical to its success. As a priority, the authorities adopted legislation (as prior actions) in several key areas:

- ***Prioritizing audit cases***: The legislation requires the tax administration to focus on relatively new cases, which have higher prospects for collection and can help foster tax compliance.[11] Looking forward, to address the backlog of older audit cases, the authorities committed to streamline and prioritize the cases for which the statute of limitations has been extended (end-September structural benchmark, SB)[12] and to upgrade the tools to identify high-risk audit cases to include information from financial institutions and the Financial Intelligence Unit (end-December SB).

Greece: Age of Tax Debt and Collection



Source: Independent Authority for Public Revenue.

Note: Stock refers to the share of each age group in the total tax debt stock. Collection refers to the share of collection from each age group in the total tax debt collection in 2017Q1.

- ***Strengthening collection enforcement:*** The legislation increases the efficiency of processing prosecutor-initiated tax audit cases by improving the screening of cases and the allocation of responsibilities between the tax administration and the prosecutors.[13] Looking forward, the authorities will also align auctions of immovable property with the Code of Civil Procedure (end-December 2017 SB) and amend the VAT legislation to streamline its administration, close loopholes, and reduce opportunities for fraud (end-March 2018 SB).

- ***Supporting the restructuring of public claims***: The newly issued circulars describe a methodology to classify tax debtors based on their financial situation. This will be instrumental in designing durable debt-restructuring solutions, including under the new out-of-court debt restructuring framework (see below).

- Looking forward, the authorities will take additional ***steps to ensure that the revenue agency has adequate and qualified staff.*** This includes introducing a modern grading and remuneration system, which is expected to attract and retain high-skilled employees, and to subject them to performance assessments (end-December 2017 SB).

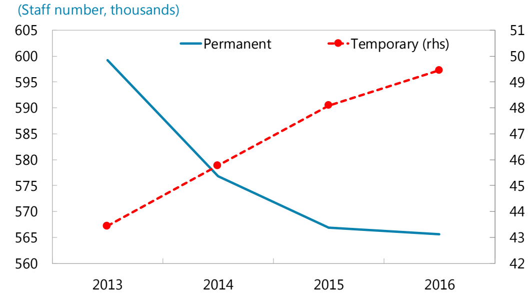
[11] The collectability ratio for tax debts three years older or less is about seven times higher than for older tax debts.

[12] The statute of limitations has been extended each year for the last five years, adding to the burden on the tax administration.

[13] Under current procedures, the tax administration would need more than five years to audit the existing stock of prosecutor audit orders.

21. They also plan to further tighten employment rules for the public administration. Reforms will focus on curbing the growth of temporary contracts, which complicates the implementation of attrition rules. This is evident in the rapid increase of such contracts, which in 2016 fully offset the decline in permanent staff resulting from the application of the attrition rule.[14] The authorities committed to legislate a transparent and competitive process for temporary contracts. They will also establish a ceiling to maintain their number at the 2016 level on average during the program, to remain in line with the 2017-18 general government wage bill projections (end-September SB).

Greece: Public Sector Employment, 2013–16
(Staff number, thousands)

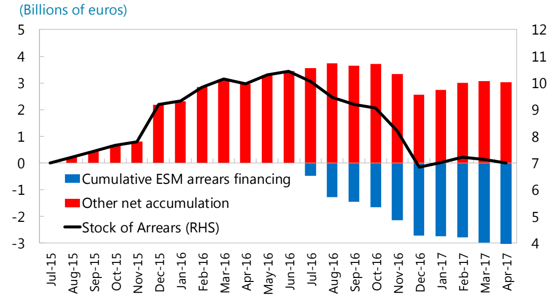


Sources: Greek authorities; and IMF staff estimates.
Note: data on temporary contracts for 2013-14 are based on interpolations as actual data are only available for 2012 and 2015-16.

22. Public financial management will continue to be strengthened.

- ***Arrears clearance***: Despite ESM disbursements of €3.5 billion for arrears clearance since June 2016 and the large fiscal overperformance last year, the stock of government arrears and unprocessed claims has only returned to its mid-2015 level (around €7 billion), due to the accumulation of new arrears. The authorities will contract an independent auditor to assess the arrears clearance actions to date (end-September 2017 SB) and, on this basis, overhaul the arrears-management system (end-June 2018 SB). They plan to reduce the stock of arrears at least by the amount of ESM disbursements earmarked for this purpose.

Greece: Arrears Clearance
(Billions of euros)



Sources: Greece Ministry of Finance; and IMF staff estimates.
Note: The stock of arrears contains government spending, tax refund arrears and unprocessed pension claims.

- ***Cash management***: To facilitate the clearance of arrears with own funds and make better use of general government resources (about €10 billion), the authorities plan to centralize management of all central government entities' accounts and other large accounts (end-October 2017 SB). They expect to complete the integration of all accounts by end-June 2018.

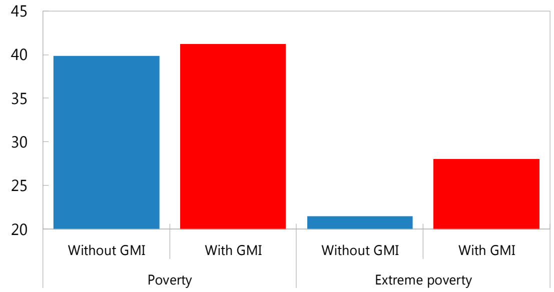
23. The program will follow up on implementation of other ongoing reforms:

- ***Welfare reform***: A new guaranteed minimum-income (GMI) scheme rolled out this year is expected to improve the targeting of social assistance programs and reduce the incidence of poverty, which is among the highest in the euro area. Nonetheless, even with the GMI now in place, other social benefits remain highly fragmented, poorly targeted, and insufficient by

[14] According to data from the Ministry of the Administrative Reform and the General Accounting Office.

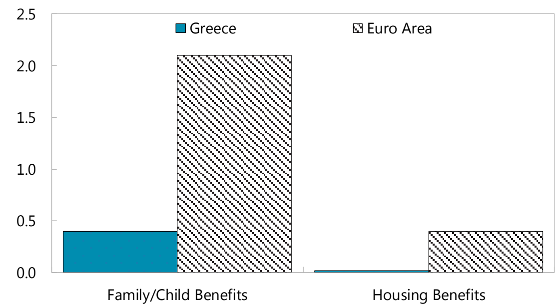
international standards.[15] The authorities plan to revamp housing, family, and disability benefits by streamlining existing programs and reallocating resources toward fewer but better-targeted programs (end-June 2018 SB). These redesigned programs will be further bolstered in 2023 as part of the authorities' growth-enhancing package.

Greece GMI: Income Level of Population in Poverty
(Percent of median income)



Source: "Ex-ante poverty and fiscal evaluation of a GMI in Greece", 2015, World Bank.
Note: Poverty is defined as income below 60 percent of the median income. Extreme poverty is defined as income below 40 percent of the median income. Income is net of taxes and contributions, and is adjusted for household size using the modified OECD equivalence scale.

Spending on Family and Housing Benefits
(Percent of GDP)



Sources: Eurostat; "Weathering the Crisis: Reducing the Gaps in Social Protection in Greece", 2016, World Bank; and IMF staff estimates.

- ***Pension reform***: To ensure that the system is managed transparently and efficiently, as prior actions the authorities issued remaining implementing legislation, repealed conflicting provisions, operationalized a single pension register, merged the management of existing funds into the new single pension fund, and aligned the contribution base for the self-employed with best practice. Looking forward, efforts will focus on finalizing the recalibration of pensions in line with the new benefit formula (end-December 2017 SB) and strengthening the administration of pension claims to allow for the clearance of unprocessed pension claims (¾ percent of GDP) by 2018.

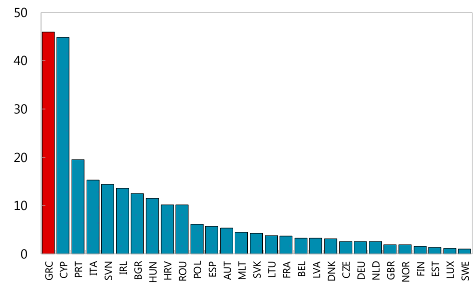
- ***Property taxation***: To establish a clear link between property value and tax obligations, as well as to support debt resolution, property assessment values will be aligned with market prices (end-December 2017 SB). To ensure the reform's fiscal neutrality, revenue shortfalls will be compensated by broadening the tax base and/or adjusting tax rates.

[15] World Bank (2016).

C. Financial Sector Policies

24. The program will support efforts to reduce Greece's exceptionally high NPLs (Figure 3).[16] The public-sector indebtedness problem has migrated to private-sector balance sheets—as reflected in the highest NPL ratio in the euro area—and represents a major policy challenge for the authorities. The Single Supervisory Mechanism (SSM) projects that even with full reform implementation NPLs would only fall from 49 to 42 percent of total loans by end-2018.[17] Thus, the aim of the authorities' financial sector strategy is to create the conditions for banks to reduce NPLs gradually by strengthening the legal framework (LOI ¶4). However, this strategy is subject to considerable risk, as it assumes that banks will grow out of their NPL problems.

NPL Ratios, 2016 Q4
(Percent of total loans)



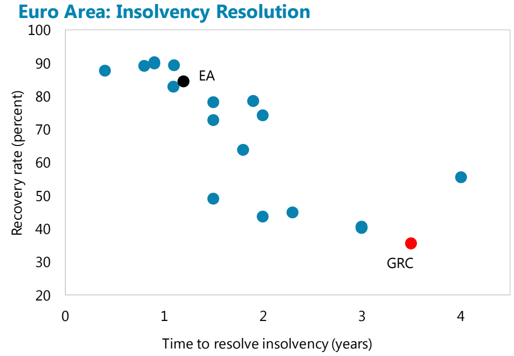
Source: European Banking Authority Risk Dashboard (Q4 2016).

25. Strengthening the debt-restructuring legal framework is a key element of the financial sector strategy. Efforts in this area will build on already-legislated reforms,[18] with priority on legislating and implementing the following (as prior actions):

- ***A new electronic auction system***: The new legislation allows for and regulates e-auctions without need for physical presence of notaries. The authorities have also developed an electronic auctioning platform, to be fully operational by end-July (SB), with the first auctions expected to start in September. Adequately implemented, the new system will be key to restore the integrity of debt enforcement.

- ***The insolvency-administrator profession:*** To support the implementation of recent insolvency reforms and reduce the backlog of personal insolvency cases (which exceeds 200,000), the authorities have legislated the conduct, supervision and sanctioning regime for insolvency administrators. Looking forward, they plan to test, train and register insolvency administrators (end-July SB).

Euro Area: Insolvency Resolution



Source: Doing Business 2017, World Bank (based on responses to survey).

- ***A new out-of-court NPL workout framework (OCW)***: Given that the formal insolvency and foreclosure systems alone are likely

[16] Non-performing loans (NPLs) are defined as loans that are 90 days or more past due, unlikely to be repaid in full without realizing collateral, or impaired according to accounting rules, as well as loans that have been restructured for less than a year.

[17] Cross country data from 26 countries that underwent financial crises since 1960, shows that it took on average seven years for NPLs to decline from 12 percent (crisis peak) to 2 percent (pre-crisis levels). Also see Beck et al. (2013), and Klein (2013).

[18] See IMF (2017b), "Insolvency and Enforcement Issues in Greece."

insufficient to deal with the large NPL and overdue tax debt problem facing Greece, the authorities revamped the OCW framework to support flexible restructuring solutions of both private and public claims. The framework allows for debt write-downs to preserve viability, where possible. The new system is expected to become fully operational at end-July (SB).

- ***Protection of bank and public sector officials engaged in debt restructuring:*** To support the implementation of the OCW law and other restructuring activities, the authorities legislated principles that representatives of banks or public creditors must follow when engaged in debt-restructuring and related activities, which also serve as a legal protection for those involved.

- ***Streamlining the legal framework for NPL servicers:*** To reduce barriers to entry and enhance the NPL market, while maintaining protection of distressed borrowers, the authorities have aligned the regulatory and supervisory requirements for loan servicers with the complexity and risk of their business.

- Looking forward, to facilitate the provision of credit, ***the position of secured creditors will need to be further strengthened***. Despite recent reforms of the Code of Civil Procedure, the existing system is still ineffective in supporting lending, in that it only guarantees that secured creditors will receive a fraction of the proceeds of the collateral (65 percent). Such a rule is unique in Europe, likely hindering credit provision. The authorities plan to revise the ranking of claims to afford a higher level of protection to new secured credit in line with best practices (end-September SB).

Priority of Secured Claims over Specific Assets

Austria	Full priority 1/
Bulgaria	Full priority 1/
France	Priority only subject to potential impact of a limited 60-day wages super-priority
Germany	Full priority 1/
Greece	65 percent of proceeds in sale of collateral
Ireland	Full priority 1/
Italy	Full priority 1/, only potential limited impact of some privileged claims over immovable collateral
Portugal	Priority only subject to wages of workers who work on the property and real estate taxes for the past year
Spain	Full priority 1/, only hypothetical conflict with workers' priority for wages (last 30 days, limited amount)
Sweden	Full priority 1/

1/ Full priority means that the creditor is entitled to receive the net proceeds of the sale of the collateral, excluding the enforcement expenses and other related costs, such as maintenance of the collateral.

26. The supervisory authorities will need to take further steps to ensure adequate bank capitalization and strengthen incentives for banks to address NPLs. Legal tools alone may be insufficient to deal with the NPL problem, in the absence of strong supervisory incentives. Thus, to safeguard the soundness of the banking sector, it will be essential for the SSM, in collaboration with BoG, to perform an updated asset-quality assessment and stress test of the Greek banks well before the end of the program. Should this exercise identify capital needs, the bank buffer in the ESM program should be utilized to ensure the stabilization of the banking system by end-program. Furthermore, the SSM will need to continuously review banks' performance against their NPL targets, including through on-site inspections, identify deficiencies in their NPL reduction strategies, and demand remedial action if needed, which could include write-downs and disposals. An assessment of the supervisory strategy to deal with NPLs and ensure the soundness of the banking system will be the focus of the first review of the program. As to non-systemic banks, the BoG has ensured (as a prior action) that smaller banks will cover their Pillar II capital shortfalls identified under an adverse scenario in the 2015 Comprehensive Assessment. The BoG will also complete remedial actions to ensure that shortfalls at two cooperative banks are addressed (end-September SB).

27. The program also aims to normalize payment conditions including by removing exchange restrictions subject to Article VIII, section 2(a) as soon as possible, while safeguarding financial stability. Restrictions on cash withdrawals and cross-border transfers, which include exchange restrictions that are still in place,[19] limit access to finance, increase costs for domestic and cross-border transactions, and continue to undermine confidence. To provide better guidance to the public on the way toward full liberalization of the restrictions, which should be achieved by end-program, the authorities have published (as a prior action) a condition-based roadmap, describing the sequence of relaxation steps that is linked to the progress in the normalization of the banking sector, economic conditions and program implementation.[20] Based on the roadmap and on continuous monitoring of economic developments, depositor confidence, and banks' liquidity situation, the authorities will take steps to eliminate controls swiftly yet prudently. Ensuring sufficient bank liquidity is critical to preserve financial stability.

Greece: Roadmap for the Relaxation of Capital Controls

	Steps to relax restrictions on deposits	Steps to relax restrictions on external capital flows
Stage 1: Increasing fund accessibility	▪ Free opening of new bank accounts ▪ Increasing limit on cash withdrawal ▪ Free withdrawals of funds transferred from abroad	▪ Increasing limit on outbound transfers ▪ More current account transaction types approved at the bank level
Stage 2: Free domestic capital movement	▪ Free cash withdrawals of deposits	▪ Further increasing limit on outbound transfers ▪ All current account transactions approved at the bank level
Stage 3: Free capital movement abroad		▪ Free transfer of funds abroad

D. Growth-Enhancing Structural Reforms

28. Progress with structural reforms has fallen far short of what is needed to allow Greece to succeed in the euro zone, but the program foresees some intensification of efforts (LOI ¶6)**.** Given limited political and popular support for a more ambitious effort to liberalize the economy, the program focuses on incremental steps to further open product markets while preserving existing labor market reforms during the program period. If fully sustained and successful, these efforts could help build the momentum and support for the more comprehensive reforms that will be needed to prosper within the euro area.

29. The liberalization of the labor market has been secured during the program period, but is subject to risks thereafter. While the authorities have legislated (as a prior action) the preservation of the 2011 collective bargaining reforms until the end of the program, these reforms

[19] See Informational Annex.

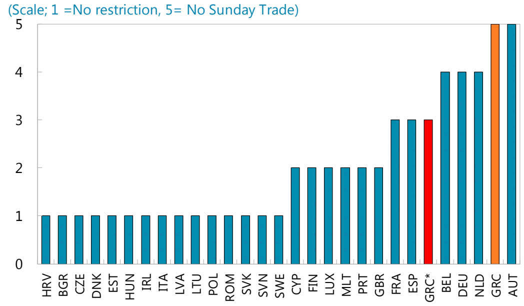
[20] More details on the roadmap can be found here.

will be effectively unwound immediately after the program. This upcoming reform reversal will limit firm-level wage flexibility, damage competitiveness, and delay the much-needed improvement in investment and employment growth (Box 3). It thus would constitute a large step backward on the path to sustainable, equitable growth. Other labor-market efforts are limited: (i) the replacement of the approval process for collective dismissals with a simplified procedure without ex ante approvals (prior action) and (ii) the commitment to legislate an increase in the quorum requirement for voting on a strike (end-September SB).

30. Other reforms follow up on ongoing efforts to liberalize product and service markets. These efforts will help advance the implementation of overdue reforms from previous programs, but to lift Greece's long term growth potential they need to be followed up by deeper and broader reforms (e.g. addressing closed professions, energy, judicial reform, broader privatizations) for which there has been limited support so far. The authorities took the following steps as prior actions:

- ***Competition***: Building on recent legislative actions to implement the OECD's recommendations, the authorities legislated overdue actions on Sunday trade and the over-the-counter trade of pharmaceuticals. However, the Sunday-trade reform—which allows shops in tourist areas to open on Sunday in the touristic season—falls short of the full liberalization recommended by the OECD and practiced in most other European countries, including due to constitutional concerns.[21] Looking forward, the authorities committed to implement remaining actions in the OECD Toolkit III (covering a number of economic sectors) as an end-September SB.

Sunday Trading Regulation Indicator
(Scale; 1 =No restriction, 5= No Sunday Trade)



Sources: Genakos and Danchev (2015); and IMF staff estimates.
Note: Latest year available. Greece* estimates the impact of past and current liberalization efforts.

- ***Closed professions***: Following up on legislation adopted in 2011, the authorities have committed to submit legislation to remove restrictions on the engineering profession (e.g. geographical restrictions, reserved activities, etc.). They plan to complete these actions and take further steps to liberalize other professions by end-December (SB).

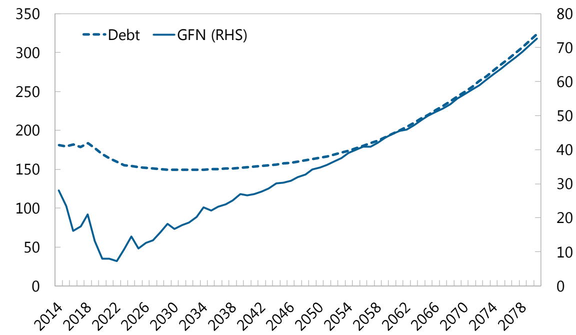
- ***Investment licensing***: Also following up on reforms legislated in 2011, the authorities replaced the system for investment licensing in select sectors with a pilot notification system, requiring information on existing certifications and payment of fees. They are expected to complete the investment licensing reform by end-program (end-June 2018 SB).

[21] The Council of State suspended on constitutional grounds a pilot program introduced in mid-2014.

DEBT SUSTAINABILITY

31. Even with full implementation of agreed policies, Greece's debt remains unsustainable (Annex IV). Staff's DSA is based on a gross-financing needs (GFN) framework, covering the period until European loans mature. Under staff's baseline scenario, which assumes full implementation of reforms under Greece's adjustment program, as well as the utilization of a buffer for bank recapitalization needs in the face of high risks posed by NPLs, debt and GFN are projected to reach around 150 and 17 percent of GDP by 2030, respectively, but become explosive thereafter.[22] These unsustainable dynamics reflect the need to gradually replace a large amount of concessional debt with market financing at much higher rates. They also point to the importance of a thorough assessment of the banking sector's soundness well before the end of the program, which will be essential to better ascertain the implications for debt sustainability.

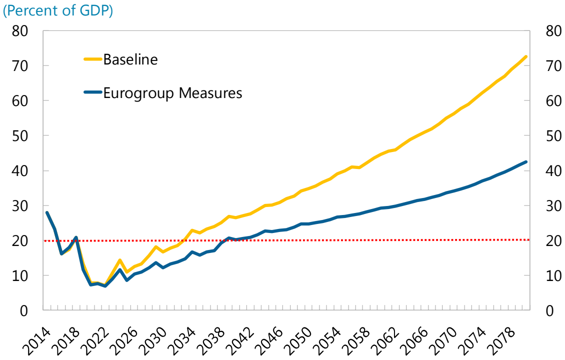
Greece: GG Debt and GFN-- Baseline, 2014-2080
(Percent of GDP)



Source: IMF staff estimates.

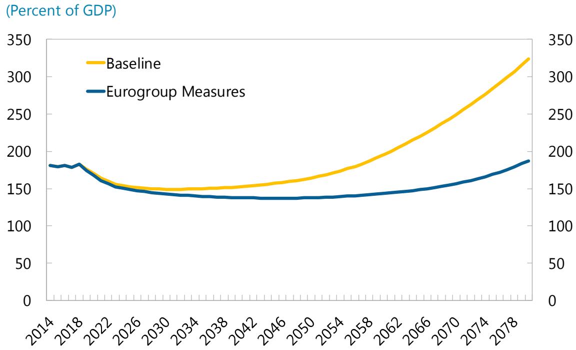
32. Greece thus requires further debt relief to ensure sustainability. Greece's European partners have committed to provide relief to Greece upon the completion of its program to maintain GFN below 15 and 20 percent over the medium and long run. Such committed relief includes further extensions of the weighted-average maturity and interest deferrals on EFSF loans by up to 15 years, restoration of ANFA/SMP transfers to Greece, abolishment of the step-up margin on select EFSF loans, and fixing the interest rate on European loans at market rates (€71 billion is assumed to be fixed at rates of at most 1.9 percent). However, even when accounting for these measures, debt remains unsustainable in staff's assessment. Thus, to provide more credibility to the debt strategy for Greece, commitments for additional debt relief measures will be required; these could include, for example, further extensions of grace, maturity, and interest deferrals on European loans. An automatic mechanism linking debt repayments to growth, to adjust relief if outcomes are better or

Greece: Impact of Eurogroup Measures on GFN, 2014–2080
(Percent of GDP)



Source: IMF staff estimates.

Greece: Impact of Eurogroup Measures on GG Debt, 2014–2080
(Percent of GDP)



Source: IMF staff estimates.

[22] The baseline scenario also includes short-term measures specified by the Eurogroup in May 2016 that have already been implemented (see Box 1 in Annex IV).

worse than expected—relative to a realistic baseline—could help garner support for debt relief while safeguarding sustainability.

FINANCING

33. The arrangement is expected to play a catalytic role to mobilize official and market financing. Financing needs to cover debt servicing during the program period are estimated at €11 billion (after use of internal resources), which could be covered by the ESM envelope (out of the €86 billion approved, €54 billion remains undisbursed as of July 7, 2017). Consideration could also be given to clearing arrears and building deposit buffers using official funds, while being mindful of implications for debt sustainability.[23] Use of additional internal funds—including treasury management operations as noted above—and potential access to the ECB's PSPP could help reduce official financing needs. Thus, the Fund arrangement is expected to help mobilize other official financing while Greece implements the reforms necessary to stabilize its macroeconomic situation and access markets.

State Financing Needs and Sources (July 2017–August 2018)

Debt service needs	**18.0**
Interest payments (cash)	6.8
Amortization	11.3
ECB	5.7
IMF	1.8
Non-official	3.7
Internal financing sources	**7.4**
Primary surplus	3.6
Privatization	1.5
ANFA	0.3
Deposit financing	2.0
Gap covered by official financing	**10.6**

Source: IMF staff estimates.

34. The Greek authorities have requested a Stand-By Arrangement until August 31, 2018, which they intend to treat as precautionary. Staff proposes access to Fund resources in an amount equivalent to SDR 1.3 billion (55 percent of quota, €1.6 billion. The proposed amount is considered adequate to address potential short-term balance of payments needs that might arise from adverse shocks, such as a delay in the recovery of euro-area activity or tighter global liquidity conditions. The large ESM financing envelope provides a first line of defense against such shocks, and staff believes that under the baseline scenario, the authorities would not choose to draw on Fund resources while ESM resources on more concessional terms are available. Staff proposes to make the effectiveness of the arrangement, and hence the access to Fund resources, conditional on receipt of assurances on debt relief from Greece's European partners to restore debt sustainability, as well as on the program remaining on track. Once the necessary assurances have been obtained, a separate decision of the Executive Board will be required for the arrangement, previously approved in principle, to become effective.

PROGRAM MODALITIES

35. The authorities have taken upfront actions to provide reassurances about their ability to implement the program. They have legislated a number of prior actions in macro-critical areas including fiscal sustainability, financial stability and competitiveness (LOI Table 1). Regarding debt relief, as noted above, effectiveness of the arrangement will be conditioned on receipt of adequate

[23] A disbursement of €8.5 billion in July 2017 has been approved at the June 2017 Eurogroup meeting. The European Commission's June 2017 Compliance Report for Greece envisages further disbursements of €18.4 billion over the course of the program, including for arrears clearance and building deposit buffers.

assurances from Greece's European partners regarding the details of a strategy that can ensure debt sustainability under staff's baseline macroeconomic scenario.

36. Program monitoring will be guided by semiannual reviews, quarterly and continuous performance criteria, and structural benchmarks (SBs). The first and second reviews under the Stand-By Arrangement are proposed to take place on or after February 15, 2018 and August 15, 2018. Availability of Fund disbursements would remain quarterly, to better align Fund financing with the quarterly ESM program. Indeed, Fund staff will join the quarterly ESM program reviews to assess compliance with the Fund arrangement. The new program incorporates the following performance criteria: (i) a floor on the modified general government primary cash balance; (ii) a floor on the primary spending on goods and services; (iii) a ceiling on the stock of domestic arrears; (iv) ceilings on the stock of central government debt, and on new guarantees granted by the general government; and (v) a continuous ceiling on the accumulation of new external debt payment arrears by the general government. The program incorporates as an indicative target a ceiling on state budget primary expenditure. As with the prior actions, SBs focus on the macro-critical areas of fiscal sustainability, financial stability and competitiveness (LOI Table 2).

37. Under the baseline, the authorities have adequate capacity to repay the Fund. During the proposed program period, total debt service amounts to some 10 percent of GDP, of which around 1 percent of GDP is due to the Fund. But, as evidenced by the 2015 episode of temporary arrears to the Fund, risks to Greece's capacity to repay the Fund remain, should program implementation run into prolonged delays or if a downside scenario materialized. Risks are mitigated by the expected support from European partners and by the limited access, which ensures that total credit outstanding would decline, even with full and timely disbursements, from 6.8 percent of GDP at end-2017 to 6.1 percent at end-2018.

38. In accordance with Fund policy, an updated safeguards assessment of the BoG should be completed by the first review under the arrangement. The previous assessment, finalized in August 2012, found that the BoG had a relatively strong safeguards framework. Since the assessment, the BoG has implemented the safeguards recommendations, including strengthening its internal audit department. The existing Memorandum of Understanding between the Ministry of Finance and the BoG defining the roles and responsibilities for servicing outstanding IMF resources will be updated by end-June, 2017. The authorities intend to treat the arrangement as precautionary. If an actual balance of payment need were to emerge, Fund resources would be deposited in the government's account at the BOG.

39. The program is subject to high and interrelated risks:

- ***Policy implementation risks***: In the fiscal area, given that the cornerstone pension and income tax reforms become effective only after the end of the program and during a year when parliamentary elections are expected to occur, their implementation is subject to high risks. In the fiscal structural area, opposition to the autonomous revenue agency could jeopardize its implementation. In the financial sector, opposition to e-auctions and other debt enforcement actions, evidenced by implementation delays to date, could stop the reform momentum, and the absence of a credible strategy to address NPLs in a timely manner would have negative consequences for confidence, the long-run viability of the system, and the pace at which capital controls can be relaxed. As to other structural reforms, continued pressures from vested interests could result in a further weakening and delay of reforms.

- ***Political and legal risks***: The implementation risks noted above are further exacerbated by a weak implementation capacity and by lingering risks related to continued political uncertainty. Moreover, the significant potential for legal challenges further compounds risks. For example, the Court of Auditors ruling against the new pension reform, while non-binding, could form the basis for future legal challenges. Other such challenges could also emerge regarding ongoing reforms (e.g. cases lodged against the 2016 pension reform, existing and upcoming Council of State rulings related to public sector wage cuts and temporary contracts, previous constitutional challenges against reforms of Sunday trade, etc.).

The risks noted above could have serious repercussions on the materialization of staff's growth and fiscal projections, as noted earlier. Delays in completion of program reviews could lead to a loss of confidence, with attendant negative implications for the expected recovery, the speed at which capital controls can be removed, and the delivery of expected debt relief. In this case, debt sustainability would be compromised, and Greece might not be able to address lingering challenges without continued official financing.

40. There are factors that help mitigate these risks. To mitigate implementation risks, program conditionality is frontloaded, with key reforms legislated upfront. Moreover, the program features increased emphasis on follow up implementation steps through both prior actions and structural conditionality. Key reforms are also supported by technical assistance from the Fund and other institutions. As to legal risks, the authorities have provided legal opinions supporting the new reforms and assurances that they will implement equivalent reforms in case current ones are found unconstitutional. Risks to the financial system are mitigated by substantial capital buffers allocated under the ESM-supported program, which, however, require timely supervisory action to ensure they can be utilized before the ESM program expires. Finally, risks related to capacity to repay the Fund are mitigated by the low proposed access and by linking the effectiveness of the arrangement to sufficient assurances on debt relief.

STAFF APPRAISAL

41. The Greek authorities continue to face formidable economic challenges. Four broad policy areas stand out. First, the structure of the public finances is unsustainable, unfair, and growth unfriendly, being reliant on high tax rates applied to narrow bases and on an unsustainable compression of discretionary spending, while pension spending remains un-affordably high. Second, bank NPLs and private sector debt (including to the state) remain very high, reflecting a weak payment culture and an inability to enforce collections. Third, closed professions and pervasive regulations and restrictions remain obstacles to investment, growth, and the restoration of competitiveness. Fourth, the public debt is still unsustainable despite the large debt relief already received. Fully addressing these challenges will be crucial to Greece's ability to prosper within the euro area in the long term, but will likely require significant time.

42. Against this background, staff welcomes the authorities' decision to rebalance the fiscal policy mix toward more growth-friendly policies. In particular, the decision to undertake additional fiscal reforms to lower the generous income tax credit and further reduce pensions in line with the benefit formula introduced with the 2016 reform is critical to the medium-term sustainability of the public finances. The reforms can help sustain the authorities' ambitious primary surplus of 3.5 percent of GDP over a limited period. But, as soon as possible, Greece's primary surplus target should be set at a more sustainable level of 1.5 percent of GDP. This would facilitate the urgently-needed modernization of the public sector that is indispensable for the broader modernization of the Greek economy, in particular by better targeting social assistance, stimulating public investment, and encouraging labor force participation and investment through lower tax rates.

43. Staff also welcomes the renewed efforts to strengthen fiscal institutions, while protecting vulnerable groups. Enhancing the provision of public services and preserving the fairness of the adjustment effort will ultimately depend on the ability of the government to improve tax collection and address the rising tax and social security debt. Efforts under the previous two programs have had mixed results, reflecting entrenched resistance to reform and a lack of trust in the public administration. To regain the public's trust, the authorities need to continue to support the new revenue agency in its effort to fight tax evasion, including by providing it with adequate tools and ensuring its autonomy. Moreover, the authorities need to redouble efforts to gradually reduce the existing stock of arrears, and improve public financial management. In this regard, the dramatic surge in temporary contracts that has in effect been undoing the significant downsizing of the public-sector workforce achieved since 2010 through attrition is a matter of considerable concern. Rules for temporary contracts need to be tightened urgently.

44. Progress is being made in rehabilitating the financial sector. The newly legislated out-of-court debt-workout framework and the electronic auction system should, when fully functional, help reduce the exceptionally large level of NPLs. Still, staff is concerned that the strategy for dealing with NPLs in effect relies on the extremely optimistic assumption that banks can gradually grow-out of this problem. Such a strategy implies constraints on the financial system's ability to provide credit to new dynamic enterprises, which could seriously hamper economic growth for years to come and could prevent the timely relaxation of capital controls. In view of this, to safeguard the soundness of the banking sector, it is critical that the supervisory authorities undertake an Asset Quality Review (AQR) and stress test before the end of the ESM program, to ensure that the resources set aside for bank rehabilitation in this program are utilized in a timely manner, if needed. An assessment of the financial sector strategy and plans in this regard will be the focus of the first review of the program supported by the arrangement.

45. Opening closed professions, modernizing regulatory regimes, and more generally liberalizing pervasive constraints and restrictions that hamper the investment climate remain Greece's overarching challenge. Previous programs have largely failed in this respect, and policies continue to fall well short of what is needed for Greece to prosper in the euro area, some limited opening up of close professions notwithstanding. Reform shortfalls are a major reason for the disappointing supply response under previous programs, including the weak export performance so far. Moreover, while the critically important labor market reforms in 2011 have facilitated wage flexibility, ensuring a much-welcomed realignment between wages at the firm level and firms' financial conditions, the inadequacy of accompanying product and service markets reforms meant that there has been no commensurate downward reduction in prices, causing an excessive reduction in real wages. But while staff agrees that too much of the burden has fallen on labor, it believes that the authorities are making a serious mistake by planning to reverse part of the labor market reforms, and strongly advises the authorities to reconsider their decision to do so. Instead, the authorities should focus on redoubling efforts to open-up and liberalize products and service markets.

46. Ensuring the independence and high quality of official statistics is key to the credibility of the program. Significant progress was achieved in improving the quality of Greek statistics since the establishment of the independent Hellenic Statistical Authority, in 2010. Technical assistance from the IMF, Eurostat, and other member states has been important in this regard. The authorities should protect the gains achieved so far by defending the statistical agency against any efforts to undermine its credibility, guaranteeing its professional independence, and addressing remaining shortcomings in reporting, while firmly respecting the "Commitment on Confidence in Statistics" that was endorsed by the government in 2012.

47. Even with full implementation of its policies, Greece cannot restore debt sustainability through its efforts alone and needs significant further debt relief from its European partners. Assumptions that Greece can repay its debt without additional debt relief by indefinitely maintaining unprecedentedly high primary surpluses, or that it can grow out of its debt problem, are not credible. A debt strategy anchored in more realistic assumptions needs to be discussed and agreed. Staff expects that additional assurances regarding the strategy and attendant relief needed to restore debt sustainability will be forthcoming from Greece's European partners in the coming months.

48. In conclusion, staff believes that the authorities program addresses several key problems that need to be resolved for Greece to be able to prosper and stand on its own inside the euro area. The pension, tax reforms, and other fiscal structural reforms are critical for the public sector's ability to support the modernization of the Greek economy. Broader reforms to open and liberalize the economy are not progressing at a speed commensurate with the formidable obstacles to sustained growth, but by providing a framework for ensuring macroeconomic stability and for delivering urgently needed debt relief the program should provide Greece the breathing space needed to garner political support for such reforms. While weak implementation capacity and lingering political uncertainty give rise to notable concerns regarding the Greek political system's ability to carry through with the reform agenda, the pension and tax reforms are evidence of the government's determination to tackle socially and politically difficult challenges amid considerable adjustment fatigue and resistance from vested interest interests. Overall, staff believes that the authorities' program deserves the Fund's endorsement and supports the authorities' request for a precautionary Stand-By Arrangement, to be approved in principle and which will become effective once sufficient assurances on debt relief to restore debt sustainability have been received.

Box 1. Key Reforms Implemented under the ESM-Supported Program

Under the ESM program, the authorities have taken important steps to reinvigorate the fiscal, financial, and structural reform agenda after the reversals began in late 2014. The key reforms legislated through May 2017, which serve as a basis for the adjustment program supported by the IMF, include the following:

- **Fiscal policies:** The authorities adopted a fiscal package expected to deliver savings of 3¾ percent of GDP by 2018, supported by three key reforms (among other smaller measures). A ***VAT reform*** (yield of 0.9 percent of GDP) streamlined the number of the rates and sought to broaden the base under the statutory rate (currently 24 percent). An ***income tax reform*** (yield of 1 percent of GDP) increased and harmonized rates for wage, business, and farming income. A ***pension reform*** (yield of 1.5 percent of GDP) reduced early retirement options, eliminated the solidarity grant EKAS and non-contributory pension minima, introduced a uniform pension benefit formula for new retirees, rationalized supplementary pensions above a minimum, and started the unification of social security contributions.

- **Fiscal structural reforms**: The authorities adopted legislation to establish an ***autonomous revenue agency*** insulated from political interference and with modern practices in staff recruitment, remuneration, organization and tax collection. A new ***social welfare program*** was rolled out at the beginning of 2017, providing a means-tested guaranteed minimum income (GMI) equivalent to 50 percent of the poverty threshold to about 480,000 beneficiaries.

- **Financial sector**: Following an asset quality review, at end-2015, the ***systemic banks were recapitalized*** with private (€8.3 billion) and public support (€ 5.4 billion), allowing them to reach capitalization levels of 17 percent CET1, well above the regulatory minimum. In addition, the authorities revamped the ***Code of Civil Procedure*** by modernizing dispute resolution processes, allowing better enforcement of claims through new auctioning rules, and strengthening the protection of secured creditors. ***Insolvency reforms*** streamlined the insolvency process for firms and households, while a new legislative framework allowed the ***sale and servicing of NPLs*** for the first time in Greece.

- **Structural reforms**. The authorities implemented the recommendations of ***three OECD Competition Assessments*** (Toolkits I, II, and a part of III), except for the liberalization of Sunday trade, over-the-counter trade of pharmaceuticals, and a number of sectors under Toolkit III. ***Three privatization deals*** have been finalized (concessions for 14 regional airports, concession of the Port of Piraeus, and sale of the railway company Trainose), bringing in €1.5 billion in revenues.

Box 2. Staff's Fiscal Assumptions and Comparison with the Authorities' Projections

Staff's fiscal projections are more conservative than the authorities. The differences, which cumulate to close to 4 percent of GDP by 2021 (before post-program measures), are accounted for by differences in tax revenue projections (about one third of the difference between staff and government projections), spending projections (mainly pensions, also about a third), and growth assumptions and expiration of current legislation (the rest). Under staff's baseline scenario, the income tax and pension reforms would need to be implemented simultaneously in 2019 merely to achieve the surplus target of 3.5 percent of GDP by that year. The growth enhancing package would need to be postponed until 2023, when the surplus target is reduced to 1.5 percent of GDP. In contrast, the authorities project a primary surplus (before measures) well in excess of 3.5 percent of GDP by 2022. The stronger fiscal baseline built into their MTFS would allow for the implementation of the growth-enhancing fiscal package, along with a significant amount of additional unspecified expansionary measures, as soon as 2019.

Empirical evidence and recent tax data suggest that tax revenue assumptions should remain prudent. Staff assumes unitary elasticity of PIT revenues to GDP growth, which is broadly consistent with the findings of Belinga et al. (2014) and Dudine and Jalles (2017), based on cross-country estimates. Staff's assumption is also based on the observation that pensions and public sector wages, which are frozen in nominal terms, form more than three quarters of total taxable labor income. In addition, 2016 tax declaration data shows a growing number of taxpayers with incomes below the tax-free threshold, in line with macroeconomic evidence of employment growth at low-income levels (part-time and temporary). By contrast, the authorities project significantly higher tax revenues in the medium run, accounting for about a third of the difference between their projections and staff's.

Demographic trends call for cautious pension spending projections. Staff's assumptions on inflows and exits from the pension system are based on UN population aging projections (UN (2015)) for Greece (assuming a growth rate of the population over age 60 at 1.1 percent per year, and a death rate among those aged above 60 of around 3 percent during 2016-2020). Furthermore, staff assumes that 92 percent of an existing backlog of 120,000 unprocessed pension claims as of end-2016 will be cleared by 2021. This reflects the authorities' public commitment to fast processing of pension claims and the recent introduction of electronic registries, which allows for faster processing. These assumptions imply the number of pensions, net of clearance of the unprocessed claims, will increase at around 1 percent per year. The authorities project lower inflows and higher exits from the pension system, as well as a much higher mortality rate, explaining about another third of the difference with staff's projections**.**

Fiscal projections need to be anchored in credible policies and growth assumptions. The remaining differences between staff and the authorities are due to the authorities' more optimistic assumptions on growth and the capacity for continued spending restraint in the medium-term. Notably, staff does not assume that expiring legislation (attrition rule, ceilings on healthcare expenditure) will continue to hold even after expiration and instead anchors spending using cross-country empirical evidence and Greece's historical and peer countries' spending patterns.

Greece: General Government Operations, 2018–21

(Staff difference with authorities, percent of staff GDP)

	2018	2019	2020	2021
Before Post-Program Measures				
Total Primary Revenue	**-0.8**	**-1.0**	**-1.2**	**-1.7**
Indirect taxes	-0.1	-0.1	-0.1	-0.2
Direct taxes	-0.5	-0.7	-0.9	-1.2
Social contributions	0.0	0.0	-0.1	-0.1
Other revenue	-0.2	-0.2	-0.2	-0.3
Total Primary Expenditure	**0.5**	**1.4**	**1.7**	**2.1**
Social benefits	0.3	0.9	1.2	1.4
Compensation of employees	0.0	0.1	0.2	0.3
Intermediate consumption	0.1	0.2	0.1	0.2
Other expenditure	0.1	0.1	0.2	0.3
Primary Balance (before measures)	**-1.3**	**-2.4**	**-3.0**	**-3.8**
Including Post-Program Measures				
Income Tax Reform	0.0	1.0	0.1	0.1
Pension Reform (gross savings)	0.0	-0.1	-0.1	-0.1
Agreed Expansionary Measures	0.0	1.0	1.9	1.9
Additional Expansionary Measures	0.0	0.3	0.7	1.7
Netting of measures, macro impact.	0.0	-0.4	-0.3	-0.3
Primary Balance (including measures)	**-1.3**	**-0.5**	**-0.6**	**-0.6**

Source: IMF staff estimates.

Box 3. Risks Related to the Reintroduction of Sectoral Extensions of Collective Bargaining

The system prevalent before 2011 based on sectoral extensions of collective bargaining led to a large increase in unit labor costs and precluded a rapid adjustment of the labor market despite sharply rising unemployment. The 2011 reforms suspended sectoral extensions among others. A reversal of these reforms, which has recently been legislated to take effect at end-program, risks undermining Greece's gain in competitiveness, potentially hindering the recovery, the needed firm restructuring, and the declining trend in unemployment.

Sectoral extensions of collective bargaining tend to reduce wage inequality, but at the cost of lower employment, reduced competition, and amplification of rigidities in downturns. Such extensions allow a subgroup of employers and employees to set a floor on wages for the entire sector or occupation. While extensions may help address bargaining coordination issues, this works best in countries with strong social contracts and where labor bargaining is tri-partite, with employers, unions, and government all rowing in the same direction and each internalizing costs. If this is absent, extensions can create distortions in wage formation at the firm level and make wage and working conditions less responsive to economic shocks, forcing the adjustment to rely largely on labor shedding. The literature documents these rigidities:

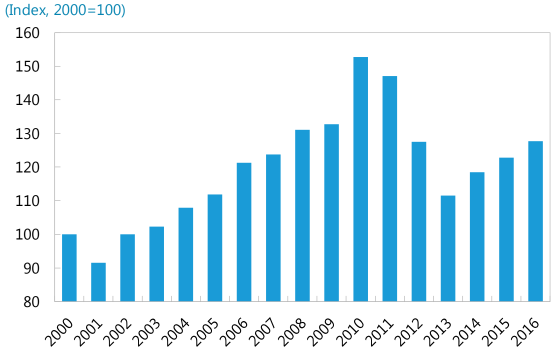
- ***Extensions tend to result in higher wages at the lower segment of the distribution, but this comes at the expense of lower employment***. Hijzen and Martins (2016) found that extensions led to higher wage growth, concentrated at the bottom of the distribution (5-10 percentile), but also led to a decline in employment by 5 percent or more during the 2010-11 crisis in Portugal. Martins (2014) found that following an extension, formal employment declined by about 2 percent in Portugal, with lower hiring playing a larger role than layoffs; the impact was larger in small firms, with employment declining about 2½ percent. Magruder (2012) exploited the geographical nature of extensions in South Africa and found that extensions decrease employment in a given industry by 8-13 percent.

- ***Extensions can stifle wage competition from small firms with low productivity***. Moll (1996) shows how the largest and most productive firms that participate in collective bargaining can reduce competition in the economy through administrative extensions applied to less productive firms. Haucaup et al. (2001) show how extensions can be used by incumbents to deter firm entrance by raising expected labor cost. Finally, Guimaraes et al. (2015) find that wage increases resulting from extensions are associated with a higher probability of firm failure.

- **Extensions increase the cost of economic downturns and amplify rigidities.** Diez Catalan and Villanueva (2014) estimated that, in Spain, the extension of sectoral agreements in 2009-10 can explain a third of the increase in the probability of becoming unemployed for less skilled workers. Murtin et al. (2014) found in a sample of 15 OECD countries the tax elasticity of the unemployment rate is augmented by extensions.

- **In Greece, the system prevailing before 2011 based on sectoral extensions of collective bargaining system exacerbated economic imbalances**. Unit labor costs (wages relative to productivity) increased by around 50 percent during 2000-10. An attempt to allow firms to derogate from sectoral agreements in 2010 through opt out clauses also failed to produce results. It was only after the 2011 reforms that suspended extensions and favorability (along with other elements) that ULCs and unemployment started to decline.

Greece: Unit Labor Costs, 2000-2016
(Index, 2000=100)

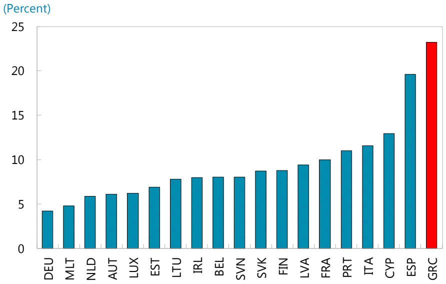


Source: IMF World Economic Outlook database.

Box 3. Risks Related to the Reintroduction of Sectoral Extensions of Collective Bargaining (concluded)

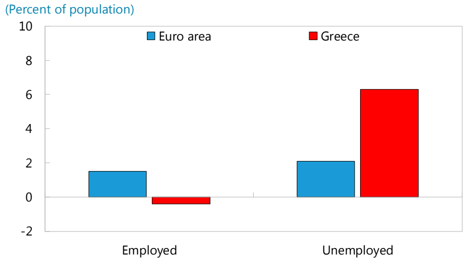
Is the problem in Greece now too low wages relative to productivity or too high unemployment? Wages relative to productivity have declined back to pre-crisis levels, which does not suggest that wages have over-adjusted. However, Greece's unemployment rate remains the highest among peers, even after having declined since the 2011 reforms. Unemployment appears to be the key driver of poverty in Greece, with the poverty rate for this group having risen by more than 6 percent since the onset of the crisis.

Unemployment rate, 2016
(Percent)



Source: IMF World Economic Outlook database.

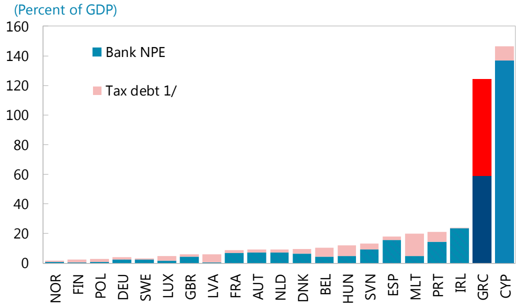
Change in Poverty Rate, 2010-2015
(Percent of population)



Source: Eurostat.
Note: Persons at risk of poverty are those living in a household with equivalized disposable income below 60 percent of the national median.

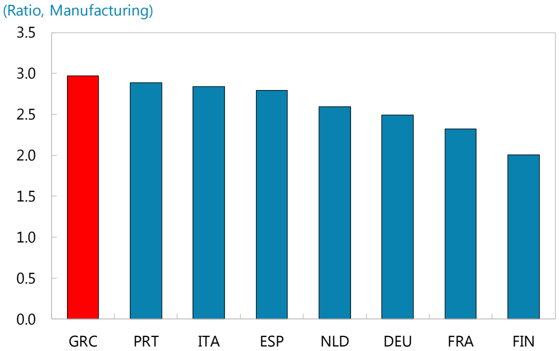
Greek economic conditions call for a focus on employment creation. Output declined by 25 percent since the crisis, and has been stagnating in the last few years. This suggests that there is an acute need to attract investment and support job creation. Moreover, employment is concentrated in small firms with large productivity differences. Finally, with private sector arrears to banks and the state at 130 percent of GDP, the highest among peers, there are large needs for firms to restructure and thus maintain cost flexibility.

Private Sector Arrears
(Percent of GDP)



Sources: EBA 2015 June Report; Eurostat; OECD; and IMF staff calculations.
Note: 1/ Data for Greece are estimates as of first quarter of 2017 and include social security contribution debt.

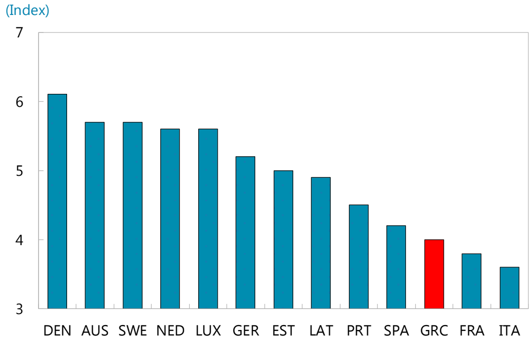
Productivity of Large Relative to Small Firms, 2013
(Ratio, Manufacturing)



Sources: Eurostat; and IMF staff calculations.

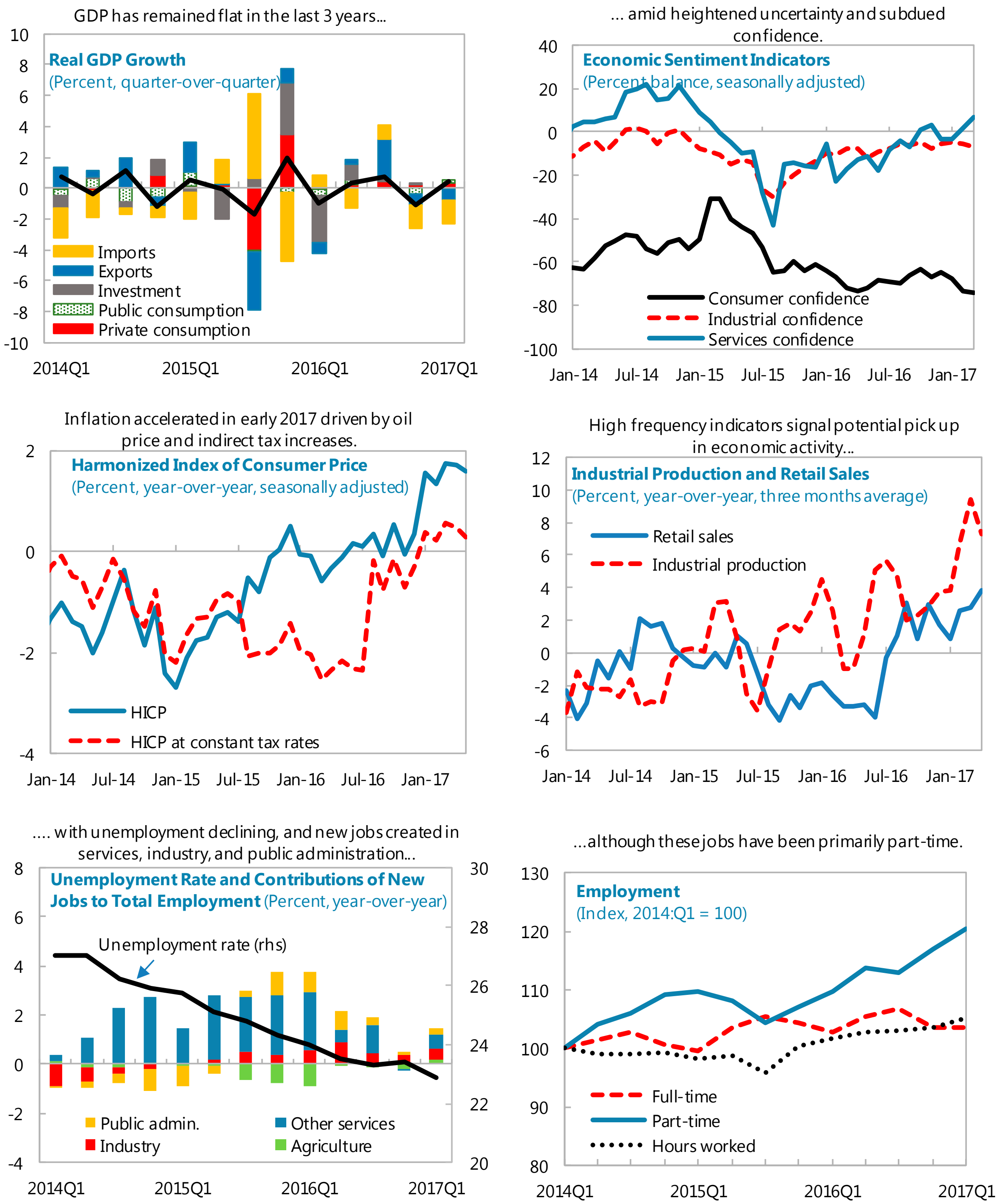
The reintroduction of the extension principle carries significant risks. Bargaining at the firm level will likely be discouraged once the extension is reintroduced, as employees will have little incentive to engage in firm bargaining. Greece also ranks poorly on labor-employer relations, which amplifies this risk. Thus, small firms would have to accept the higher wages at the sectoral level, which would limit their possibilities to restructure and expand employment, and may even lead to their closure and layoffs. This risks undermining Greece's ULC-based competitiveness gains achieved so far, and could halt and even reverse the declining trend in unemployment, with negative social consequences. Thus, on balance, the costs of reintroducing the extension appear to outweigh their redistributive benefits.

Cooperation in Labor-Employer Relations
(Index)



Source: Global Competitiveness Index, World Economic Forum.

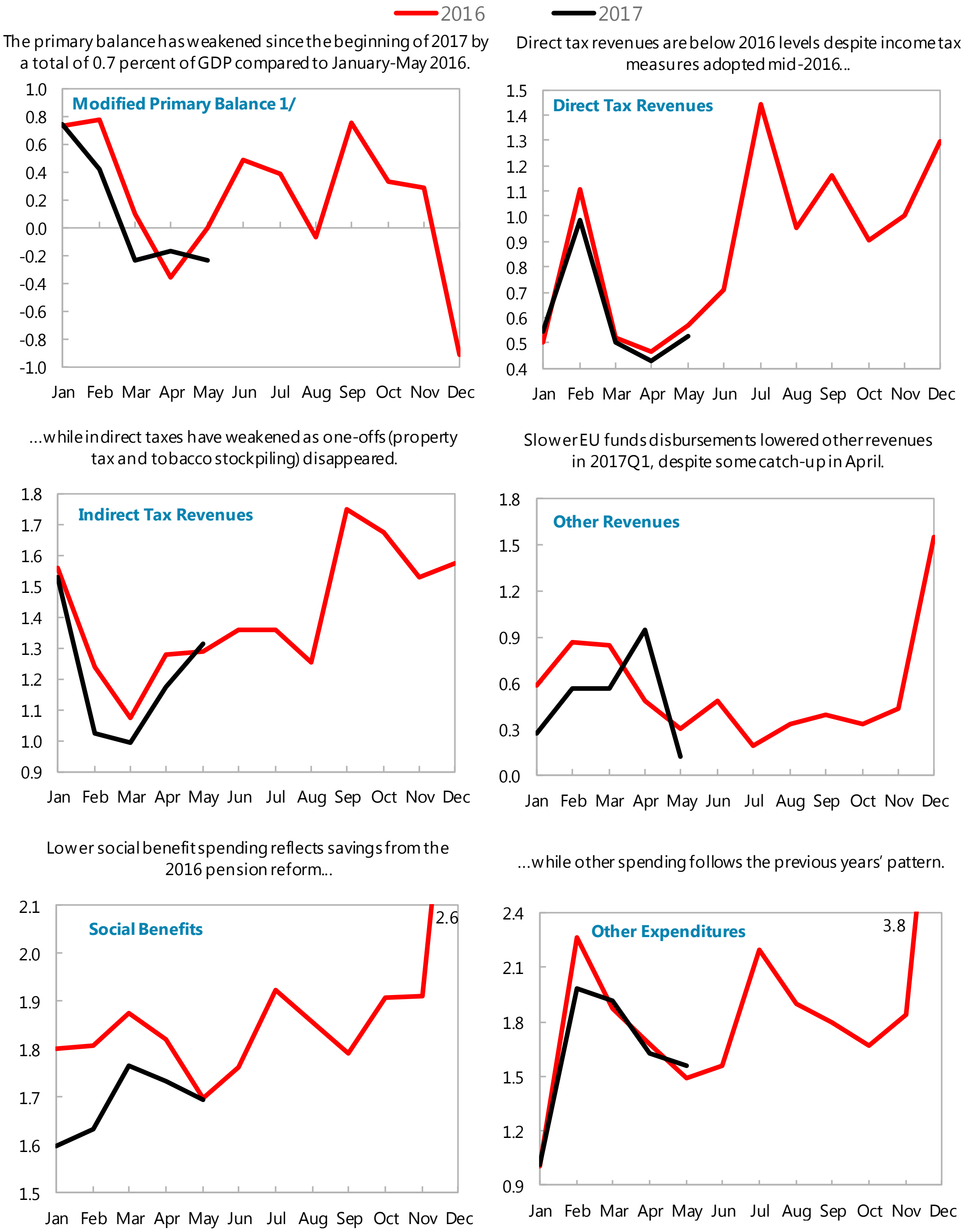
Figure 1. Greece: Macroeconomic Developments



Sources: Bank of Greece; ELSTAT; Haver Analytics; and IMF staff calculations.

Figure 2. Greece: General Government Fiscal Outturn

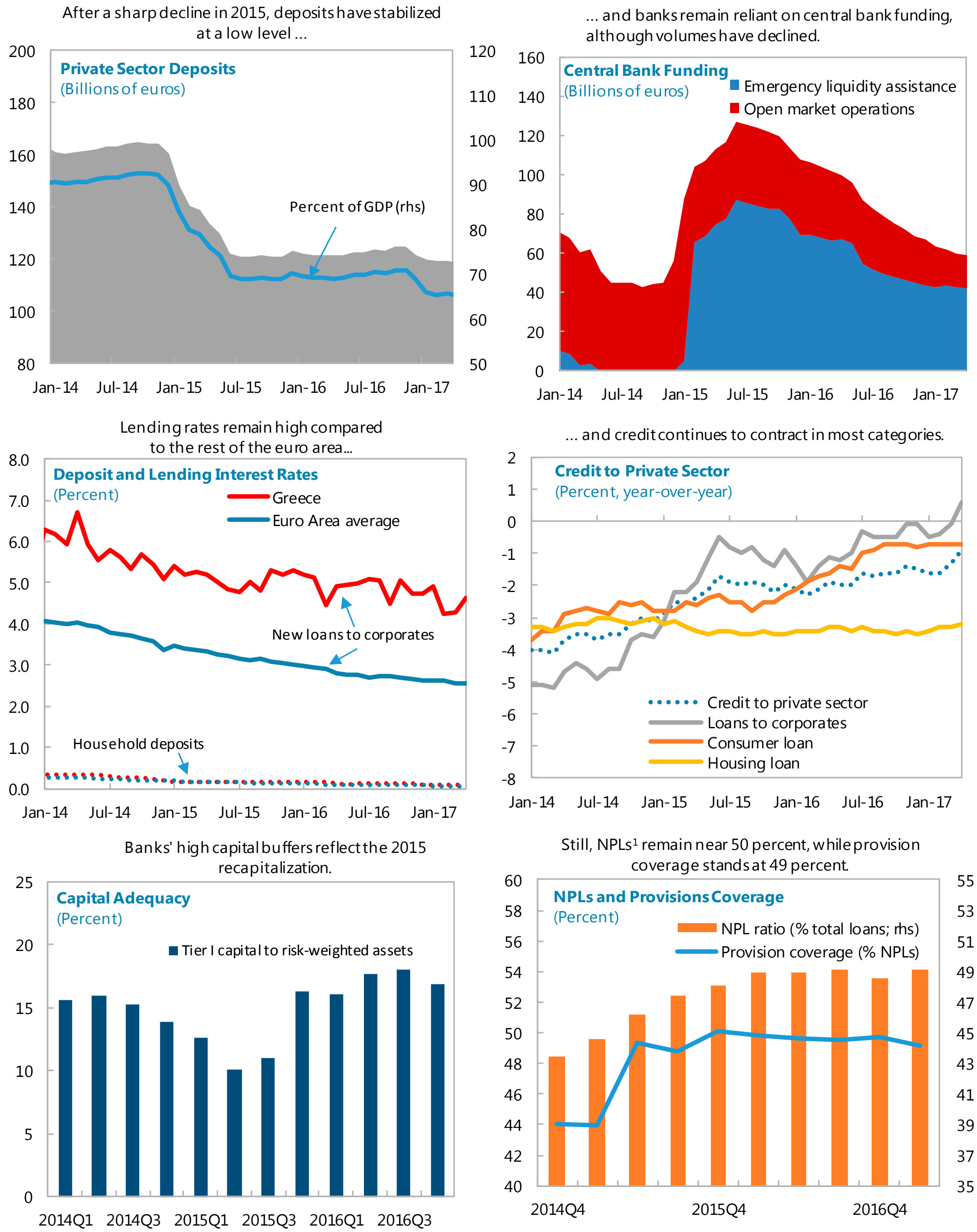
(Percent of GDP, monthly)



Source: Ministry of Finance.

1/ Excludes ANFA revenues and sales of non-financial assets in line with the program definition.

Figure 3. Greece: Financial Sector Developments



Sources: Bank of Greece; ELSTAT; Haver Analytics; and IMF staff calculations.

[1] Non-performing loans are defined as loans that are 90 days or more past due, unlikely to be repaid in full without realizing collateral, and impaired according to accounting rules, as well as loans that have been restructured for less than a year.

Table 1. Greece: Medium-Term Macro Framework, 2015–22

	2015	2016	2017	2018	2019	2020	2021	2022
		Prel.			Proj.			
	(Percentage change, unless otherwise indicated)							
Domestic economy								
Real GDP	-0.2	0.0	2.1	2.6	1.9	1.9	1.8	1.0
Total domestic demand	-0.2	0.6	0.9	2.3	1.9	1.9	1.9	1.0
Private consumption	-0.2	1.4	1.4	1.4	0.5	0.8	1.0	1.0
Public consumption	0.0	-2.1	0.5	0.6	0.4	0.4	0.4	0.4
Gross fixed capital formation	-0.2	0.1	6.6	10.3	11.5	9.9	7.5	2.4
Exports of goods and services	3.4	-2.0	3.3	4.0	4.0	3.9	3.5	3.2
Imports of goods and services	0.3	-0.4	2.8	3.0	3.7	3.5	3.4	3.0
Final Consumption (contribution)	-0.1	0.5	1.1	1.1	0.4	0.6	0.7	0.7
Gross fixed capital formation (contribution)	0.0	0.0	0.8	1.2	1.5	1.4	1.1	0.4
Change in stocks (contribution)	-1.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Foreign balance (contribution)	0.9	-0.5	0.1	0.3	0.0	0.0	0.0	0.0
Unemployment rate (percent) 1/	24.9	23.6	22.3	20.7	19.5	18.4	17.8	17.1
Employment	2.1	1.7	1.7	2.6	2.1	1.8	1.0	1.0
Unit labor costs	-2.1	2.2	0.9	1.2	1.4	1.6	1.7	1.7
Consumer prices (HICP), period average	-1.1	0.0	1.2	1.3	1.4	1.6	1.7	1.7
GDP deflator	-1.0	0.1	1.2	1.3	1.4	1.6	1.7	1.7
	(Percent of GDP, unless otherwise indicated)							
Balance of payments								
Current account	0.1	-0.6	-0.3	-0.1	-0.1	-0.1	0.1	0.0
Trade balance	-0.2	-0.7	-0.6	-0.4	-0.4	-0.3	-0.3	-0.3
Export of goods and services	30.0	28.1	28.9	29.1	29.5	29.9	30.2	30.6
Export of goods	14.1	13.9	14.6	14.5	14.6	14.8	15.0	15.2
Exports of services	15.9	14.2	14.2	14.6	15.0	15.1	15.2	15.4
Imports of goods and services	30.2	28.9	29.5	29.5	29.9	30.2	30.5	30.9
Imports of goods	23.9	23.3	24.1	24.2	24.5	24.8	25.0	25.3
Imports of services	6.3	5.5	5.4	5.4	5.4	5.5	5.6	5.6
Primary income	0.6	0.4	0.7	0.7	0.7	0.7	0.9	0.8
Secondary income	-0.3	-0.3	-0.3	-0.4	-0.4	-0.5	-0.5	-0.5
Net international investment position	-134.6	-136.5	-134.8	-130.7	-126.7	-122.5	-118.3	-115.1
Gross external debt	251.1	245.8	240.1	234.0	228.7	223.1	217.5	214.5
Private sector capital flows (net)	-31.5	22.2	3.6	-7.3	3.4	2.2	3.1	3.4
Public finances (general government)								
Total revenues	48.2	50.0	48.4	46.8	46.7	46.1	45.2	45.0
Total expenditures	51.3	49.2	50.1	47.7	46.3	45.9	45.1	45.2
Primary expenditures	47.7	45.8	46.7	44.6	43.1	42.6	41.7	41.4
Overall balance	-3.1	0.8	-1.7	-0.9	0.4	0.2	0.1	-0.2
Primary balance	0.5	4.2	1.7	2.2	3.5	3.5	3.5	3.5
Privatization receipts	0.1	0.2	0.3	0.6	0.2	0.0	0.0	0.0
Gross debt	179.4	181.6	178.8	183.2	176.5	170.0	163.9	159.5

Sources: ELSTAT; Ministry of Finance; Bank of Greece; and IMF staff estimates.

1/ Based on Labor Force Survey.

Table 2. Greece: Summary of Balance of Payments, 2015–22

	2015	2016	2017	2018	2019	2020	2021	2022
		Prel.			Proj.			
				(Billions of euros)				
Current account balance	0.2	-1.1	-0.5	-0.2	-0.2	-0.2	0.1	0.1
Balance of goods and services	-0.3	-1.3	-1.1	-0.8	-0.8	-0.7	-0.7	-0.6
Goods balance	-17.2	-16.6	-17.2	-18.3	-19.5	-20.2	-20.9	-21.7
Exports	24.8	24.5	26.6	27.4	28.4	29.8	31.4	32.7
Imports	42.0	41.1	43.8	45.6	47.9	50.1	52.3	54.4
Services balance	16.9	15.3	16.1	17.5	18.7	19.5	20.2	21.1
Credit	27.9	25.0	25.8	27.6	29.2	30.6	31.8	33.2
Debit	11.0	9.7	9.7	10.1	10.5	11.0	11.6	12.1
Primary income balance	1.0	0.8	1.2	1.3	1.4	1.4	1.9	1.8
Credit	7.5	6.6	8.7	9.1	10.7	11.8	11.9	12.2
Debit	6.5	5.9	7.5	7.8	9.3	10.4	10.0	10.4
Secondary income balance	-0.5	-0.6	-0.6	-0.7	-0.8	-0.9	-1.0	-1.1
Capital account balance	2.0	1.0	1.1	1.2	1.2	1.2	1.3	1.2
Financial account balance	16.5	7.4	14.8	14.0	0.3	0.5	1.1	1.4
Direct investment	0.9	-3.4	-2.9	-2.5	-3.3	-3.5	-3.7	-3.7
Portfolio investment	8.3	9.6	5.1	4.5	5.2	4.6	4.2	3.4
Other investment	7.3	1.2	12.6	12.0	-1.5	-0.6	0.6	1.7
Net errors and omissions	1.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Reserves and related items	-13.1	-7.5	-14.2	-13.0	0.6	0.5	0.3	-0.1
Reserve assets	0.4	0.6	0.0	0.0	0.0	0.0	0.0	0.0
IMF credit and loans	-9.2	-3.3	-0.7	-1.8	-2.1	-2.1	-2.1	-2.0
Exceptional financing	22.6	11.4	14.9	14.9	1.5	1.7	1.8	2.1
				(Percent of GDP)				
Current account balance	0.1	-0.6	-0.3	-0.1	-0.1	-0.1	0.1	0.0
Balance on goods and services	-0.2	-0.7	-0.6	-0.4	-0.4	-0.3	-0.3	-0.3
Goods balance	-9.8	-9.4	-9.5	-9.7	-10.0	-10.0	-10.0	-10.1
Services balance	9.6	8.7	8.9	9.3	9.6	9.7	9.6	9.8
Primary income balance	0.6	0.4	0.7	0.7	0.7	0.7	0.9	0.8
Secondary income balance	-0.3	-0.3	-0.3	-0.4	-0.4	-0.5	-0.5	-0.5
Capital account balance	1.1	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Financial account balance	9.4	4.2	8.1	7.4	0.2	0.3	0.5	0.6
Direct investment	0.5	-1.9	-1.6	-1.3	-1.7	-1.7	-1.7	-1.7
Portfolio investment	4.8	5.5	2.8	2.4	2.6	2.3	2.0	1.6
Other investment	4.1	0.7	6.9	6.3	-0.8	-0.3	0.3	0.8
Net errors and omissions	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reserves and related items	-7.5	-4.3	-7.8	-6.9	0.3	0.2	0.1	0.0
Reserve assets	0.2	0.3	0.0	0.0	0.0	0.0	0.0	0.0
IMF credit and loans	-5.2	-1.9	-0.4	-1.0	-1.1	-1.1	-1.0	-0.9
Exceptional financing	12.9	6.5	8.2	7.9	0.8	0.8	0.9	1.0
Gross external debt	251.1	245.8	240.1	234.0	228.7	223.1	217.5	214.5
Public sector 1/	215.8	202.4	193.8	195.8	188.3	182.0	175.3	169.5
Private sector	35.3	43.4	46.3	38.2	40.4	41.1	42.2	45.0
Memorandum item:								
Current account balance in cash terms	0.8	0.0	0.5	0.7	0.7	0.7	0.9	1.0

Sources: Bank of Greece; and IMF staff estimates.

1/ Includes debt of the monetary authority.

Table 3. Greece: General Government Operations, 2015–22 1/

	2015	2016	2017	2018	2019	2020	2021	2022
		Prel.			Proj.			
				(Billions of euros)				
Revenue	84.7	87.9	88.0	88.4	91.1	93.1	94.6	96.7
Indirect taxes	28.3	30.0	31.4	31.9	32.1	32.9	33.4	34.1
Direct taxes	17.1	18.1	18.0	18.0	20.1	20.9	21.5	22.2
Social contributions	24.4	24.9	25.3	26.0	26.3	26.8	27.4	27.9
Other current revenue	4.6	6.0	4.3	3.9	4.0	4.0	3.9	4.0
Sales	5.1	5.6	5.4	5.0	5.0	5.1	5.0	5.1
Capital revenue	5.2	3.2	3.7	3.6	3.6	3.4	3.3	3.4
Primary expenditure	83.8	80.6	84.9	84.2	84.2	86.1	87.2	89.1
Social benefits	39.0	39.2	39.2	39.3	38.1	38.8	39.3	39.9
Subsidies	1.7	1.7	1.9	1.8	1.9	1.9	1.9	1.9
Other current expenditure	2.9	2.8	3.1	2.8	2.7	2.9	3.1	3.2
Compensation of employees	21.6	21.6	22.0	22.4	22.9	23.4	23.6	24.2
Intermediate consumption	8.6	8.3	9.8	9.1	9.4	9.7	10.2	10.6
Investment	10.0	6.9	8.9	8.7	9.1	9.4	9.1	9.3
Primary balance	0.9	7.3	3.1	4.2	6.9	7.0	7.4	7.6
Interest	6.3	5.9	6.2	5.9	6.2	6.6	7.2	8.0
Overall balance	-5.4	1.4	-3.1	-1.7	0.8	0.4	0.2	-0.4
Gross debt (Maastricht)	315.1	319.4	324.9	346.0	344.3	343.5	342.9	343.1
				(Percent of GDP)				
Total primary revenue	48.2	50.0	48.4	46.8	46.7	46.1	45.2	45.0
Indirect taxes	16.1	17.1	17.3	16.9	16.5	16.3	16.0	15.9
Direct taxes	9.7	10.3	9.9	9.6	10.3	10.3	10.3	10.3
Social contributions	13.9	14.2	13.9	13.8	13.5	13.3	13.1	13.0
Other current revenue	2.6	3.4	2.3	2.1	2.1	2.0	1.9	1.9
Sales	2.9	3.2	3.0	2.6	2.6	2.5	2.4	2.4
Capital revenue	3.0	1.8	2.0	1.9	1.8	1.7	1.6	1.6
Total primary expenditure	47.7	45.8	46.7	44.6	43.1	42.6	41.7	41.4
Social benefits	22.2	22.3	21.6	20.8	19.5	19.2	18.8	18.6
Subsidies	1.0	1.0	1.0	1.0	1.0	0.9	0.9	0.9
Other current expenditure	1.6	1.6	1.7	1.5	1.4	1.4	1.5	1.5
Compensation of employees	12.3	12.3	12.1	11.9	11.8	11.6	11.3	11.2
Intermediate consumption	4.9	4.7	5.4	4.8	4.8	4.8	4.9	4.9
Investment	5.7	3.9	4.9	4.6	4.6	4.6	4.4	4.3
Primary balance	0.5	4.2	1.7	2.2	3.5	3.5	3.5	3.5
Interest	3.6	3.3	3.4	3.1	3.2	3.3	3.4	3.7
Overall balance	-3.1	0.8	-1.7	-0.9	0.4	0.2	0.1	-0.2
Gross debt (Maastricht)	179.4	181.6	178.8	183.2	176.5	170.0	163.9	159.5
Nominal GDP (billions of euros)	175.7	175.9	181.8	188.8	195.1	202.1	209.3	215.1

Sources: Ministry of Finance; and IMF staff estimates.

1/ Calculations based on program definitions as outlined in the Technical Memorandum of Understanding.

Table 4. Greece: Monetary Survey, 2012–17

	2012	2013	2014	2015	2016	2017 Mar.
			(Billions of euros)			
Aggregated balance sheet of Monetary Financial Institutions (MFIs)						
Total assets	602.5	517.6	501.5	544.5	469.9	452.8
Cash (held by credit institutions)	2.5	2.0	1.9	1.7	1.8	1.5
Claims on Bank of Greece	3.1	4.0	3.5	1.7	0.9	1.1
Claims on other MFIs	170.7	107.3	86.2	134.1	86.1	77.9
Claims (Loans) on non MFIs	250.1	238.9	234.2	225.6	213.8	209.5
Domestic	244.8	233.8	229.7	221.0	209.3	205.3
General government	17.4	15.9	17.7	16.7	14.2	12.3
Other sectors	227.5	217.9	212.0	204.3	195.1	193.0
Other countries	5.2	5.2	4.5	4.6	4.5	4.2
Securities 1/	100.4	94.3	102.0	107.7	97.7	93.5
Other assets	70.6	66.0	69.1	68.9	65.0	64.6
Fixed assets	5.0	5.1	4.7	4.7	4.7	4.7
Total Liabilities	574.8	495.2	501.5	544.5	469.9	452.8
Liabilities to Bank of Greece	121.2	73.0	56.0	107.6	66.6	59.7
Liabilities to other MFIs	133.2	93.0	92.6	107.5	97.6	100.8
Deposits and repos of non MFIs	197.5	196.5	191.0	145.8	150.6	145.9
Domestic	179.1	182.6	177.2	139.2	142.4	137.3
Other countries	18.3	13.9	13.8	6.6	8.2	8.6
Capital and reserves	45.6	67.0	75.0	91.2	89.1	87.3
Banknotes and coins in circulation	24.3	25.4	27.9	29.6	30.7	30.5
Other liabilities	53.0	40.3	59.0	62.8	35.3	28.5
Money and credit						
Broad money	188.4	193.2	192.6	158.4	161.9	159.4
Credit to the private sector 2/	227.3	217.5	211.6	203.9	194.7	192.6
Credit to government	28.2	21.8	23.6	23.7	19.1	17.2
			(Annual percentage change)			
Broad money	-5.3	2.7	-0.3	-17.8	2.2	2.2
Domestic private sector deposits	-7.3	1.4	-2.4	-23.5	3.4	3.1
Credit to the private sector 2/	-4.0	-3.9	-3.9	-3.6	-4.5	-4.7
Credit to government	-7.9	-18.1	8.0	0.7	-19.7	-21.5
			(Percent of GDP)			
Broad money	98.5	107.0	108.4	90.3	92.2	90.6
Domestic deposits	93.6	101.1	99.7	79.4	81.1	78.0
Credit to the private sector 2/	118.8	120.5	119.1	116.3	110.9	109.4
Credit to government	14.8	12.1	13.3	13.5	10.9	9.8
Memorandum items:			(Percent)			
Capital to assets	3.3	6.9	7.7	9.2	9.2	9.2
Loans to customer deposits	111.6	110.6	109.3	138.3	131.2	130.3
Velocity	1.0	0.9	0.9	1.1	1.1	1.1

Sources: Bank of Greece; and IMF staff calculations.

1/ Holdings of securities other than shares and derivatives.

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

Table 5. Greece: Core Set of Financial Soundness Indicators for Deposit Taking Institutions, 2012–16

(Percent, unless otherwise indicated)

	2012	2013	2014	2015	2016			
					Mar.	June	Sep.	Dec.
Core set								
Regulatory capital to risk-weighted assets 1/	10.0	13.6	14.1	16.4	16.1	17.8	18.1	17.0
Regulatory tier I capital to risk-weighted assets 1/	9.3	13.2	13.9	16.3	16.0	17.7	18.0	16.9
Nonperforming loans net of provisions to capital 2/	152.0	138.5	120.3	79.5	81.8	81.9	81.8	81.7
Nonperforming loans to total gross loans 2/	24.5	31.9	33.8	36.8	36.9	37.0	37.1	36.3
Bank provisions to nonperforming loans	49.1	49.3	55.8	67.6	68.1	67.8	67.7	68.8
Return on assets (after taxes)	...	...	-1.3	-2.5	0.0	0.1	0.1	0.1
Return on equity (after taxes)	...	...	-14.1	-24.3	0.2	0.5	1.0	0.9
Interest margin to gross income	103.1	76.7	88.0	81.9	86.7	83.4	80.8	74.2
Non-interest expenses to gross income	93.9	76.3	64.8	56.0	52.6	49.0	47.5	45.2
Liquid assets to total assets 3/	32.1	29.9	28.9	29.7	29.7	28.5	28.3	27.0
Liquid assets to short-term liabilities 3/	41.9	40.0	40.1	40.4	40.1	38.2	38.4	36.3
Net open position in foreign exchange to capital 1/	15.7	5.3	5.4	5.6	3.8	1.9	1.3	0.8
Encouraged set								
Spread between reference lending and deposit rates (end-of-period, basis points) 4/	7.1	7.0	6.2	5.9	5.9	5.7	5.7	5.6
Customer deposits to total (noninterbank) loans 3/	89.6	90.4	90.3	71.8	71.3	71.3	74.3	74.3
Foreign currency-denominated liabilities to total liabilities 3/	6.5	5.9	5.5	3.1	2.9	3.2	3.2	3.2
Market liquidity								
Average bid-ask spread in the securities market (basis points)	193.0	185.0	157.0	173.0	162.0	157.0	182.0	149.0
Households								
Household debt to GDP	63.7	64.5	63.0	62.3	62.0	61.1	60.7	60.2
Real estate markets								
Residential real estate loans to total loans 3/	25.5	26.4	26.8	27.6	27.6	27.6	28.1	27.2
Memorandum items:								
Assets (billions of euros)								
Banks	389.7	383.0	375.0	367.8	364.0	352.8	347.5	342.2
Branches of foreign banks	39.1	10.8	9.1	5.8	5.4	5.2	4.5	5.9
General insurance companies 5/	15.6	16.2	16.3	16.6	16.6	16.7	15.7	15.9
Other credit institutions	12.6	12.9	13.0	12.0	11.9	11.8	12.0	3.2
Deposits (billions of euros)								
Banks	164.0	177.2	174.3	128.7	125.8	127.4	129.5	134.6
Branches of foreign banks	18.1	3.5	2.5	2.8	2.8	2.9	3.1	3.6

Source: Bank of Greece.

1/ Data on a consolidated basis. For 2012 CAR ratios are affected by the PSI and include only the first tranche of €18 billion HFSF recapitalization. In addittion, CAR ratios are affected by the negative supervisory own funds of two banks (ATEbank and TT Hellenic Post Bank).

2/ Loans are classified as nonperforming when (1) payments of principal and interest are past due by 90 days or more, or (2) interest payments equal to 90 days or more have been capitalized (reinvested in to the principal amount, refinanced, or rolled over). NPL also include those loans with payments less than 90 days past due that are recognized as nonperforming under the national supervisory guidance. This definition does not take into account restructured NPLs or exposures that are unlikely to be repaid on the basis of qualitative criteria.

3/ On an aggregate resident-based approach (i.e. commercial banks, cooperative banks, and foreign branches).

4/ Spread between rate on credit lines and savings deposit rate.

5/ There are no specialised life insurance companies in Greece. General insurance companies offer general insurance and life insurance products.

Table 6. Greece: State Government Financing Requirements and Sources, 2016–20

(Billions of euros)

	2016	2017	2018	2019	2020
	Prel.	Proj.			
Gross borrowing need	28.8	26.2	21.5	28.3	17.6
Overall balance (cash)	7.1	2.2	3.4	0.6	-0.1
Primary deficit 1/	1.5	-3.4	-2.0	-4.5	-5.5
Interest payments (cash)	5.6	5.6	5.4	5.1	5.4
Amortization	22.5	26.8	19.6	28.4	17.8
Short-term	15.0	15.0	15.0	15.0	12.7
Medium and long-term (non-official)	4.3	9.1	2.8	11.3	2.3
ECB holdings	2.4	5.3	1.9	5.8	1.4
Official creditors	3.3	2.8	1.8	2.1	2.8
IMF	3.3	0.7	1.8	2.1	2.1
GLF/EFSF/ESM	0.0	2.0	0.0	0.0	0.7
Other	-0.8	-2.9	-1.5	-0.7	-0.1
Privatization	-0.4	-0.5	-1.2	-0.4	0.0
CoCo repayment	0.0	-2.0	0.0	0.0	0.0
ECB related income (SMP/ANFA)	-0.3	-0.3	-0.3	-0.3	-0.2
Gross financing sources	28.8	26.2	21.5	28.3	17.6
Market access	16.3	18.6	16.1	28.3	17.6
Short-term	16.3	18.6	15.0	12.7	12.7
T-bills	15.0	15.0	15.0	12.7	12.7
Intra-governmental borrowing (Repos)	1.3	3.6	0.0	0.0	0.0
Medium and long-term	0.0	0.0	1.2	15.6	4.9
Official financing (including disbursed and committed)	10.3	13.5	13.4	0.0	0.0
ESM 2/	10.3	13.5	13.4	0.0	0.0
IMF	0.0	0.0	0.0	0.0	0.0
Deposit financing / arrears clearance	2.2	-5.9	-8.1	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0

Sources: Ministry of Finance; and IMF staff estimates.

1/ For 2017, includes proceeds from Athens and regional airports concessions (€ 1.5 billion); for 2018, includes Athens airport concession (€ 0.5 billion).

2/ Includes a disbursement of €8.5 billion in Q3 2017 as approved by the Eurogroup on June 15th 2017 as well as further disbursements totalling €18.4 billion as assumed by the June 2017 European Commission Compliance Report for Greece.

Table 7. Greece: External Financing Requirements and Sources, 2015–22

(Billions of euros, unless otherwise indicated)

	2015	2016	2017	2018	2019	2020	2021	2022
			Proj.					
Gross financing requirements	148.8	165.7	151.7	142.7	144.9	139.9	141.8	141.3
Current account deficit	-0.2	1.1	0.5	0.2	0.2	0.1	-0.2	-0.1
Medium and long-term debt amortization	19.8	9.1	11.1	7.0	10.7	7.2	10.7	11.8
Public sector	16.0	5.9	7.9	3.8	7.6	4.2	4.5	5.9
Of which: GLF/EFSF/ESM/IMF	9.2	3.3	2.7	1.8	2.1	2.8	4.5	4.6
Banks	1.0	0.5	1.6	1.6	1.6	1.6	1.6	1.6
Other	2.8	2.8	1.6	1.6	1.5	1.4	4.6	4.4
Short-term debt amortization	129.2	155.4	140.1	135.5	134.0	132.5	131.4	129.6
Public sector and Bank of Greece	58.1	115.1	87.6	82.4	80.6	78.8	77.3	75.2
Bank of Greece 1/	54.9	114.1	85.7	76.0	74.2	73.1	71.6	69.5
Public sector	3.1	0.9	1.9	6.4	6.4	5.7	5.7	5.7
Banks 2/	62.4	33.1	45.3	46.3	46.9	47.6	48.2	48.8
Other	8.7	7.2	7.2	6.9	6.5	6.2	5.9	5.6
Source of financing	126.2	154.3	136.7	127.8	143.3	138.3	140.0	139.2
Capital account (net)	2.0	1.0	1.1	1.2	1.2	1.2	1.3	1.2
Foreign direct investment (net)	-0.9	3.4	2.9	2.5	3.3	3.5	3.7	3.7
Equities (net)	-1.2	-0.8	-4.3	-3.0	-1.5	-1.5	-1.5	-1.5
Assets drawdown (- increase)	-22.0	9.7	-5.0	-6.6	-8.2	-8.5	-8.6	-8.7
Bank of Greece	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Government	-0.5	-0.5	0.0	0.0	0.0	0.0	0.0	0.0
Banks	0.6	0.6	0.1	0.1	-1.3	-1.1	-1.3	-1.3
Other sector	22.2	-9.5	5.2	6.8	9.7	9.9	10.1	10.3
New borrowing and debt rollover	147.9	142.1	142.1	133.8	148.5	143.6	145.1	144.5
Medium and long-term borrowing	-11.0	21.4	6.5	-0.3	16.0	12.2	15.5	16.8
Public sector	0.0	0.0	0.0	1.1	9.4	3.4	5.1	6.3
Banks	1.9	1.8	5.0	-2.9	5.1	7.5	6.0	6.3
Other	-12.9	19.5	1.5	1.5	1.4	1.4	4.3	4.2
Short-term borrowing	159.0	120.7	135.5	134.0	132.5	131.4	129.6	127.7
Public sector and Bank of Greece	107.4	71.8	82.4	80.6	78.8	78.6	75.2	73.1
Bank of Greece 1/	106.5	73.1	76.0	74.2	73.1	72.9	69.5	68.3
Public sector 3/	0.9	-1.3	6.4	6.4	5.7	5.7	5.7	4.7
Banks 2/	43.2	42.0	46.3	46.9	47.6	48.2	48.8	49.3
Other	8.3	6.9	6.9	6.5	6.2	4.6	5.6	5.4
Other	0.4	-1.1	0.0	0.0	0.0	0.0	0.0	0.0
Program financing (gross)	22.6	11.4	14.9	14.9	1.5	1.7	1.8	2.1
Of which: interest deferral	1.2	1.1	1.4	1.4	1.5	1.7	1.8	2.1

Sources: Bank of Greece; and IMF staff estimates.

1/ Includes liabilities to Eurosystem related to TARGET.

2/ Includes currency and deposits and securitized loans.

3/ Includes government deposits' build-up (regardless of currency denomination for presentational purposes).

Table 8. Greece: Indicators of Fund Credit, 2017–26

(Millions of SDRs, unless otherwise specified)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Prospective drawings (2017 SBA)	534	802	…	…	…	…	…	…	…	…
Percent of quota	22	33	…	…	…	…	…	…	…	…
(Projected debt service to the Fund based on existing and prospective drawings)										
Amortization	592	1,453	1,704	1,737	2,172	2,222	1,313	251	0	0
2012 EFF	592	1,453	1,704	1,704	1,704	1,587	1,112	251	0	0
2017 SBA	0	0	0	33	468	635	200	0	0	0
Total Charges and Fees	168	331	276	197	112	53	22	8	5	5
Total debt service	760	1,784	1,980	1,935	2,284	2,276	1,334	259	5	5
Percent of exports of goods and services	1.8	4.0	4.2	4.0	4.5	4.3	2.4	0.5	0.0	0.0
Percent of GDP	0.5	1.2	1.3	1.2	1.3	1.3	0.7	0.1	0.0	0.0
(Projected level of credit outstanding based on existing and prospective drawings)										
Outstanding stock	10,050	9,399	7,695	5,957	3,786	1,564	251	0	0	0
Percent of quota	414	387	317	245	156	64	10	0	0	0
Percent of GDP	6.8	6.1	4.9	3.6	2.2	0.9	0.1	0.0	0.0	0.0
Memorandum items:										
Exports of goods and services (billions of euros)	52	55	58	60	63	66	68	69	71	73
GDP (billions of euros)	182	189	195	202	209	215	221	227	233	240
Euro/SDR rate 1/	1.2	…	…	…	…	…	…	…	…	…
Quota (millions of SDRs)	2428.9	…	…	…	…	…	…	…	…	…

Source: IMF staff estimates.

1/ Program exchange rate (see Technical Memorandum of Understanding).

Table 9. Greece: Schedule of Proposed Purchases under the Stand-By Arrangement, 2017–18

Review	Availability Date	Action	Purchases 2/		Disbursements
			Millions of SDRs	Percent of quota	Millions of euros 1/
	July 20, 2017	Board approval	267.2	11.0	329.6
	November 15, 2017	Observance of end-September 2017 performance criteria	267.2	11.0	329.6
First Review	February 15, 2018	Observance of end-December 2017 performance criteria, completion of first review	267.2	11.0	329.6
	May 15, 2018	Observance of end-March 2018 performance criteria	267.2	11.0	329.6
Second Review	August 15, 2018	Observance of end-June 2018 performance criteria, completion of second review	267.2	11.0	329.6
Total			1,336	55	1,648

Source: IMF staff estimates.

1/ Program exchange rate (see Technical Memorandum of Understanding).

2/ Expected to be precautionary, and conditional on the arrangement becoming effective.

Annex I. Approval in Principle: History and Application to Greece

History and Purpose of Approval in Principle

1. **During the 1980s, the Executive Board used the Approval in Principle procedure as a mechanism to catalyze agreement between Fund members and their creditors (both official and private).** It was used in circumstances in which understandings on policies underlying a Fund-supported program had been reached between the Fund and the member, but where no agreement had been reached with creditors on new financing or debt relief for the member. Absent such agreement on new financing or debt relief, the Fund was precluded from the outright approval of an arrangement for the member as the necessary financing assurances required for the Fund-supported program were not in place (since the financing or debt relief was designed to fill any residual financing gaps in the program).

2. **Approval in Principle allowed for the Fund to approve, in principle, an arrangement for the member without the arrangement becoming effective immediately.** The Approval in Principle of a Fund arrangement was based on the policy understandings reached, while allowing additional time for agreement to be reached between the member and its creditors in respect of financing or debt relief. Once this agreement was reached and, accordingly, the necessary financing assurances granted, the Executive Board would then decide to make the arrangement effective.

3. **The Approval in Principle procedure was used 19 times between 1983 and 1988.** Used for the first time in 1983 on an *ad hoc* basis, the procedure was used a further 7 times between 1983 and 1984.[1] In 1984, in response to a call from Executive Directors to provide clearer guidance on the circumstances in which Approval in Principle should be used, staff proposed and the Executive Board subsequently endorsed guidelines in respect of the application of the Approval in Principle procedure (the "1984 Guidelines"). After the adoption of the 1984 Guidelines, the procedure was used a further 11 times.[2]

4. **The Approval in Principle procedure, over time, was no longer needed and the 1984 Guidelines have since lapsed.** The Approval in Principle procedure was designed to address coordination issues relating to the necessity of a Fund arrangement as a precursor to extraordinary treatment at the Paris Club and to catalyze agreement with private creditors. Over time, due to a growing willingness of Paris Club creditors to give assurances on debt relief—including for extraordinary financing—before arrangement approval, this procedure was no longer needed. In addition, the need for an Approval in Principle approval was obviated by more informal interactions between Fund staff and the Paris Club, as well as the necessary financing assurances being granted by way of the anticipated Paris Club Agreed Minutes. With respect to private creditors, the procedure was no longer needed because of the willingness of the Fund to "lend into arrears" – i.e., to go forward even in the absence of an agreement (in these cases, the arrears provided the necessary

[1] Sudan, Ecuador, Zaire, Madagascar, Sudan, Cote d'Ivoire, Jamaica, Zambia.

[2] Kenya, Somalia, Chile, Zaire, Republic of Congo, Mexico. Nigeria, Argentina, Code d'Ivoire, Yugoslavia, Brazil.

financing under the arrangement).[3] Accordingly, the specific circumstances related to the 1984 Guidelines are no longer relevant and accordingly the 1984 Guidelines have lapsed.

How the Approval in Principle Procedure worked

5. The procedure for Approval in Principle involved a first decision by the Executive Board approving a Fund arrangement "in principle". For uniformity of treatment reasons, it was recognized in 1984 that this decision could only be taken once there was complete understanding between the Fund and the member on policies, and the only issue preventing outright approval of an arrangement for the member lay outside of the member's control with third parties, namely the need to secure appropriate financing assurances from sovereign bilateral or commercial creditors in the form of debt relief.

6. Once the necessary financing assurances had been obtained, a second decision of the Executive Board was required for the arrangement to become effective. Two important aspects should be noted: First, there was no automaticity in respect of the effectiveness of a Fund arrangement that had been approved in principle. Management informed the Executive Board that the necessary financing assurances had been obtained, and detailed such assurances, and proposed a decision to be adopted on a lapse-of-time (LOT) basis to make the arrangement effective.[4] Second, this second decision was sometimes required to be adopted by the Executive Board within a period specified at the time of the decision to approve in principle. The 1984 Guidelines called for this time period "normally" not to exceed 30 days,[5] but acknowledged that the period should reflect the member's circumstances. Factors motivating a relatively brief period between approval in principle and effectiveness of the arrangement included (a) the need to ensure that the program reached understandings on between the Fund and the member did not become "stale"[6], (b) the need to ensure that the program was indeed being implemented and that (c) a concern that an excessive delay before the arrangement became effective could distort the phasing under the arrangement (e.g., most purchases are available by the time the arrangement becomes effective).

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[3] In respect of the Paris Club, the key issue requiring the use of the Approval in Principle procedure involved extraordinary financing. For commercial creditors, as the 1980s-debt crisis evolved and as banks' balance sheets improved, there was a marked increase in the amount of time taken by commercial banks to agree to a restructuring. As this amounted to a *de facto* veto over Fund financial support, the Fund adopted the lending into arrears (LIA) policy in 1989.

[4] While all 19 cases in which Approval in Principle was used in the 1980s initially envisaged that the second decision would be taken on an LOT basis, there were several cases where a formal Executive Board meeting was held in order for the arrangement to become effective or, in cases where the Approval in Principle had lapsed, for the arrangement to be approved outright once the necessary assurances were obtained.

[5] In practice, there are cases both before and after the adoption of the 1984 Guidelines in which no deadline was specified. There are also cases in which the deadline was extended, usually on a LOT basis. Finally, there were also several cases after the adoption of the Guidelines where a deadline of longer than 30-days was set.

[6] For instance, performance criteria (PC) (such as for external arrears) could be missed and would therefore require waivers of nonobservance, or quantitative PCs were not yet set for a particular test date in the future and thus could not be assessed.

Application of Approval in Principle to Greece

7. Approval in Principle of the proposed Stand-by Arrangement for Greece would be justified on the grounds that it is designed to catalyze the necessary assurances on debt relief from Greece's official creditors. To the extent that staff and the Greek authorities have reached understandings with respect to policies underlying the Fund-supported program, and that the only issue that prevents the outright approval of an arrangement for Greece is the issue of debt relief, this procedure is consistent with its original purpose: to catalyze debt relief from Greece's official creditors. While debt relief in this context (i.e., to ensure debt sustainability in the medium term) differs from the purpose of debt relief during the 1980s (to provide adequate financing of the program), the broad rationale behind the procedure is still applicable, despite the lapse of the 1984 Guidelines.

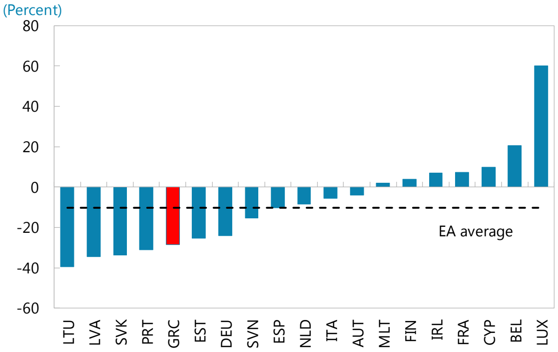
8. The decision to use the procedure in Greece would not require the adoption of a general policy. Approval in Principle is a procedural device designed to ensure the consistent application without the need for a change of the Fund's substantive policies. The original procedure was used on an *ad hoc* basis in a number of cases prior to the issuance of the 1984 Guidelines. Even though the procedure has not been used in several years, there is no reason why it could not be used in this case, drawing the underlying principles from its application in the 1980s.

Annex II. Considerations on Greece's Long-Term Growth Potential

Adverse demographics and a history of poor productivity performance mean that structural reforms will need to be the key driver of growth in the long run. Achieving annual growth rates of 1 percent over the next half century—as assumed in staff's DSA—will require that structural reforms deliver payoffs on employment, labor force participation, and productivity growth that exceed the experience elsewhere. It will also demand a reform effort whose pace and scope exceeds what Greece has achieved in the past.

1. Greece is set to experience dramatic population aging over the next several decades. In its 2015 Aging Report, the EC projects Greece's working age population to fall by about 30 percent between 2020 and 2060 due to a shrinking and rapidly aging population.[1] This is among the largest such declines in the euro area, and three times the euro area average. Ceteris paribus, aging would imply an average yearly decline of 0.9 percentage points in Greece's labor force during the next five decades.

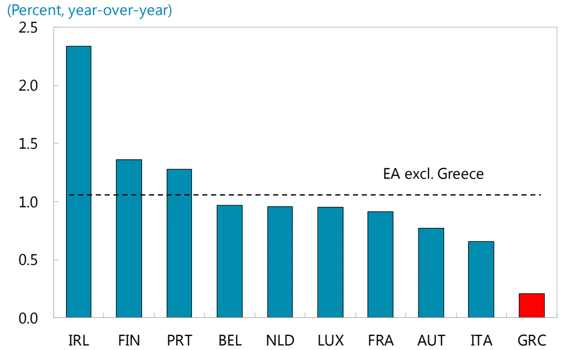
Euro Area: Labor force(Age 15-64) Growth, 2020–60
(Percent)



Sources: European Commission Ageing Report; and IMF staff estimates.

2. Greece's productivity growth has historically been poor. Greece's total productivity (TFP) growth over the last 45 years averaged just 0.2 percent annually, by far the lowest in the euro area. Greece's underperformance relative to peers is often associated with relatively low openness of the economy and high share of labor allocated to non-tradable sectors. Assuming this historical average TFP growth rate going forward, labor productivity (output per worker) would grow only at about 0.4 percent in the steady state (the rate of TFP growth adjusted for the labor share in output).

Euro Area: Average TFP Growth, 1970–2016
(Percent, year-over-year)



Sources: AMECO database; European Commission; and IMF staff estimates.

3. A pickup in investment could provide a short-run boost to growth, but productivity and demographics will dominate in the longer run. Investment is bound to recover from its highly depressed level once Greece emerges from the crisis, but the growth effect of this will wane once the capital stock returns to its long-run level. Staff's medium-term projections already assume a temporary boost to growth from higher investment (with real growth rates averaging over 2 percent during the investment recovery).[2] Once the transition to the new, higher capital ratio is completed,

[1] Outward migration, especially of working age population, may further exacerbate this trend if it continues at its current pace.

[2] Specifically, as the economy recovers and the output gap closes, an increase in investment at double-digit rates is expected, especially as Greece is the beneficiary of large EU funds (about €25 billion have been committed through 2020, but are yet undisbursed). These funds, together with other investment-related support from international institutions (EIB, EBRD), sum up to about 4 percent of GDP per year during 2017-2020.

however, the impact of increased investment will fade and growth dynamics will be determined by the evolution of output per worker and of the number of workers.[3]

4. Long-run GDP growth prospects are thus poor, absent a major change in policies. As a starting point, combining the historical growth in output per worker of 0.4 percent with expected growth in the number of workers of -0.9 percent would imply long-term annual growth of -0.5 percent.[4] This simple result is similar to other recent findings in the literature, which estimate Greece's baseline growth rate (before the effect of reforms) at -0.4 percent during 2024-2043.[5]

5. Structural reforms to raise TFP growth and employment are therefore the only option to achieve positive long-term output growth. Estimating the gains from structural reforms is technically difficult, and results are imprecise. The empirical evidence suggests that the gains from reforms on GDP growth are somewhat modest and transitory: while studies have documented an impact on output *levels* of 3 to 13 percent over the initial decade, the impact of reforms on *growth* tends to fizzle out afterwards.[6]

- The 2016 WEO estimates the GDP gain from past episodes of product market deregulation in 26 advanced economies over 1970–2013 at about 3 percent on average, with gains accruing over a period of eight years, suggesting a GDP growth gain of about 0.4 percentage points per year during the eight-year period.
- Adhikari et al. (2016) looks at case studies of major past reformers in both labor and product markets—Australia, Denmark, Ireland, Netherlands, and New Zealand in the 1990s, Germany in the 2000s—and finds that the GDP effect of reforms ranged between 0 and 34 percent over a period of 5 years. Excluding Ireland, which is a clear outlier, the average impact was 0.6 percentage points per year over the five-year period, and in two out of six cases, there were no significant gains.

6. Permanently raising growth would require a period of reform implementation that exceeds in both ambition and duration what Greece has achieved so far (Box 1). While Greece has initiated numerous structural reforms in the context of its adjustment programs—from labor markets to energy, judicial reforms, closed professions, and others—implementation has sometimes lagged. Its key accomplishment has been a cornerstone labor market reform adopted in 2011, but this is set to be partially reversed after the current program. Other legislated reforms have faltered at the implementation stage. For example, numerous attempts at privatizing state monopolies in the energy sector have not reduced significantly the state's share in this sector; judicial reforms have stalled since 2013, with court backlogs continuing to rise and a Code of Civil Procedure that is not yet fully implemented; key closed professions remain by and large closed, despite attempts at

[3] Staff projections assume a level of investment that is sufficient to stabilizing the capital-to-output ratio at its historical average of about 3.5. Under the neoclassical model, a higher or lower ratio would affect the *level* of GDP, but—once that steady-state ratio is achieved—not its growth rate.

[4] In the neoclassical Solow growth model, the production of output (Y) uses labor (L), capital (K), and total factor productivity (A), where α is the share of capital and (1- α) is the share of labor: $Y= AK^{\alpha}L^{1-\alpha}$. In steady-state, output (and capital) grow at the rate of labor force growth (l) and total factor productivity adjusted by the share of labor: A/(1- α)

[5] See McQuinn and Whelan (2015)

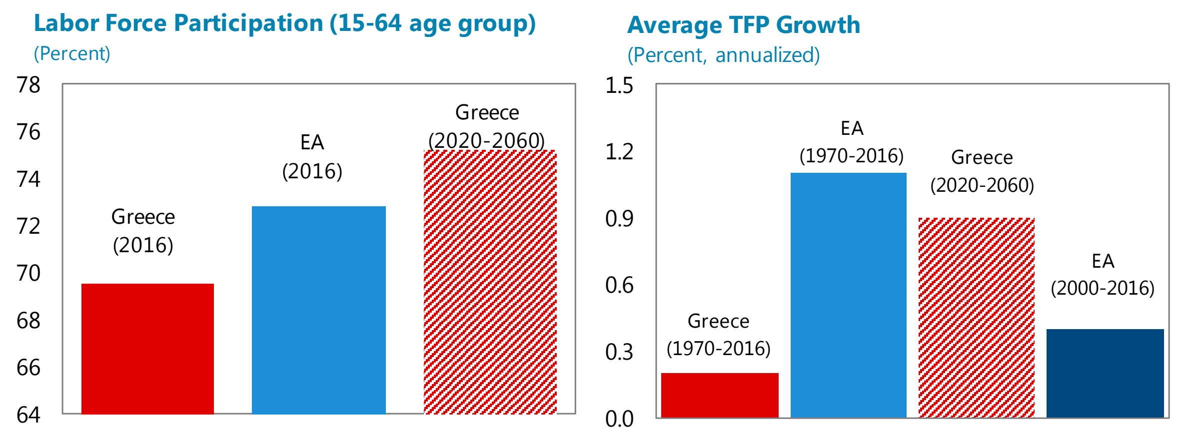
[6] There are, however, theoretical endogenous growth models that predict permanent effects on growth from innovation; testing these in practice over very long periods of time has been more challenging, including due to data availability and difficulty to isolate innovation shocks from other effects.

opening them since early 2011; and an investment licensing reform adopted in 2011 is still in its very early stages of implementation.

7. **Given demographics, the impact of structural reforms will need to be substantial to achieve an overall long-term GDP growth rate of 1 percent over the next half century.** Lifting long-term growth from its baseline of –0.5 percent to 1 percent requires reforms to add 1.5 percentage points to growth per year for the next five decades. The OECD (2016) estimates that full implementation of a broad menu of structural reforms[7] could raise Greece's output by about 7.8 percent over a 10-year horizon, which translates into an increase in annual growth of some 0.8 percentage points for about a decade. Bourles et al. (2013) estimate this gain to be slightly higher, at about 0.9 percentage points per year, while Daude (2016) finds that reforms focused on product markets and improving the business environment in Greece could boost growth by about 1.3 percentage points per year for a decade.

8. **In conclusion, achieving staff's assumption of 1 percent growth in the face of adverse demographics and historically weak productivity growth will require that the Greek authorities and people commit to an extended period of profound structural reform.** Implicitly, the 1 percent growth projection presumes that Greece would manage to increase labor force participation to levels that exceed the euro area average (to offset the significant projected decline in Greece's working age population)[8] and that would generate TFP growth rates permanently far above Greece's historical average. This underscores the importance of rapid and decisive action on the part of the authorities to tackle the many bottlenecks that constrain growth and limit the country's ability to prosper in the euro area.

Key Assumptions Underlying Staff's Long-Run Growth Projections



Sources: AMECO database; European Commission 2015 Aging Report, and IMF staff estimates.

[7] These reforms include: (i) labor, pension, and employment protection reforms; (ii) product market reforms to reduce administrative burden, open closed professions, and liberalize investment licensing; (iii) tax reform; (iv) bankruptcy reforms; and (v) reforms of network industries (electricity, gas, rail road and transport).

[8] Labor force participation in Greece over the long-run is also affected by pension system reforms, including the increase in the effective retirement age and limiting early retirement options.

Box 1. The Slow Pace of Structural Reforms So Far

Greece has struggled with reform implementation to date. While labor market reforms have been fully implemented and have resulted in tangible wage competitiveness gains, numerous attempts at liberalizing product markets and regulated professions have suffered from weak implementation, which has been an obstacle to gaining price competitiveness. The fact that the burden of the adjustment has been borne largely by wage earners has increased resistance to reform.

Labor market. Previous programs reformed the collective bargaining framework by suspending the extension of collective agreements and the favorability principle, which provided flexibility to firms to negotiate compensation with workers. The minimum wage framework was also revamped in 2012, introducing a one-off reduction in the minimum wage, a sub-minimum wage for youth, and a freeze. This resulted in a reduction in labor costs, narrowing Greece's competitiveness gap relative to that of trading partners. However, the authorities have recently legislated a reversal of the cornerstone collective bargaining reforms, effective at the end of their adjustment program.

Closed professions. A framework law adopted in 2011 abolished administrative licenses, minimum fees and fixed prices, but its implementation was ineffective due to lack of specificity and conflicting provisions. Only modest steps have since been taken to align specific restrictions with the law. Some regulated prices and several professions have been liberalized (auditors, accountants, and shipping agents), but licensing, geographical, and advertising restrictions remain in place, and a number of professions are still mostly closed (notaries, dentists, engineers, etc.). While a new law on the legal profession was passed in 2013, incorporation restrictions and other barriers have persisted.

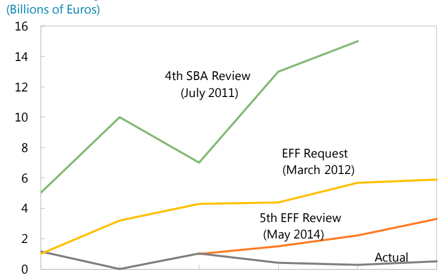
Investment licensing. The reform was also legislated in 2011, but its implementation subsequently faltered. A fast-track framework law was adopted in mid-2014, but this too had only modest results. The authorities have more recently reinitiated the implementation of the reform (initially planned for 2014), which is now expected to be completed by end program.

Competition. Under the EFF-supported program, Greece undertook three OECD Competition Assessments (Toolkits I, II, and III) to reduce regulation in key sectors of the economy. While completion of the reforms was expected at end-2014, implementation started only in 2015. With a few exceptions (e.g. fresh milk, bottled water, books), the impact on prices is not visible yet, and in some cases (olive oil, flour, alcoholic beverages) prices have increased. The reforms under the toolkit assessments have focused mainly on adjusting legislation, and it remains to be seen whether they will be effective in spurring competition.

Judicial reform. Despite several legal attempts at improving the efficiency of the judicial system, the backlog of tax court cases (with tax appeal processing taking up to 12 years) has reached more than 165,000 cases, while recovery in insolvency cases (taking more than 3½ years) is the lowest in the Eurozone (36 cents on the dollar). This failure is largely due to frequent court and Bar Association strikes. The Code of Civil Procedure introduced in 2015 is still not being applied.

Privatization. Progress has been slow due to social resistance. In the electricity sector, an aggressive privatization strategy was abandoned in favor of a much less ambitious approach leading to only a modest reduction in the market share of the main power company (PPC). In the gas sector, the privatization of the grid operator failed, and a new process is being relaunched. Progress has been made in the privatization of infrastructure, but revenue fell well short of expectations.

Greece: Projected Annual Privatization Proceeds
(Billions of Euros)



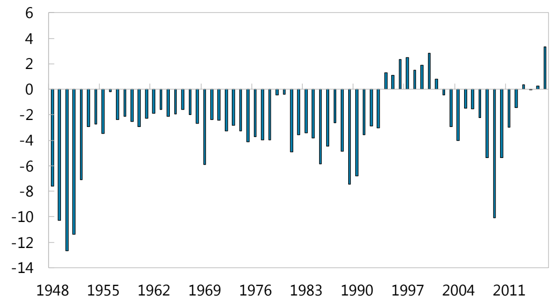
Source: Ministry of Finance; and IMF staff estimates.

Annex III. Considerations on the Sustainable Primary Surplus for Greece

A. Historical Evidence

1. **Historically, Greece has been unable to sustain primary surpluses for prolonged periods.** During 1945-2015, the average primary balance in Greece is a deficit of about 3 percent of GDP, although a brief period of near-zero primary balance took place at the time of Greece's EU accession. The high water-mark for Greece was a primary surplus exceeding 1 percent of GDP during eight consecutive years (1994-2001), which allowed Greece to reach the 3-percent overall balance threshold prior to euro adoption. The average primary balance during this period was 1¾ percent of GDP. But the primary balance reversed to a deficit of 2 percent of GDP immediately following euro adoption (2002-07), and widened to 5-10 percent in 2008-09. During the European and IMF supported programs, the primary deficit averaged 1½ percent of GDP, with a small surplus of less than 1 percent of GDP recorded only in 2013 and 2015.

Greece: Primary Balance, 1948–2016
(Percent of GDP)



Sources: data for 1948-87 from Mauro et. al. (2013) based on UN statistical Yearbook definitions (e.g. grants excluded from revenues), IMF WEO, and OECD; data for 1988-2016 from IMF WEO.

B. Cross-Country Evidence

2. **Cross-country evidence suggests that large primary fiscal surpluses have been difficult to achieve and sustain in post-war history.** In a sample covering 90 countries during the period 1945-2015, there have been only 13 cases where a primary fiscal surplus above 1.5 percent of GDP could be reached and maintained for a period of ten or more consecutive years.[1] Only three cases can be identified if the primary surplus threshold is increased to 3.5 percent of GDP; and only one case if resource-rich countries are also excluded. Cross-country experience also shows that ten-year averages above 3.5 percent of GDP are very rare (7.5 percent of the cases for the full sample and 4.3 percent of the cases for developped economies in the euro area that are not oil or resource rich). Even ten-year averages above 1.5 percent are relatively rare, corresponding to 12.8 percent of the cases in the latter group.

[1] Database constructed from the World Economic Outlook, International Financial Statistics, World Development Indicators, and Mauro et al. (2013).

Episodes of Sustainable Primary Surpluses

Threshold (percent of GDP)	Country	Period
4	Congo, Rep.	2003-2012
	Norway	1964-2014
3.5	Mexico	1983-1992
3	Belgium	1994-2004
	Finland	1975-1990
2.5	Chile	1987-1997
2	Brazil	1975-1985
	Canada	1964-1974
	Finland	1998-2008
1.5	Brazil	2001-2013
	Canada	1996-2007
	Denmark	1997-2008
	Russia	1999-2008

Sources: IMF World Economic Outlook database; and Mauro et al. (2013).

Note: Sustainable primary fiscal surpluses are defined as a primary surplus larger than the threshold for longer than 10 consecutive years.

Probability of a 10-year Average Primary Balance to Exceed a Threshold *(percent)*

	Primary Balance Threshold (percent of GDP)				
	1.5	2	2.5	3	3.5
Full sample	23.8	17.3	12.6	9.8	7.5
Non-oil and non-resource rich countries, *among these*	21.6	14.9	10.4	7.7	5.6
Advanced economies	23.5	15.8	11.2	8.3	5.7
Euro area advanced economies	12.8	10.4	7.7	6.7	4.3

Sources: IMF World Economic Outlook database; and Mauro et al. (2013).

3. **Economic conditions matter.** Among EU countries, before entering a period of high average primary balances, countries tend to have strong real GDP growth (2.7 percent) and modestly high inflation (4 percent). They also have moderate unemployment (10 percent) and low net foreign debt (24 percent of GDP), conditions that do not conform to those now applying in Greece. Moreover, during the high primary balance periods, growth has been rapid (about 3.4 percent), inflation slightly elevated (3 percent), and unemployment contained (at about 7.2 percent). This suggests that sustained periods of high primary surpluses are driven by strong economic growth rather than by sizeable fiscal consolidation.

Economic Conditions around Episodes of High Primary Fiscal Balances in European Countries, 1980-2015 [1/]

(percent of GDP unless indicated otherwise)

Country	Period	Number of years with average PB > 3.5 percent of GDP	PB		Prior to high PB episode					During high PB episode				
			Min	Max	Real GDP growth [2/] (percent)	CPI inflation [2/] (percent)	Unemployment (percent)	Gross public debt	Net foreign assets	Real GDP growth (percent)	CPI inflation (percent)	Unemployment (percent)	Change in gross public debt	Change in net foreign assets
Belgium	1986-2008	23	-0.2	6.1	1.5	6.3	10.1	118.7	-13.3	2.3	2.1	8.2	-26.2	61.1
Denmark	1997-2008	12	1.5	6.0	3.7	2.1	6.3	68.3	-22.8	1.9	2.2	4.6	-34.9	17.4
Finland	1997-2008	12	0.4	7.6	3.9	1.0	14.6	55.3	-40.9	3.7	1.7	9.2	-22.7	37.9
Ireland	1995-2002	8	0.8	6.5	3.9	2.3	15.1	78.6	-34.3	8.7	3.1	7.7	-48.0	15.0
Italy	1994-2002	9	1.5	5.7	0.5	5.2	9.8	120.3	-12.0	1.8	2.9	10.5	-18.3	-5.0
Sweden	1984-1991	8	0.9	6.6	2.7	9.8	4.8	-	-19.8	2.2	6.1	3.1	-	-5.7
Average			0.8	6.4	2.7	4.5	10.1	88.2	-23.8	3.4	3.0	7.2	-30.0	20.1
Greece (2016)					0.0	-0.8	23.6	181.6	-134.5					

Sources: IMF WEO databases; and IMF staff calculations. (Samples: European Union Countries: period: 1980-2015).

1/ Episodes of high primary fiscal balances (PB) are defined as cases with average PB above 3.5 percent of GDP sustained for more than 5 years.

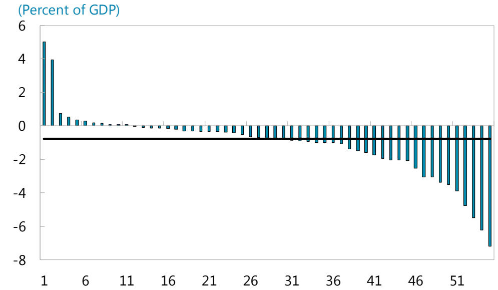
2/ Three years prior to a high PB episode.

4. Large primary surpluses achieved primarily through very strong consolidation are often reversed. Countries who carried out large fiscal adjustments to achieve large primary surpluses were not able to sustain such performance for a long period, as strong spending pressures had accumulated during the adjustment period:

- *Sustained consolidation is challenging*. Among 55 consolidation episodes with an improvement of the primary balance of more than 10 percentage points of GDP during a five-year period (as in Greece since 2009), the primary balance improved further for the following five years in only 20 percent of the cases. In the large majority of the episodes, the primary balance deteriorated after such a strong consolidation. This finding is in line with other existing evidence that following substantial consolidation efforts, countries tend to ease primary balances (Escolano et al., 2014).[2]

Annual Change in Primary Balance Post-Adjustment

(Percent of GDP)

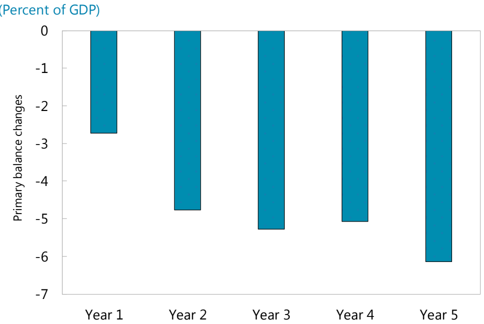


Sources: IMF World Economic Outlook database; and Mauro et al. (2013).
Note: Annual average change of the primary balance following an adjustment of more than 10 percentage points of GDP.

- *Reversal is rapid.* The average annual change of the primary balance during the five-year period following the end of the adjustment for all 55 episodes is about -¾ percentage points of GDP. Stronger consolidations are reversed even faster; for countries that reached a primary balance of more than 3.5 percent of GDP at the end of the consolidation, the subsequent deterioration of the primary balance is about 1¼ percentage points of GDP.

Reversal after 10% Consolidation Reaching 3.5% Surplus

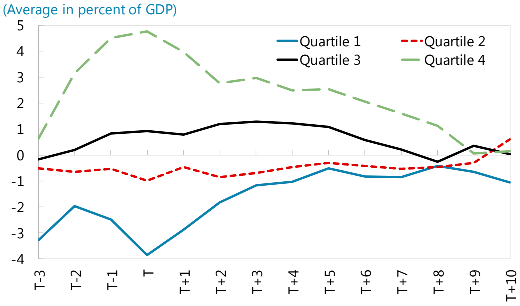
(Percent of GDP)



Sources: IMF World Economic Outlook database; and Mauro et al. (2013).

Average Primary Balances after GRA Programs

(Average in percent of GDP)



Source: IMF staff calculations.
Note: The quartiles are based on the primary balance at the last program year.

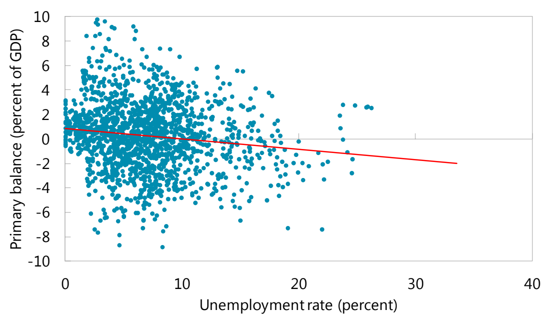
- *Reversal is also rapid following a strong adjustment under IMF-supported programs.*[3] Programs with very high primary balances at the last program year tightened significantly during the program period (quartile 4 in the figure to the right). Primary balances deteriorated rapidly the year after the program, much more so than in other programs (quartiles 1-3). Following a strong improvement during the program, the primary surplus falls by half in about five years after the program, with the bulk of that deterioration within the first two years.

[2] Escolano et al. (2014).

[3] This analysis refers to programs financed with General Resources Account, such as Stand-By Arrangement and Extended Fund Facility.

5. **High unemployment is associated with lower primary fiscal balances.** Unemployment weighs on the budget through higher social expenditures – such as for unemployment benefits and social safety nets – as well as lower income-related revenue. Greece's unemployment rate is exceptionally high—only 10 countries have had unemployment higher than 20 percent in the post-war period. Within the above sample, the average primary balance corresponding to countries suffering double-digit unemployment rates is about zero percent of GDP (*i.e.* balance). For double digit unemployment lasting for 10 years or longer, the average primary balance is about -½ percent of GDP. With long-term unemployment likely to remain high for some time, pressures on social assistance spending in Greece—such as the guaranteed minimum income—are likely to mount.

Primary balance and unemployment, 1945-2015



Sources: Mauro et al. (2013); World Development Indicators database, World Bank; and IMF World Economic Outlook database.
Note: The chart shows five-year averages. Outliers were excluded.

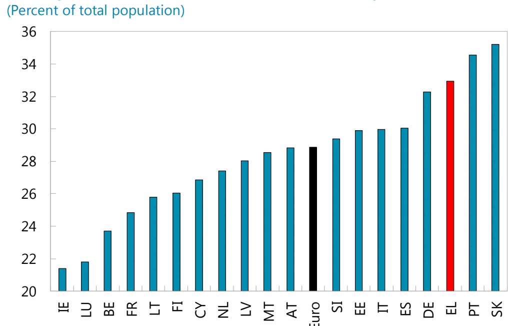
Unemployment and Primary Balance

Country	Period	Primary Balance (percent of GDP)	Unemployment Rate (percent)
Argentina	1993-2006	0.3	16.4
Chile	1975-1987	2.0	13.4
Colombia	1999-2012	1.3	12.0
Georgia	1998-2013	0.6	13.4
Jordan	1990-2013	0.2	14.4
Morroco	1995-2005	2.3	13.4
Nigeria	2000-2011	2.9	13.5
Poland	1995-2006	-0.8	15.0
Slovakia	1995-2007	-2.9	16.4
South Africa	2000-2013	2.0	24.8
Spain	1980-2004	-1.0	17.2
Sudan	1990-2013	-0.6	15.2

Sources: IMF World Economic Outlook database; and Mauro et al. (2013).

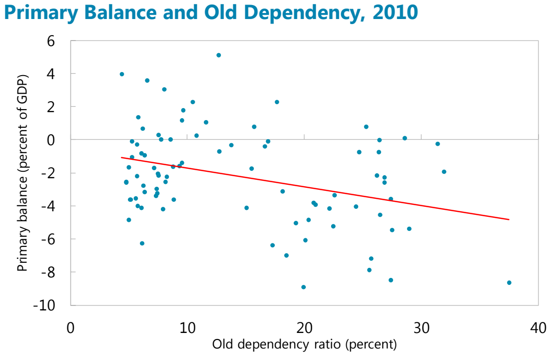
6. **Demographic pressures also constrain primary balance performance.** Countries with aging populations are not generally able to sustain large fiscal surpluses for long periods, as the share of taxpayers in the population declines while the share of the population receiving health, pension and other social benefits rises. Greece's old-age dependency ratio is high compared to peer countries; and according to the EC's Aging report is projected to continue increasing by 10 percentage points by 2060. Health spending has been compressed to one of the lowest levels in the Eurozone, which cannot be sustained in the medium and long term; on the contrary, such spending is expected to increase overtime.

Elderly population 65 and over (2060 projections)
(Percent of total population)



Source: European Commission, Aging Report 2015.

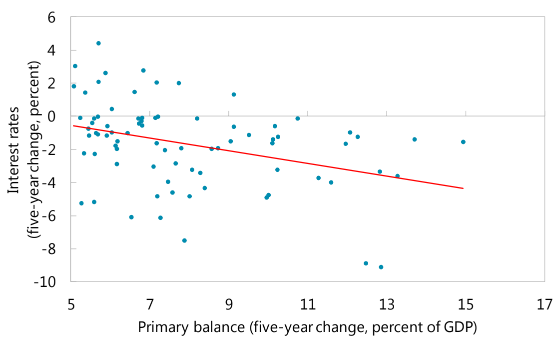
Primary Balance and Old Dependency, 2010



Sources: Mauro et al. (2013); World Development Indicators database, World Bank; and IMF World Economic Outlook database.

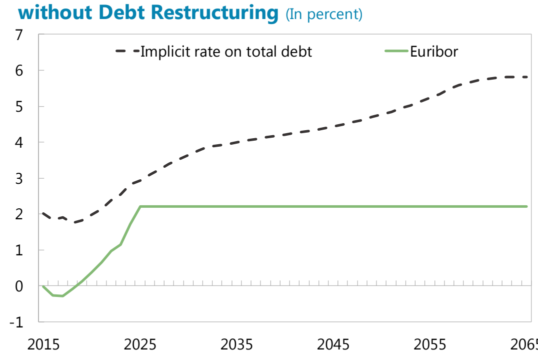
7. **Finally, the inability to fully use monetary and exchange rate policies for counter-cyclical purposes also limits the primary balance performance.** Countries without an independent monetary policy will find it more challenging to sustain large primary fiscal surpluses as monetary and exchange rate policy tools are not available to country authorities for aggregate demand management. Based on the above sample, changes in primary balance larger than 10 percentage points of GDP during a period of five years are associated only with periods of monetary easing. This relationship is in line with Escolano et al. (2014). Interest rates in Greece are not expected to ease over the projection horizon.

Primary Balance and Interest Rates



Sources: IMF World Economic Outlook database; and Mauro et al. (2013).

Greece: Borrowing Interest Rate under Baseline Scenario without Debt Restructuring (In percent)



Source: IMF staff estimates.

Annex IV. Debt Sustainability Analysis

This appendix considers the sustainability of Greece's public and external debt. The analysis suggests that Greece's public debt remains unsustainable. Even with full implementation of policies agreed under the program as well as debt relief measures specified by the Eurogroup thus far, public debt and financing needs will become explosive in the long run, as Greece will be unable to replace highly subsidized official sector financing with market financing at rates consistent with sustainability. External debt is high and expected to decline only gradually over the medium term; macroeconomic shocks and policy slippages could result in adverse dynamics.

I. PUBLIC SECTOR DSA

1. **The public sector DSA, which is based on the Gross Financing Needs (GFN) framework, updates the 2016 Article IV DSA.** As noted in the Article IV DSA, the GFN framework better captures Greece's true debt burden compared to a stock-of-debt framework, given that the bulk of Greece's debt is comprised of official loans provided on highly concessional terms. The time horizon covered by the analysis extends to 2080 to cover the maturity of official loans both under the baseline and when taking into account debt measures currently considered by the Eurogroup. Under the GFN framework, achieving debt sustainability requires maintaining low GFNs for an extended period to allow debt to decline before Greece can return to markets on a larger scale. Thus, any debt restructuring solution would need to achieve two key objectives. First, it should maintain gross financing needs well within the 15-20 percent of GDP thresholds defined in the MAC DSA for emerging-advanced economies throughout the projection period. Second, it should ensure that debt is on a sustained downward path. In other words, solutions that provide only temporary flow relief but do not deliver a declining debt path over the projection horizon would not be consistent with sustainability.

2. **The following assumptions underpin staff's baseline DSA projections:**

- **Macroeconomic assumptions**: As indicated in the main text of this report, staff projects the primary balance to reach 1.7 and 2.2 percent this year and next, respectively. Following the successful completion of the program, staff considers that the primary balance will reach 3.5 percent of GDP in 2019-22 before falling to its long-term level of 1.5 percent of GDP thereafter. Following growth rates of close to 2 percent and more this year and throughout the medium term as the economy rebounds, staff expects long-term growth of some 1 percent in real terms and 2.8 percent in nominal terms.

  Bank recapitalization needs: The exceptionally high level of bank NPLs and weak quality of bank capital represent large contingent liabilities for the state, posing a serious risk to the public sector DSA. Staff has set aside a buffer of around €10 billion (5½ percent of 2016 GDP) to cover potential additional bank support needs, but this amount may not be sufficient. Therefore, completing the bank asset quality review well before the end of the program will be essential to determine the implications for debt sustainability.

- **Privatization proceeds:** Staff projects revenues from asset sales to total some €2billion between 2017 and 2030 (1.1 percent of 2016 GDP). These projections are realistic, given Greece's difficulty in meeting privatization targets under its previous programs. Moreover, as noted above, despite the large capital injections since 2010, the state has not been able to recover its investment in the banks;[1] on the contrary, following the most recent recapitalization, the state's share in the banking sector has been reduced to around 20 percent (from around 60 percent). As a result, staff does not expect any material proceeds from bank privatization.

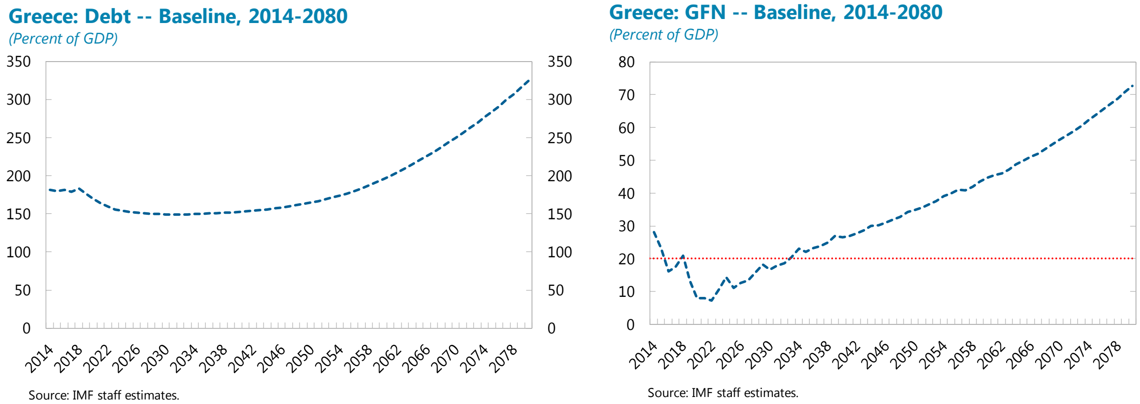
- **Official interest rates:** Greece is benefiting from very low nominal official interest rates (weighted average of around 1 percent), supported by the exceptional relaxation in monetary conditions in the euro area. Projections for official rates over the medium term are broadly similar to those used in the 2016 Article IV DSA. As financing conditions normalize official rates are expected to revert to their historical averages over the long run. The long-run risk-free rate is assumed at 3.8 percent and is based on the end-point medium-term forecast for euro area growth (1.5 percent) and achievement of the ECB's price stability objective (1.9 percent), and a modest wedge over the sum of the two, consistent with what has been observed historically.
- **Market interest rates:** Greece is assumed to access markets by end-program at an initial rate of 6 percent, reflecting a prolonged absence from markets, a weak track record on delivering fiscal surpluses, and a substantial debt overhang. The rate is consistent with a risk-free rate of 1-1½ percent in 2018 and a risk premium of 450-500 basis points. As to its evolution over time, the rate is expected to fall/rise by four basis points for every one percentage point decline/increase in debt-to-GDP ratio, in line with the literature (Laubach (2009), Ardagna et al. (2007), Engen and Hubbard (2004)), fluctuating between a ceiling of 6 percent (to avoid non-linearity and reflect the likelihood of loss of market access at high levels of debt/interest rates) and a floor of 4½ percent (consistent with a small long-run risk free premium of 75 basis points).

3. Greek debt is highly unsustainable in staff's baseline scenario. Baseline projections suggest that debt will decline to 160 percent of GDP by 2022 (Figure 1).[2] Gross financing needs cross the 15 percent-of-GDP threshold already by 2028 and the 20 percent threshold by 2033, reaching around 45 percent of GDP by 2060. Debt is projected to decline gradually to around 150 percent by 2030, but rises thereafter, reaching around 195 percent of GDP by 2060, as the cost of debt, which rises over time as market financing replaces highly subsidized official sector financing, more than offsets the debt-reducing effects of growth and the primary balance surplus.

[1] One of the banks has recently paid back debt in the form of CoCos (€2 billion).

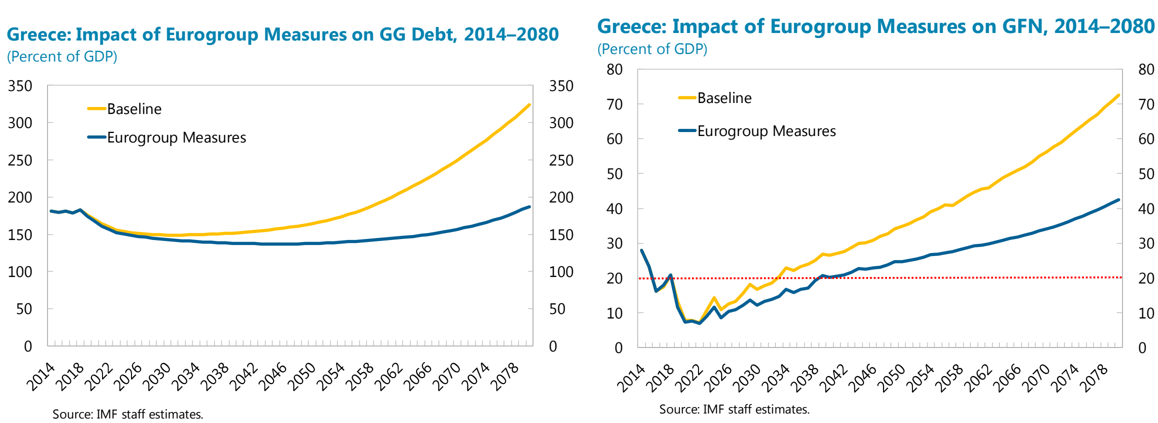
[2] The baseline includes the Eurogroup measures that have already been implemented (see Box 1).

Figure 1. Debt Sustainability, Baseline Scenario, 2014–2060



4. **Debt relief commitments made by the Eurogroup are welcome but not sufficient to achieve debt sustainability under staff's baseline assumptions.** At the May 2016 and June 2017 Eurogroup meetings, European partners agreed on a broad package of debt relief measures to be provided to Greece, subject to continued program implementation (Box 1). These include extensions of weighted average maturities and a further deferral of non-PSI related EFSF interest and amortization by up to 15 years, the restoration of ANFA/SMP transfers to Greece, the abolishment of the step-up margin of EFSF loans, and fixing of interest rates on European loans at market rates (the expectation and assumption in the restructuring scenario is for a volume of €71 billion to be fixed at a rate not exceeding 1.9 percent). These commitments help improve Greece's long-term debt outlook. However, they do not appear sufficient to fully restore debt sustainability. Thus, to provide more credibility to the debt strategy for Greece, additional debt relief will be needed; this could include, for example, further extensions of maturity and grace periods and interest deferrals on European loans. An automatic mechanism linking debt repayments to growth, to adjust relief if outcomes are better or worse than expected relative to a realistic baseline could help garner support for debt relief while safeguarding sustainability (such a mechanism has been mentioned in broad terms in the June 2017 Eurogroup statement).

Figure 2. Debt Sustainability Including Select Eurogroup Commitments



Box 1. Debt Measures Committed to by the Eurogroup

In its May 2016 and June 2017 statements, the Eurogroup committed to a number of short-term debt measures to be implemented during the ESM program and medium-term measures to be implemented upon its successful completion.

Short-Term Measures

- **Smoothening the EFSF repayment profile under the current Weighted Average Maturity (WAM)**. The measure has already been implemented and is reflected in the Fund's baseline path. It implied an extension of non-PSI EFSF maturities by four years on average.

- **Waiver on the step-up interest rate margin on the EFSF debt-buyback tranche for 2017.** The measure has already been implemented and is reflected in the Fund's baseline debt path. It entails a reduction in interest payments on the EFSF debt buyback tranche for 2017.

- **Use EFSF/ESM diversified funding strategy to reduce interest rate risk.** The ESM has started implementing this measure. It entails making use of funding strategies to fix interest rates on EFSF and ESM loans at the low rates currently available in the markets. Staff expects that interest costs facing Greece on a total of €71 billion in EFSF and ESM loans can be fixed at a rate of around 1.9 percent for 30 years as part of such operations. (Staff's baseline includes the measures implemented so far, which comprise about a quarter of the total).

Medium-Term Measures

- **Abolish the step-up interest rate margin on the EFSF debt buy-back tranche**. The measure entails a reduction in interest in the EFSF debt buy-back tranche for all years until its maturity.

- **The use of 2014 SMP profits from the ESM segregated account and restoration of the transfer of ANFA/SMP profits as of budget year 2017.** The ECB and national central banks would return profits on holdings of Greek government securities in the amount of around €5 billion.

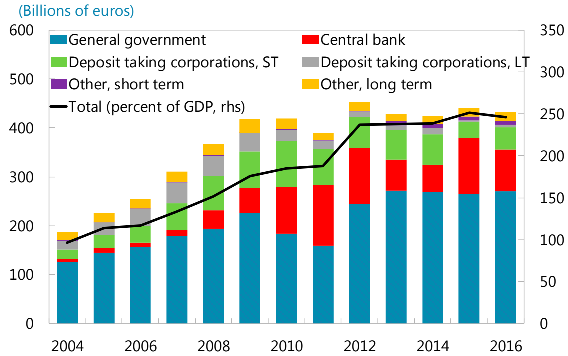
- **EFSF re-profiling.** The measure could entail extensions of weighted average maturities and a further deferral of non-PSI related EFSF interest and amortization by between 0 and 15 years.

- **Liability management.** The measure is not yet specified but could entail early partial repayment of existing official loans to Greece by utilizing unused resources within the ESM program to reduce interest rate costs and to extend maturities.

II. EXTERNAL SECTOR DSA

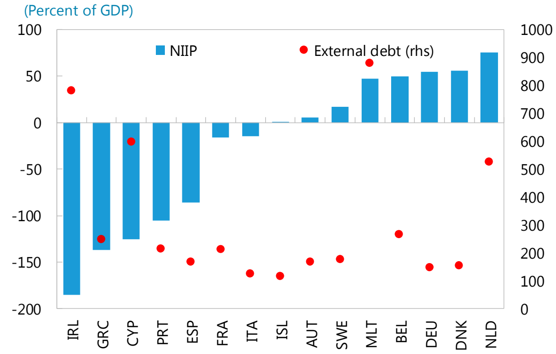
5. External debt increased prior to the crisis but has since stabilized in nominal terms. Greece's external debt roughly doubled from 96 percent of GDP in 2004 to 185 percent of GDP in 2010, as the country used external savings to finance rapidly growing domestic demand at the cost of large current account deficits. Although the public sector accounted for the bulk of external debt throughout the period, banks similarly expanded their borrowing from abroad. Since the onset of the program in 2010, debt has been on an increasing path in GDP terms as activity contracted. In 2015, the composition of liabilities has shifted somewhat away from banks and towards the central bank amid deposit outflows and emergency liquidity assistance to Greek banks, a development that was partially reversed in 2016. As of 2016, about 63 percent of total debt is accounted for by the general government and 20 percent by the monetary authorities.

Greece: External Debt, 2004–16
(Billions of euros)



Sources: Bank of Greece; ELSTAT; and Haver Analytics.

NIIP and External Debt, 2016
(Percent of GDP)



Sources: Country Authorities; Haver Analytics; and IMF staff calculations.

6. At some 246 percent of GDP, external debt remains relatively large, while Greece's international investment position is the second weakest in Europe. Greece's external debt is higher than in most European economies, with the exception of Belgium, Cyprus, Ireland, Malta and the Netherlands. At -137 percent of GDP, Greece's net international investment position is the second weakest in Europe after Ireland. The weak international investment position will continue to represent a drag on the recovery as the availability of external savings remains limited and domestic savings have to be mobilized to make room for investment.

7. External debt is projected to decline gradually to about 215 percent of GDP in 2022. This improvement would come mostly on account of the projected recovery in growth and inflation and would be supported by a positive non-interest current account (the overall current account is projected to remain near balance over the medium term). Higher FDI inflows, currently low compared to peers, would be an important source of non-debt-creating financing.

8. Macroeconomic shocks and policy slippages could result in adverse dynamics.

- *Interest rate shock.* The effects of higher Greek sovereign spreads are dampened by the almost exclusive reliance of Greece on official financing. Changes in the risk-free rate would nevertheless impact Greece through the cost of official financing. A 90-bps interest rate shock would worsen the income account and result in a 2022 debt ratio 10 percentage points above the baseline.

- *Growth shock*. A decline in average growth by 2 percentage points would continue to see debt decline, but the ratio would end in 2022 some 22 percent higher.
- *Larger current account deficits***.** Slow competitiveness improvements resulting from delayed structural reforms or a terms-of-trade shock could affect exports negatively and worsen the baseline current account projections. The debt ratio would remain on a downward path, but would be 17 percentage points higher than in the baseline by 2022.
- Debt dynamics would also be worse under a combined shock involving higher interest rates, lower growth and a smaller current account, with the debt ratio reaching 240 percent of GDP in 2022, 25 percent of GDP higher than in the baseline.

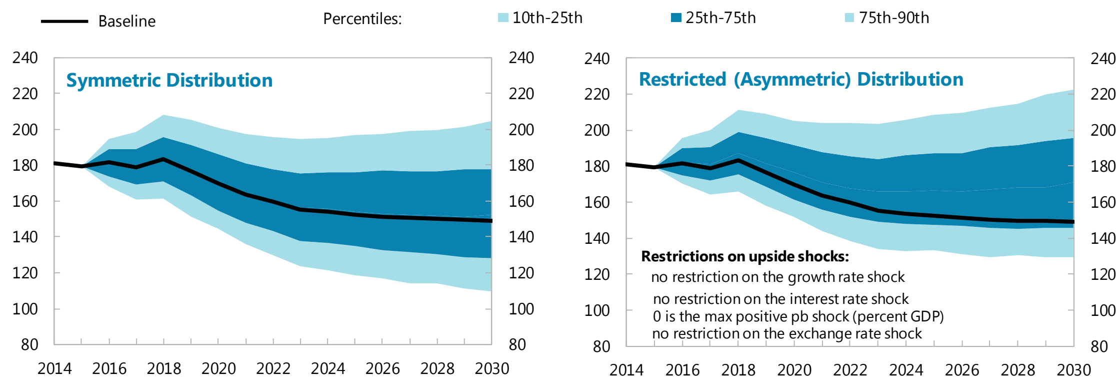
Greece Public DSA Risk Assessment (Baseline Scenario)

Heat Map

Debt level 1/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs 2/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile 3/	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

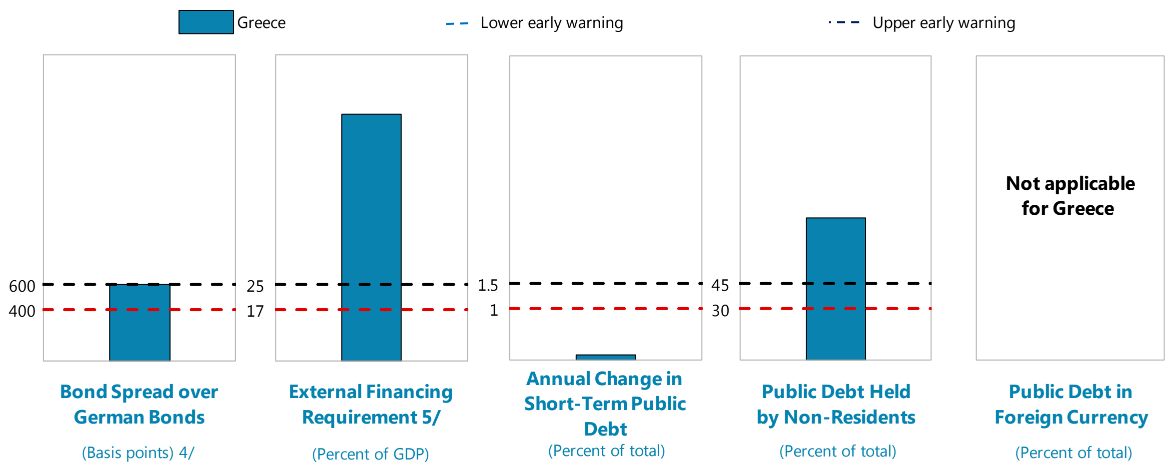
Evolution of Predictive Densities of Gross Nominal Public Debt

(Percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 85% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 20% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.

Lower and upper risk-assessment benchmarks are:

400 and 600 basis points for bond spreads; 17 and 25 percent of GDP for external financing requirement; 1 and 1.5 percent for change in the share of short-term debt; 30 and 45 percent for the public debt held by non-residents.

4/ An average over the last 3 months, 22-Mar-17 through 20-Jun-17.

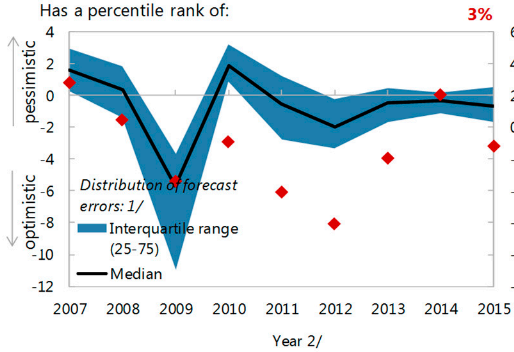
5/ Includes liabilities to the Eurosystem related to TARGET.

Greece Public DSA - Realism of Assumptions (Baseline Scenario)

Forecast Track Record, versus program countries

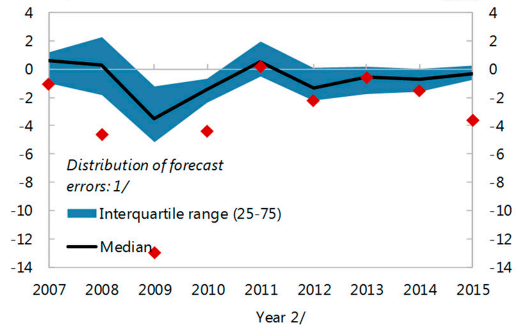
Real GDP Growth
(Percent, actual-projection)

Greece median forecast error, 2007-2015: **-3.15**
Has a percentile rank of: **3%**



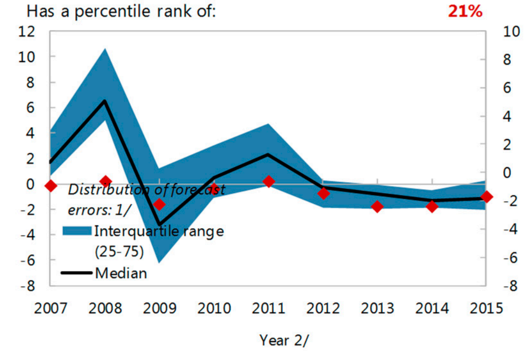
Primary Balance
(Percent of GDP, actual-projection)

Greece median forecast error, 2007-2015: **-2.21**
Has a percentile rank of: **16%**



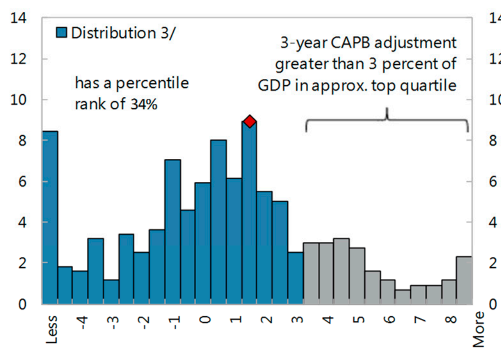
Inflation (Deflator)
(Percent, actual-projection)

Greece median forecast error, 2007-2015: **-0.76**
Has a percentile rank of: **21%**

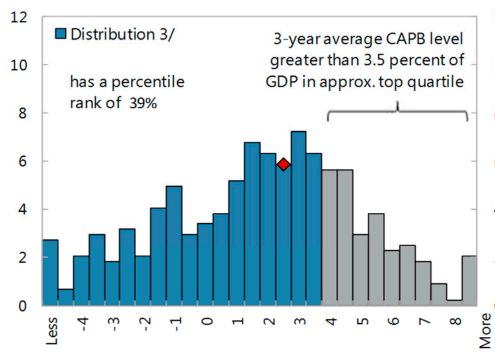


Assessing the Realism of Projected Fiscal Adjustment

3-Year Adjustment in Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)



3-Year Average Level of Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)



Source : IMF Staff.
1/ Plotted distribution includes program countries, percentile rank refers to all countries.
2/ Projections made in the spring WEO vintage of the preceding year.
3/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Greece: Public Sector Debt Sustainability Analysis (DSA) - Baseline Scenario

(Percent of GDP, unless otherwise indicated)

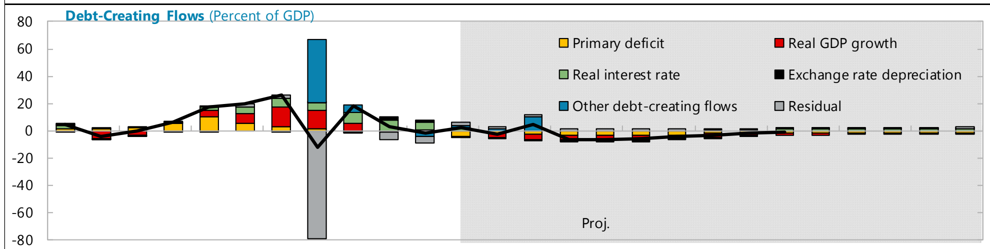
Debt, Economic and Market Indicators 1/

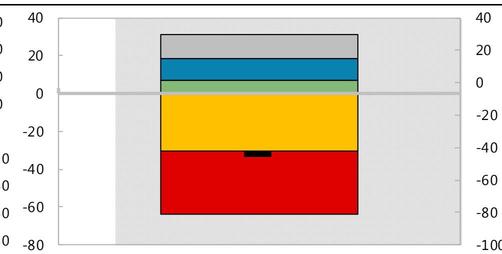
	Actual				Projections														As of June 30, 2017		
	2005–2013 2/	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Sovereign Spreads		
Nominal gross public debt	134.0	180.1	179.4	181.6	178.8	183.2	176.5	170.0	163.9	159.5	155.9	153.7	152.4	151.3	150.4	149.8	149.4	149.1	Spread (bp) 3/		496
Public gross financing needs	12.4	26.4	23.3	16.2	17.4	21.0	13.3	7.9	7.9	7.2	10.7	14.5	11.0	12.6	13.3	15.7	18.2	16.7	CDS (bp)		596
Real GDP growth (percent)	-2.3	0.4	-0.2	0.0	2.1	2.6	1.9	1.9	1.8	1.0	2.0	1.4	1.0	1.0	1.0	1.0	1.0	1.0	Ratings	Foreign	Local
Inflation (GDP deflator, percent)	1.6	-1.8	-1.0	0.1	1.2	1.3	1.4	1.6	1.7	1.7	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	Moody's	Caa2	Caa2
Nominal GDP growth (percent)	-0.6	-1.5	-1.3	0.1	3.3	3.9	3.3	3.6	3.5	2.8	3.8	3.2	2.8	2.8	2.8	2.8	2.8	2.8	S&Ps	B-	B-
Effective interest rate (percent) 4/	4.1	2.2	2.0	1.2	1.2	1.1	1.1	1.2	1.3	1.4	2.2	2.4	2.5	2.6	2.7	2.8	2.9	3.0	Fitch	CCC	CCC

Contribution to Changes in Public Debt

	Actual				Projections															
	2005–2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Cumulative	Debt-stabilizing primary balance 9/
Change in gross public sector debt	8.3	3.0	-1.6	2.3	-2.8	4.5	-6.8	-6.5	-6.1	-4.4	-3.6	-2.2	-1.3	-1.1	-0.9	-0.6	-0.4	-0.2	-32.5	0.3
Identified debt-creating flows	16.6	8.8	3.8	0.0	-3.7	3.4	-7.9	-7.6	-7.3	-5.7	-4.0	-2.7	-2.0	-1.8	-1.7	-1.5	-1.4	-1.3	-45.1	
Primary deficit	3.3	0.1	-0.5	-4.2	-1.7	-2.2	-3.5	-3.5	-3.5	-3.5	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5	-30.3	
Primary (noninterest) revenue and grants	42.0	46.7	48.2	50.0	48.4	46.8	46.7	46.1	45.2	45.0	44.0	44.0	44.0	44.0	44.0	44.0	44.0	44.0	629.9	
Primary (noninterest) expenditure	45.3	46.8	47.7	45.8	46.7	44.6	43.1	42.6	41.7	41.4	42.4	42.4	42.4	42.4	42.4	42.4	42.4	42.4	599.6	
Automatic debt dynamics 5/	7.6	8.4	7.7	2.2	-3.8	-4.7	-4.0	-4.0	-3.7	-2.1	-2.5	-1.1	-0.5	-0.3	-0.2	0.0	0.1	0.3	-26.5	
Interest rate/growth differential 6/	7.6	6.7	5.9	1.9	-3.7	-4.8	-4.0	-4.1	-3.7	-2.2	-2.5	-1.1	-0.5	-0.3	-0.2	0.0	0.1	0.3	-26.5	
Of which: real interest rate	3.5	7.3	5.5	1.9	-0.1	-0.3	-0.6	-0.7	-0.7	-0.5	0.6	1.0	1.0	1.2	1.3	1.5	1.6	1.7	6.9	
Of which: real GDP growth	4.1	-0.6	0.4	0.0	-3.6	-4.4	-3.3	-3.3	-3.0	-1.7	-3.1	-2.1	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5	-33.4	
Exchange rate depreciation 7/	-0.1	1.7	1.8	0.3	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	
Other identified debt-creating flows	5.7	0.3	-3.4	1.9	1.7	10.4	-0.3	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	11.7	
Net privatization proceeds	-0.1	-0.3	-0.1	-0.2	-0.3	-0.6	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.9	
Contingent liabilities	1.0	0.6	-6.3	2.2	2.0	5.8	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	7.3	
Other liabilities (bank recap. and PSI sweetner)	4.8	0.0	3.1	0.0	0.0	5.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.3	
Residual, including asset changes 8/	-8.3	-5.8	-5.3	2.3	0.9	1.0	1.1	1.1	1.2	1.4	0.4	0.5	0.7	0.7	0.8	0.9	1.0	1.0	12.7	

Debt-Creating Flows (Percent of GDP)

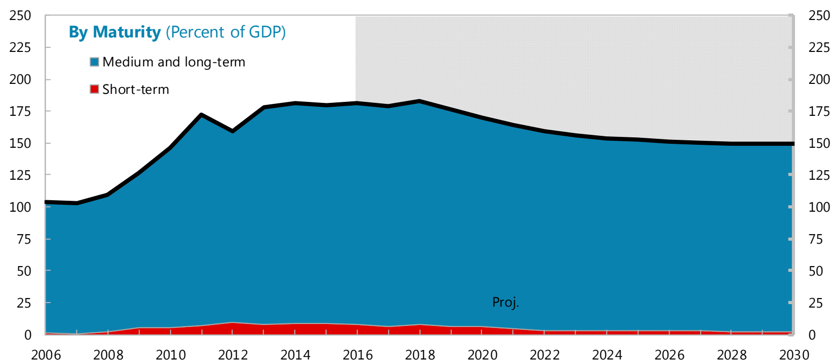


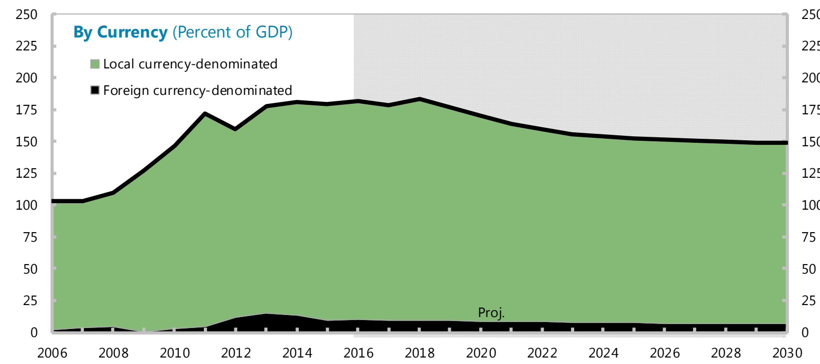


Source: IMF staff projections.
1/ Public sector is defined as general government.
2/ Based on available data.
3/ Bond Spread over German Bonds.
4/ Defined as interest payments divided by debt stock at the end of previous year.
5/ Derived as [(r - p(1+g) - g + ae(1+r)]/(1+g+p+gp)) times previous period debt ratio, with r = interest rate; p = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).
6/ The real interest rate contribution is derived from the denominator in footnote 4 as r - π (1+g) and the real growth contribution as -g.
7/ The exchange rate contribution is derived from the numerator in footnote 2/ as ae(1+r).
8/ For projections, this line includes exchange rate changes during the projection period. Also includes ESM capital contribution, arrears clearance, SMP and ANFA income, and the effect of deferred interest.
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

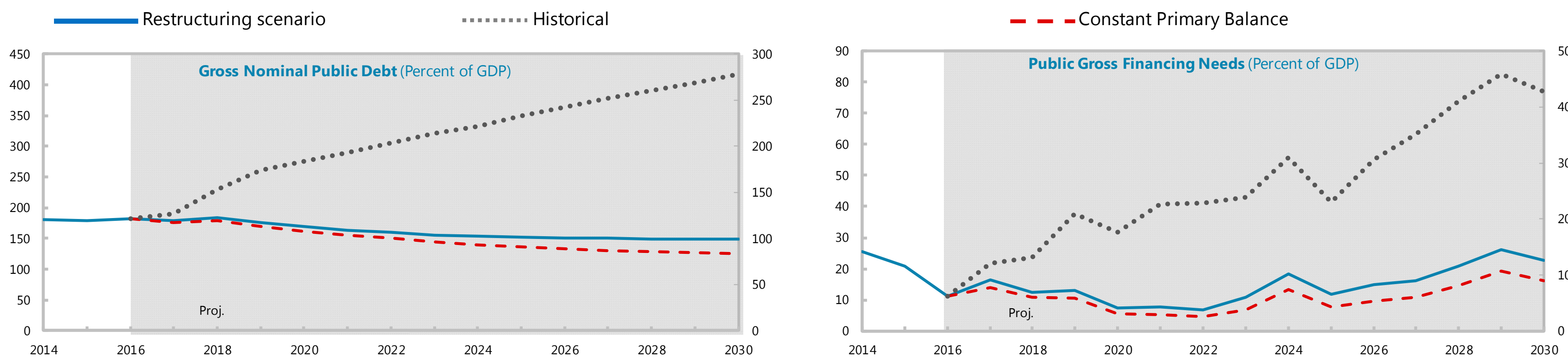
Greece Public DSA - Composition of Public Debt and Alternative Scenarios (Baseline Scenario)

Composition of Public Debt





Alternative Scenarios



Underlying Assumptions

(Percent)

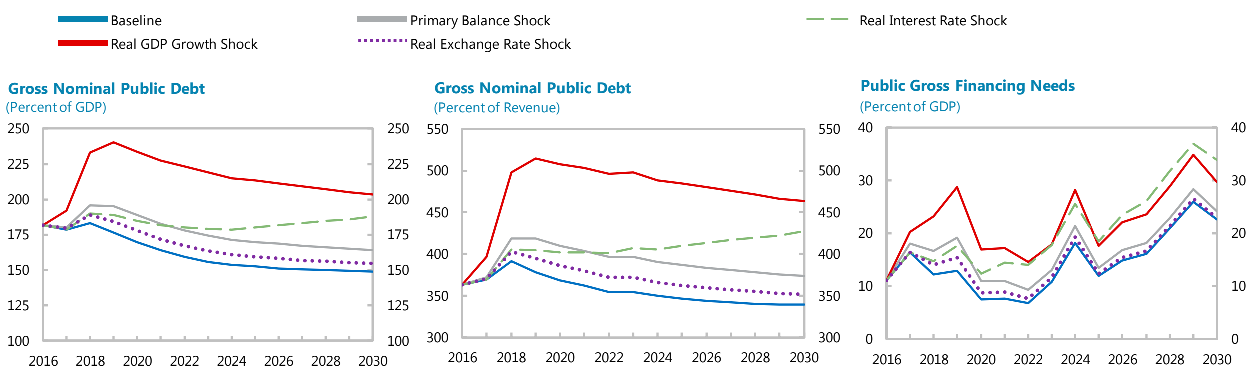
Restructuring scenario	2016	2017	2018	2019	2020	2021	2022	2025	2030
Real GDP growth	0.0	2.1	2.6	1.9	1.9	1.8	1.0	1.0	1.0
Inflation	0.1	1.2	1.3	1.4	1.6	1.7	1.7	1.8	1.8
Primary balance	4.2	1.7	2.2	3.5	3.5	3.5	3.5	1.5	1.5
Effective interest rate	1.2	1.2	1.1	1.1	1.2	1.3	1.4	2.5	3.0
Constant primary balance scenario									
Real GDP growth	0.0	2.1	2.6	1.9	1.9	1.8	1.0	1.0	1.0
Inflation	0.1	1.2	1.3	1.4	1.6	1.7	1.7	1.8	1.8
Primary balance	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2
Effective interest rate	1.2	1.2	1.1	1.1	1.2	1.2	1.4	2.4	2.8

Historical scenario	2016	2017	2018	2019	2020	2021	2022	2025	2030
Real GDP growth	0.0	-2.1	-2.1	-2.1	-2.1	-2.1	-2.1	-2.1	-2.1
Inflation	0.1	1.2	1.3	1.4	1.6	1.7	1.7	1.8	1.8
Primary balance	4.2	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8
Effective interest rate	1.2	1.2	1.4	1.8	2.5	2.7	3.0	4.2	4.8

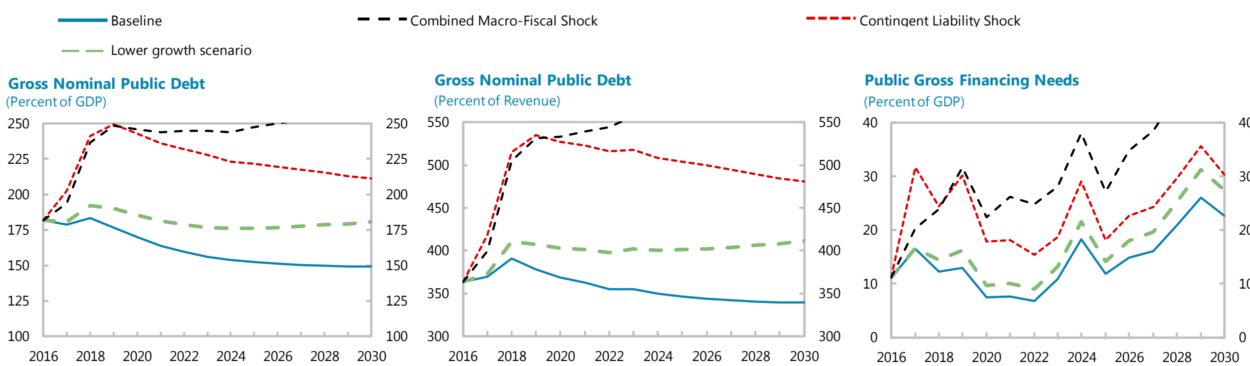
Source: IMF staff.

Greece Public DSA - Stress Tests (Baseline Scenario)

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(Percent)

	2016	2017	2018	2019	2020	2021	2022	2025	2030
Primary Balance Shock									
Real GDP growth	0.0	2.1	2.6	1.9	1.9	1.8	1.0	1.0	1.0
Inflation	0.1	1.2	1.3	1.4	1.6	1.7	1.7	1.8	1.8
Primary balance	4.2	0.0	0.6	3.5	3.5	3.5	3.5	1.5	1.5
Effective interest rate	1.2	1.2	1.1	1.2	1.3	1.4	1.5	2.5	2.9
Real Interest Rate Shock									
Real GDP growth	0.0	2.1	2.6	1.9	1.9	1.8	1.0	1.0	1.0
Inflation	0.1	1.2	1.3	1.4	1.6	1.7	1.7	1.8	1.8
Primary balance	4.2	1.7	2.2	3.5	3.5	3.5	3.5	1.5	1.5
Effective interest rate	1.2	1.2	1.4	1.8	2.6	2.8	3.1	4.6	5.8
Combined Shock									
Real GDP growth	0.0	-2.6	-2.1	1.9	1.9	1.8	1.0	1.0	1.0
Inflation	0.1	0.1	0.1	1.4	1.6	1.7	1.7	1.8	1.8
Primary balance	4.2	-1.1	-3.3	3.5	3.5	3.5	3.5	1.5	1.5
Effective interest rate	1.2	1.2	1.5	2.3	3.1	3.4	3.7	5.0	6.1
Lower Growth Scenario									
Real GDP growth	0.0	1.1	1.6	0.9	0.9	0.8	0.0	0.0	0.0
Inflation	0.1	1.2	1.3	1.4	1.6	1.7	1.7	1.8	1.8
Primary balance	4.2	1.7	2.2	3.5	3.5	3.5	3.5	1.5	1.5
Effective interest rate	1.2	1.2	1.1	1.1	1.3	1.4	1.5	2.5	3.0

	2016	2017	2018	2019	2020	2021	2022	2025	2030
Real GDP Growth Shock									
Real GDP growth	0.0	-2.6	-2.1	1.9	1.9	1.8	1.0	1.0	1.0
Inflation	0.1	0.1	0.1	1.4	1.6	1.7	1.7	1.8	1.8
Primary balance	4.2	-1.1	-3.3	3.5	3.5	3.5	3.5	1.5	1.5
Effective interest rate	1.2	1.2	1.2	1.4	1.4	1.5	1.7	2.5	2.8
Real Exchange Rate Shock									
Real GDP growth	0.0	2.1	2.6	1.9	1.9	1.8	1.0	1.0	1.0
Inflation	0.1	1.6	1.3	1.4	1.6	1.7	1.7	1.8	1.8
Primary balance	4.2	1.7	2.2	3.5	3.5	3.5	3.5	1.5	1.5
Effective interest rate	1.2	1.2	1.1	1.1	1.2	1.3	1.5	2.4	2.8
Contingent Liability Shock									
Real GDP growth	0.0	-2.6	-2.1	1.9	1.9	1.8	1.0	1.0	1.0
Inflation	0.1	0.1	0.1	1.4	1.6	1.7	1.7	1.8	1.8
Primary balance	4.2	-12.4	2.2	3.5	3.5	3.5	3.5	1.5	1.5
Effective interest rate	1.2	1.2	1.6	1.3	1.5	1.6	1.7	2.5	2.8

Source: IMF staff.

Greece: External Debt Sustainability Framework
(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2012	2013	2014	2015	2016			2017	2018	2019	2020	2021	2022	Debt-stabilizing non-interest current account 6/
Baseline: External debt	237.0	237.3	238.5	251.1	245.8			**240.4**	**234.5**	**229.5**	**224.1**	**218.7**	**215.9**	**-4.2**
Change in external debt	48.8	0.3	1.2	12.6	-5.3			-5.4	-5.9	-5.0	-5.4	-5.5	-2.7	
Identified external debt-creating flows (4+8+9)	18.6	13.2	0.7	-0.6	-1.6			-6.4	-7.2	-5.9	-6.0	-5.8	-4.0	
Current account deficit, excluding interest payments	-1.7	-3.1	-2.6	-2.8	-1.7			-4.8	-3.2	-3.4	-3.7	-3.5	-3.5	
Deficit in balance of goods and services	3.8	2.8	2.2	0.2	0.7			0.6	0.4	0.4	0.3	0.3	0.3	
Exports	28.6	30.4	32.5	30.0	28.1			28.9	29.1	29.5	29.9	30.2	30.6	
Imports	32.4	33.2	34.7	30.2	28.9			29.5	29.5	29.9	30.2	30.5	30.9	
Net non-debt creating capital inflows (negative)	-0.4	-2.8	-4.5	-3.1	-1.9			-1.6	-1.3	-1.7	-1.7	-1.7	-1.7	
Automatic debt dynamics 1/	20.7	19.1	7.9	5.3	2.1			0.0	-2.6	-0.8	-0.5	-0.5	1.2	
Contribution from nominal interest rate	5.5	5.1	4.3	2.7	2.4			5.1	3.3	3.5	3.8	3.4	3.5	
Contribution from real GDP growth	16.1	7.9	-0.9	0.6	0.0			-5.1	-6.0	-4.3	-4.3	-4.0	-2.2	
Contribution from price and exchange rate changes 2/	-0.9	6.1	4.5	2.0	-0.2			-3.0	-3.0	-3.3	-3.6	-3.7	-3.7	
Residual, incl. change in gross foreign assets (2-3) 3/	30.2	-12.9	0.4	13.2	-3.7			4.0	4.3	4.2	4.2	4.1	5.0	
External debt-to-exports ratio (in percent)	828.3	780.4	733.7	837.1	873.5			833.0	805.8	777.3	749.9	724.4	705.2	
Gross external financing need (in billions of US dollars) 4/	294.3	256.4	214.0	180.7	179.9			160.0	151.3	153.4	148.3	150.1	148.9	
in percent of GDP	119.7	106.9	90.5	92.7	92.4	10-Year	10-Year	82.9	75.7	74.2	69.2	67.9	65.9	
Scenario with key variables at their historical averages 5/								**240.4**	**258.2**	**277.9**	**299.1**	**320.5**	**343.7**	**14.7**
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation							
Real GDP growth (in percent)	-7.3	-3.2	0.4	-0.2	0.0	-2.6	3.9	2.1	2.6	1.9	1.9	1.8	1.0	
GDP deflator in US dollars (change in percent)	-7.9	0.9	-1.8	-17.4	-0.2	-0.3	9.0	-2.8	1.0	1.4	1.7	1.4	1.2	
Nominal external interest rate (in percent)	2.5	2.1	1.8	0.9	0.9	2.2	1.8	2.1	1.4	1.5	1.7	1.6	1.6	
Growth of exports (US dollar terms, in percent)	-3.7	3.8	5.3	-23.9	-6.3	0.6	15.6	1.7	4.4	4.9	4.9	4.3	3.7	
Growth of imports (US dollar terms, in percent)	-12.2	0.1	3.1	-28.4	-4.5	-2.6	17.1	1.3	3.7	4.8	4.7	4.3	3.5	
Current account balance, excluding interest payments	1.7	3.1	2.6	2.8	1.7	-2.7	7.0	4.8	3.2	3.4	3.7	3.5	3.5	
Net non-debt creating capital inflows	0.4	2.8	4.5	3.1	1.9	1.4	1.9	1.6	1.3	1.7	1.7	1.7	1.7	

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 rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

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

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

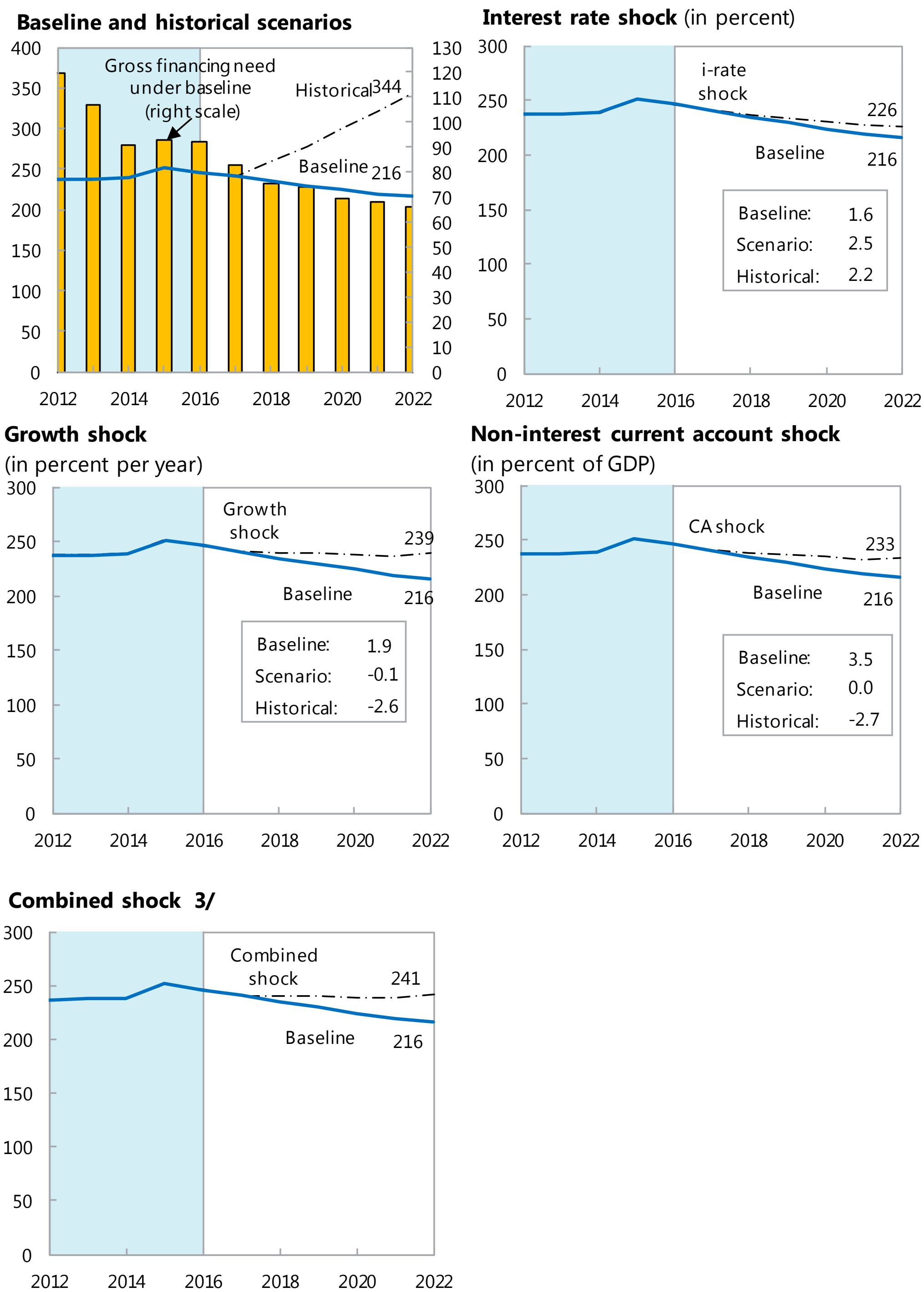
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

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

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

Greece: External Debt Sustainability: Bound Tests 1/ 2/

(External debt in percent of GDP)



Sources: International Monetary Fund, country desk data, and staff estimates.

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

2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

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Appendix I. Letter of Intent

Athens, July 7, 2017

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington DC

Dear Ms. Lagarde:

This Letter of Intent outlines the economic and financial policies that the Greek Government and the Bank of Greece will implement during 2017–18 under a 13-month and 12 days precautionary Stand-By Arrangement in the amount of SDR 1.3 billion (55 percent of quota, about €1.6 billion) for which we are requesting approval in principle by the IMF Board until assurances on debt relief are received to enable the entry into effect of the arrangement. The arrangement is expected to expire on August 31, 2018, shortly after the expiration of the ESM program.

1. Program objectives: Our new IMF-supported adjustment program will be focused on policies that can help restore macroeconomic stability and provide breathing space to mobilize broad political support for the deeper reforms and modernization of the economy needed for Greece to prosper within the euro area. The program will also provide a framework for European partners to provide debt relief contingent on policy implementation to help facilitate a return to markets.

2. Fiscal policies: will focus on rebalancing policies to support growth and better social protection over the medium and long run. Given constrained financing options and an exceptionally high level of debt, we need to strike a balance in utilizing the fiscal space created by our reform efforts between reducing debt, supporting growth, and strengthening social protection.

- **Program targets (TMU ¶31):** We commit to fully implementing already legislated reforms, which will help us achieve our primary surplus target of 1¾ percent of GDP in 2017. In 2018, we and our European partners believe that these reforms—together with legislation of additional identified measures financing our recently introduced welfare reform—will deliver a primary surplus of 3½ percent; the IMF staff considers that the surplus will reach 2.2 percent of GDP. If we are on track to achieve our 2017 targets and 2018 floors set by the IMF-supported program (based on performance relative to our quarterly performance criteria and on a forward-looking assessment of fiscal projections from the IMF in consultation with the European Institutions), we have reached understandings with our European partners that ESM disbursements will be made on the basis of implementation of agreed policies. If we fall short of our targets/ floors, we commit to taking prompt corrective action in the context of program reviews.
- **Post-program targets (TMU ¶31-41)**: With the objective of reducing our large debt burden, we have committed to reach and sustain annual primary surpluses of 3.5 percent of GDP in 2019-22, which will be reduced to more economically realistic levels after 2022 that in IMF staff's view will equal 1.5 percent of GDP. To achieve and sustain these targets, while ensuring a more

sustainable and growth-friendly structure of our budget, we have, as **prior actions** (Table 1), legislated:

- ***A pension reform*** to be implemented in 2019 (net annual savings of 1 percent of GDP during 2019-22) that applies to current retirees the benefit formula introduced by the 2016 reform by eliminating the negative "personal differences" in main and supplementary pensions, while limiting reductions to 18 percent, coupled with a freeze of inflation indexation for all pensions during 2019-22. Should this reform be found to be unconstitutional, we will ensure that the medium-term savings are secured by taking equivalent permanent structural measures.[1]

- ***A personal income tax reform*** entering into effect in 2020 *(*net savings of 1 percent of GDP during 2020-22) that broadens the tax base by reducing the personal income tax credit by €650***.***[2] The implementation of the income tax reform will be advanced to 2019 if, in the context of the final program review (June 2018) the IMF staff, in consultation with the European institutions and the Greek authorities, considers that, based on a forward-looking assessment, this would be needed to reach the agreed 3.5 percent primary surplus fiscal target in 2019 in a sustainable manner, without growth-detrimental measures (e.g. by ensuring compliance with our spending floors in the MTFS strategy, as noted below).

- ***A growth-friendly fiscal package,*** which could enter into effect at the earliest in 2019, contingent on a forward-looking assessment by all institutions (to be undertaken in the final review of the arrangement) that points to expected sustained overperformance. The amount of measures to be implemented would be determined in line with the assessed permanent over-performance--by the IMF/EC/ECB/ESM staff in consultation with the Greek authorities--relative to our agreed medium-term targets, to secure achievement of these targets. Part of the package will be comprised of tax measures amounting to up to 1 percent of GDP, including: a reduction in CIT rates (cost of 0.1 percent of GDP); a reduction of the lower PIT rates and solidarity surcharge (cost of 0.8 percent); and a reduction of ENFIA rates (cost of 0.1 percent). The rest will be comprised of up to 1 percent of GDP in spending measures, including: (i) an increase in targeted social spending (housing allowance; child allowance; school meals; nursery/pre-school education; means-tested reduction in health co-payments (cost of 0.7 percent of GDP); (ii) high-quality public infrastructure investments (cost of 0.2 percent); and (iii) active labor market policies (cost of 0.1 percent).

- ***A medium-term fiscal strategy (MTFS****)* ***for 2018-21*** that reflects the reforms above and is in line with the above-mentioned targets, while ensuring a growth-friendly policy mix. Our strategy will aim to maintain our primary spending on goods and services (especially for

[1] To mitigate legal risks, we have consulted with the Legal Counsel of State and furnish a formal legal opinion that the pension reform is in line with the Greek constitution and the Charter of Fundamental rights, taking on board inter alia the arguments presented in the independent legal opinion; and have completed and published a detailed quantitative assessment of the redistributive impact of the pension reform.

[2] We have consulted with the relevant highest legal authorities in Greece, including the Ministry of Justice and independent legal experts, which have confirmed that the contingent timing of implementation of the income tax reform and of the growth-enhancing fiscal package are in line with our constitution (as per an independent legal opinion furnished to IMF staff).

health and social protection)—which has been substantially compressed in recent years and is no longer amenable to further reductions—at its current level relative to GDP through agreed floors (TMU ¶31-32). The level and scope of floor will be reassessed and refined as needed in future reviews.

3. **Fiscal structural reforms (TMU ¶42-65):** will aim to improve fiscal institutions and complement our fiscal adjustment efforts to support their economic and social sustainability.

- ***Immediate priorities:*** In support of our newly legislated independent *revenue agency*, we have, as a **prior action**, adopted legislation to prioritize audit cases, strengthen collection enforcement, and define criteria to establish the viability and capacity to pay of tax debtors. Also as a **prior action**, we have issued remaining implementing legislation for our *pension reform* and repealed conflicting provisions, and will operationalize a single pension register, and merge the management of existing funds into the new single pension fund (Table 1).
- ***Follow-up steps:*** We will build on recently legislated *revenue administration* reforms by modernizing audit and collection practices, addressing VAT fraud, ensuring adequate staffing and risk analysis tools for the revenue agency, and aligning the code of revenue collection procedures with the new Code of Civil Procedure, including regarding e-auctions. We will also finalize the recalibration of *pensions* and the electronic records of retirees and insured persons. We will reform our *property tax* by aligning property values with market prices. As to *public administration and public financial management*, we will legislate to ensure that temporary contracts are not used to circumvent attrition rules, integrate the accounts of the general government into the Single Treasury Account, and conduct an assessment by an independent auditor of end-2016 government accounts payable and the arrears clearance program. We commit not to accumulate arrears on a net basis and will implement a revamped system of arrears management, on which basis we would restart their clearance with official funds and internal funds with the aim to fully clear them by end-2019. Finally, we will complete *welfare reforms* by implementing, in a budget neutral manner, a modern system of family, disability, and housing benefits. (**Structural benchmarks** in these areas are detailed in Table 2.)

4. **Financial sector reforms** (**TMU ¶66-80**): will complement the supervisory strategy and actions led by the Single Supervisory Mechanism (SSM) by enhancing and operationalizing our legal framework to address non-performing loans (NPLs), ensuring adequate bank capitalization, and normalizing payment conditions as soon as possible, while safeguarding financial stability.

- ***Immediate priorities:*** Building on recent initiatives to strengthen our *NPL legal framework*, we have, as **prior actions**: (i) established a new out-of-court workout (OCW) framework with accompanying secondary legislation for the processing of cases by public creditors to be adopted soon; (ii) implemented legal amendments, regulation, and infrastructure to allow for electronic on-line auctions; (iii) adopted legislation protecting creditors from civil and criminal liability for actions related to debt restructuring taken in good faith in accordance with the law; (iv) adopted secondary legislation regulating insolvency administrators; (v) amended legislation to simplify and accelerate insolvency procedures for SMEs; and (vi) streamlined the licensing and supervision framework of NPL servicers. To ensure adequate bank capitalization, also as a **prior action**, the Bank of Greece (BoG) will require relevant less-systemic institutions that still need to reinforce their capital bases to do so. With the aim to normalize payment conditions, we have, as a **prior action**, published a conditions-based roadmap outlining the steps toward full relaxation of restrictions (Table 1).

- ***Follow-up steps***: To facilitate the *resolution of NPLs* and support credit growth, we will amend legislation to strengthen the position of secured creditors, fully implement the OCW framework and e-auction system, and fully operationalize the profession of insolvency administrators. As to *bank capitalization*, the BoG will also require the completion of any remedial action regarding less systemic institutions and the coverage of potential capital shortfalls by cooperative banks (**Structural benchmarks** are detailed in Table 2). Regarding systemic institutions, we will request confirmation from the European partners that the remaining resources under the ESM program foreseen for the banking sector will remain available for these purposes until end-program. Progress with the implementation of the strategy to ensure the soundness of the banking system will be a focus of the first program review. The BoG remains committed to preserving sufficient banking system liquidity in line with Eurosystem rules and will closely monitor developments, including depositor confidence, to ensure that banks keep adequate cash buffers.

5. Structural reforms (TMU ¶81-92): will focus on preserving the competitiveness gains from existing labor market reforms and advancing ongoing product and service market reforms supported by technical assistance from the World Bank and the OECD.

- ***Immediate priorities***: In the *labor market area*, we have, as a **prior action**, adopted legislation to: (i) provide that the 2011 collective bargaining reforms will remain in force until end-program (with respect to the suspension of the extension of collective agreements and the favorability principle); and (ii) replace the administrative approval of collective dismissals with a notification system, which will not involve *ex ante* approval. As to *product markets*, we have, as a **prior action**: (i) adopted legislation to liberalize Sunday trade, addressing the concerns of the recent Constitutional Court ruling, and over-the-counter trade of pharmaceuticals; and (ii) implemented a notification system for investment licensing in the food, beverage, and tourism sectors (Table 1). Also as part of the **prior action**, we will adopt secondary legislation on Sunday trade and submit legislation to remove restrictions on engineers including public-works engineers.
- ***Follow up steps***: In the *labor market* area, we will analyze our industrial action framework and adopt legislation to increase the minimum quorum for voting on a strike. We will also follow up on *product market reforms* by implementing remaining actions in the OECD Toolkit III, removing remaining restrictions for key profession, and taking steps to complete our investment licensing reform in remaining sectors by end-program. (**Structural benchmarks** are detailed in Table 2).

6. Financing: In support of our policy program, we request a 13-month and 12 days precautionary Stand-By Arrangement supported by the IMF in the amount of SDR 1.3 billion (55 percent of quota; €1.6 billion). We understand that for the precautionary Stand-By Arrangement to enter into effect, the IMF needs additional assurances on the size and composition of debt relief and we anticipate that these assurances will be in place soon. The euro area member states have given assurances that adequate financing will be available to support Greece during the period of our policy program, provided that we implement and adhere to the program. The undisbursed envelope under the ongoing ESM program amounts to €54 billion.

7. Debt sustainability: Notwithstanding our recent reform efforts, general government debt reached about 180 percent of GDP at end-2016. The full implementation of the policies detailed in this document and the generous concessional official financing and short-term debt reduction measures agreed by the Eurogroup, do not yet ensure that debt dynamics remain sustainable over the long run. Despite the significant steps taken towards debt sustainability in the Eurogroup of June

15, further official debt relief—delivered upon successful completion of our adjustment program and calibrated on realistic assumptions— will be necessary to maintain gross financing needs below 15 percent of GDP in the medium run and 20 percent of GDP in the long run.

8. **Program monitoring:** Progress in the implementation of the policies that are part of our IMF-supported program will be monitored through semiannual reviews. All quarterly (and continuous) quantitative performance criteria (PCs), key performance indicators (KPIs), structural benchmarks and prior actions, as well as data and transparency requirements, are defined in the attached TMU. The first and second reviews under the arrangement are proposed to take place on or after February 15, 2018 and August 15, 2018. A safeguards assessment of the BoG should be completed by the first review in accordance with the IMF safeguards policy. The existing MoU between the Ministry of Finance and the BoG will be updated by end-June, 2017.

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

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

/s/

Alexis Tsipras
Prime Minister

/s/

Euclid Tsakalotos
Minister of Finance

/s/

Yannis Stournaras
Governor of the Bank of Greece

Table 1. Prior Actions

1. Adopt a 2018-21 MTFS consistent with agreed targets and underpinned by reforms: (i) reducing the personal income tax credit by €650 implemented in 2020, with the possibility to be advanced to 2019 (savings of 1 percent of GDP); and (ii) applying the new main and supplementary benefit formula to current retirees and freezing pensions during 2019-22, implemented in 2019 (savings of 1 percent of GDP).
2. Adopt legislation to prioritize audit cases, strengthen collection enforcement of taxes, and define criteria for establishing the capacity of tax debtors to pay.
3. Issue all implementing legislation for the pension reform, repeal conflicting provisions, operationalize a single pension register, and merge the management of existing funds into the new single pension fund.
4. Adopt legislation and other steps to: (i) establish an out-of-court debt restructuring framework and adopt secondary legislation for the processing of cases by public creditors; (ii) allow electronic on-line auctions and implement the technological infrastructure for e-auctions; (iii) protect creditors from civil and criminal liability for debt restructuring actions; (iv) establish regulations for insolvency administrators; (v) simplify and accelerate insolvency procedures for SMEs; and (vi) streamline the licensing and supervision framework of NPL servicers.
5. BoG will: (i) require less-systemic banks that still need to reinforce their capital base to do so; and (ii) publish a milestone-based roadmap for the liberalization of capital controls.
6. Adopt legislation to: (i) provide that the 2011 collective bargaining reforms remain in force until the end of the program; and (ii) replace the administrative approval of collective dismissals with a notification system, which will not include ex-ante approval.
7. Adopt legislation to: (i) fully implement the notification system for investment licensing for food, beverages, and tourism; and (ii) liberalize Sunday trade and OTC. Submit presidential decrees to liberalize engineers' professional rights, including for public works engineers, and pass secondary legislation for stevedores.

Table 2. Structural Benchmarks	Deadline
Fiscal Sustainability	
1. Adopt legislation to set ceilings on temporary contracts for 2017-18 and ensure that court-mandated conversions of temporary into permanent contracts are in line with the 2018-21 MTFS. 2. Adopt legislation to address the backlog of cases for which the statute of limitations has been extended. 3. Complete an independent assessment (by an independent auditor) of government accounts payable accumulated until end-2016 and the arrears clearance program.	September 2017
4. Integrate central government and other large accounts of general government entities into the Treasury Single Account.	October 2017
5. Finalize the recalibration of pensions and the automatic electronic records of retirees' service histories half of the records of insured persons. 6. Ensure that the new revenue agency has adequate risk analysis systems and qualified staffing. 7. Amend the code of public revenue collection to align with the CCP, including for e-auctions. 8. Align property assessment values with market prices.	December 2017
9. Adopt legislation to codify and simplify VAT legislation/administration and address VAT fraud.	March 2018
10. Legislate and implement a modern and streamlined system of housing, family, and disability benefits, in a fiscally neutral manner, while rationalizing existing social programs. 11. Implement a transparent system for the monitoring of the clearance of government arrears.	June 2018
Financial Stability	
12. Fully implement the OCW framework. 13. Fully implement the e-auction system. 14. Complete the qualification and registration process for insolvency administrators.	July 2017
15. BoG to complete remedial action regarding less systemic institutions and ensure that cooperative banks cover potential capital shortfalls. 16. Amend legislation to strengthen the position of secured creditors.	September 2017
Competitiveness and Employment	
17. Analyze the existing industrial action framework and adopt legislation to raise minimum quorum share for voting on a strike to 50 percent of union representatives. 18. Complete the implementation of OECD Toolkit III competition assessment. 19. Adopt horizontal measures to facilitate investment licensing.	September 2017
20. Adopt legislation to remove remaining restrictions (e.g. geographical, pricing, establishment, etc.) for key professions (e.g. healthcare providers, legal professionals, etc.).	December 2017
21. Implement the follow-up phases of the investment licensing reform covering remaining sectors.	June 2018

Attachment I. Technical Memorandum of Understanding

July 7, 2017

1. This Technical Memorandum of Understanding (TMU) sets out the understandings regarding the definitions of the indicators subject to quantitative targets (performance criteria and indicative targets), specified in the tables annexed below it also describes the methods to be used in assessing program performance and the information that we will provide to ensure adequate monitoring of the targets.

2. For program purposes, all foreign currency-related assets, liabilities, and flows will be evaluated at "program exchange rates" as defined below, except for 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, 2017. In particular, the exchange rates for the purposes of the program are set: €1 = 1.1221 U.S. dollar, €1 = 124.4970 Japanese yen, and €1.2337= 1 SDR.

General Government

3. **Definition**: For the purposes of the program, general government entities include all units classified as government units in the registry of the National Statistical Service (ELSTAT) as reflected in the most recent EDP notification, in accordance with the rules specified in the *European System of Accounts 2010* (*ESA10*) and the *ESA10 Manual on Government Deficit and Debt.*[1]

QUANTITATIVE AND CONTINUOUS PERFORMANCE CRITERIA, INDICATIVE TARGETS, AND CONTINUOUS PERFORMANCE CRITERIA: DEFINITIONS AND REPORTING STANDARDS (TABLE 1)

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

4. **Definition**: The modified general government primary cash balance (MGGPCB) is defined as the modified general government cash balance (MGGCB) minus general government interest payments. The MGGCB is defined as the sum of the cash balances of general government entities measured from above the line (revenue minus expenditure after consolidation for intra- and inter-sectoral transactions).[2] The delineation of the above the line and below the line transactions, and classification of the main revenue and expenditure categories is in accordance with the rules specified in the *ESA2010* and the *ESA2010 MGDD*.

- **The ordinary state budget.** The cash balance of the ordinary state budget will be measured as: (i) gross ordinary budget revenues (recurrent and non-recurrent), minus tax refunds; minus (ii) ordinary budget expenditures as published monthly in the State Budget Execution Bulletin on the official website of the Ministry of Finance; plus (iii) the balance of operations performed through the accounts outside the budget, in particular STA.

[1] On sectorization, both manuals are consistent with Government Finance Statistics Manual 2014 (GFSM2014).

[2] Net lending/net borrowing, as defined by the *ESA 2010*.

- **The cash balance of the public investment budget.** The cash balance of the public investment budget will be measured as investment budget revenues minus investment budget expenditures as published monthly in the State Budget Execution Bulletin on the official website of the Ministry of Finance, and in line with the corresponding line items established in the investment state budget.
- **Other Sectors (EBFs, SOEs, local governments, social security funds, and hospitals).** The cash balance of the remaining sectors of the general government will be measured as: (i) gross revenues (including transfers from the State government as well as from other subsectors) minus (ii) expenditures, as published monthly on the official website of the Ministry of Finance.
- **Consolidation.** The sum of cash balances will be derived from the aggregated revenue and expenditure of all general government entities excluding all intra and inter-sectoral transactions.

5. Reconciliation: The Bank of Greece will provide detailed monthly data on assets and liabilities by financial instruments, and net financing on a cash basis for the state and other general government sub-sectors, as defined in ¶4. If there is a positive discrepancy between MGGCB and net financing - as reported by the Bank of *Greece* exceeding 200 million euro in any of the general government sub-sectors, net financing will be used to measure cash balance for that sub-sector for the quarterly performance criterion on MGGPCB, unless reconciling information explaining the difference has been provided by the General Accounting Office of the Ministry of Finance (GAO) and the Bank of Greece.

6. Adjustments: The *MGGPCB* will exclude:

- the part of the public investment budget (revenues and expenditures) related to EU structural funds and their co-financing;
- all transfers related to Eurogroup decisions regarding income of euro area national central banks (SMP and ANFA revenue) including the BoG, stemming from their investment portfolio holdings of Greek government bonds;
- receipts from the sale of non-financial assets such as land, buildings, and from leases, concessions or licenses (recorded as one-off transactions);
- total general government migration-related expenditure, net of EU transfers to the Greek budget for migration-related costs consisting of, (i) operation expenditure of Ministry for Migration Policy from 2017 onwards; (ii) state expenditure recorded under the special budget account for migration expenditure codes 590 to 596 as well as other special budget accounts for migration expenditure in code group 590 agreed with staff of the IMF/EC/ECB/ESM (for Ministries), 078 (for Decentralized Administration) and 187, 188 and 238 (for regional services of Ministries). Migration-related expenditure will exclude wages and salaries of permanent civil servants for the purposes of this adjustor. Delayed EU fund payments related to migration expenditure already deducted from previous years' program balance will be also excluded. The total adjustment will not exceed 0.2% of GDP per annum.
- payments related to support of the banking system that are part of the program's financial sector strategy (except payments for deposit guarantee schemes);

- any payments from banks that would undermine their solvency or liquidity, unless the Bank of Greece confirms that such a payment would be compatible with the preservation of adequate capital buffers and liquidity going forward, including by verifying consistency with banks' business plans as included in the most recent stress test. The two exceptions to this are the capital concentration tax and the guarantee fee structures in place as of December 31st, 2016.

- any refunds concerning taxes and any payments of spending arrears with special appropriation/funding for arrears clearance.

7. Supporting material: All of the following will be provided within five weeks of the end of each reporting month:

- For the State, EBFs, and SOEs, the Ministry of Finance (MoF) will provide to the European Commission, ECB and IMF detailed information on monthly revenues and expenditures including interest expenses, accounts payable distinguishing third parties, domestic and foreign debt redemptions, new domestic and foreign debt issuance, change in the domestic and foreign currency cash balances at the Bank of Greece, and all other sources of cash financing.

- For local governments, the Ministry of Finance, in collaboration with the Ministry of Interior, will provide monthly data on revenues and expenditures, accounts payable distinguishing third parties, as collected in the Ministry databank.

- For the social budget and hospitals, the Ministry of Finance, in collaboration with the Ministry of Labor and Ministry of Health, will provide monthly data on revenues and expenditures and accounts payable distinguishing third parties, in the social security funds, the central healthcare fund (EOPYY) and public hospitals.

- Finally, with a view to cross-check above and below the line primary cash balances (see ¶5), the Bank of Greece will provide detailed monthly data on net acquisition of financial assets and liabilities of the State and all non-State subsectors of the General Government as defined above: local authorities, social budget entities, extra-budgetary funds, and state enterprises included in the definition of general government. The entity in charge of the operation of the Single Treasury Account (STA) will provide monthly data on the outstanding amount of the STA, and inflows and outflows passing through the STA grouped by main categories, and distinguishing above and below the line transactions and possible other economic flows. A template agreed with IMF staff and compiled and provided by the GAO based on the information provided by the above entities will reconcile above (General Government Bulletin) and below the line (BoG) data, including asset and liability stocks and flows reconciling differences between BoG deposit data and cash flow table deposit data.

- Monthly data by budget code on the use of the special account allocated for refugee spending, including data on wage and nonwage-related spending, within three weeks of the end of each month. Results of the ex-post surveys of line ministries on migration-related spending on quarterly basis.

- Monthly data on payments of spending arrears, tax refunds, and pension claims paid with special appropriation for arrears clearance or/and with ESM special financing for arrears clearance.

B. Ceiling on the Stock of Domestic Arrears (Performance Criterion)

8. Definition. Domestic arrears are defined as: (i) unpaid invoices of the general government owed to third parties that are 90 days past their due date; plus; (ii) the stock of tax refund claims of third parties that have received an AFEK (verified and non-verified) but excluding those under legal dispute, and any unprocessed tax refund claims that have exceeded 90 days since the claim was filed; and (iii) any processed and unprocessed pension claims that have exceeded 90 days since the retirement application was filed. In case no due date is specified on a given supplier contract, an unpaid commitment is in arrears 90 days after the receipt of the invoice. Tax refund claims that have received an AFEK and processed and approved pension claims are due immediately.

9. Adjustment. In the event of new ESM official financing for the purposes of arrears clearance, the ceiling on the stock of domestic arrears will be reduced as follows:

- In case the new ESM financing is received within 30 days before the test date, the QPC will not be adjusted.

- In case the new ESM financing is received before this period of 30 days, the QPC ceiling will be adjusted downward by the following amount:

  Adjustment = Amount of disbursement * (number of days between the disbursement and the test date minus 30 days) / 60 days.

The remaining amount of disbursement that has not been included in the above adjustment will be included in the downward adjustment of the QPC of the following quarter.

10. Supporting material. Monthly data on the stock and new gross accumulation of spending arrears and tax refund (processed) claims of the general government will be provided by the Ministry of Finance within four weeks after the end of each month. The Ministry of Finance will publish this information on its website. The Ministry of Finance will also provide, within five weeks after the end of each month, data on accounts payable overdue by 0–30, 31–60, and 61–90 days for general government entities as reported in the commitment registers as well as (i) stock of spending arrears; (ii) stock of unpaid processed tax refund claims, showing verified and unverified claims; (iii) stock of unpaid unprocessed tax refund claims, distinguishing those that are older than 90 days. Tax refund arrears data (including the age of tax refund claims) will be based on information provided by General Secretariat for Information Systems and Independent Authority for Public Revenue (IAPR). IAPR will fill out the tax refund template provided for this purpose, within four weeks after the end of each month. Unprocessed pension claims, including the age of the claims, will be provided by the Ministry of Labor, within five weeks after the end of each month. Information on clawback and rebate will be provided by the Ministry of Health and EOPYY. The coverage of the current reporting of general government contingent claims will be assessed in consultation with the institutions, and extended according to an agreed timetable to cover all contingent claims that are not currently reported on monthly basis.

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

11. Definition. The overall stock of central government debt will refer to central government gross debt, as defined in the Excessive Deficit Procedure (EDP), i.e. covering the state, extra budgetary funds and state owned enterprises consistent with the registry of the National Statistical Service (ELSTAT). Holdings of intra-government debt will be consolidated. The ceiling reflects total outstanding gross liabilities in the form of deposits, debt securities, and loans. It will exclude accounts payable and will be measured at nominal value as defined in the EDP. The program exchange rates will apply to all non euro-denominated debt.

12. Adjustments. The ceiling on the overall stock of EDP central government debt will be adjusted upward (downward) by the amount of any upward (downward) revision to the stock of end-December 2016 EDP central government debt of €321 billion.

13. Supporting material. Data on the total stock of central government debt will be provided to the European Commission, ECB and IMF staff by the GAO consistent with the EDP definition no later than 30 days after the end of each quarter.

D. Ceiling on New General Government Guarantees (Performance Criterion)

14. Definition. New guarantees are guarantees extended during the current fiscal year by the general government, but for guarantees for which the maturity is being extended beyond the initial contractual provisions, only 50 percent of the full value will be counted. Modification of existing guarantees (without changing the maturity, amount guaranteed, and beneficiaries of the loan) will not be treated as new guarantees. In case of a change in the beneficiaries, the state will assess whether there is an increase in the liability (and/or potential contingent liabilities) of the State and if the State's position as a guarantor is adversely affected. If the new beneficiary meets the exact same requirements as the old beneficiary and neither the liability of the State nor the state position as a guarantor is adversely affected, a modification of existing guarantees (without changing the maturity, and amount of guaranteed), will not be treated as new guarantees.

15. Coverage. The ceiling on the new general government guarantees shall include all new guarantees granted by any entity that is classified in the Register of the General Government Entities of ELSTAT (as reflected in the most recent EDP notification) under general government, but exclude guarantees to entities whose debt is covered under the ceiling on the stock of general government debt as defined above. The ceiling includes any guarantees to the Institute for Growth but shall exclude: (i) guarantees related explicitly to financial stability goals of the program (e.g., government-guaranteed bank bonds or emergency liquidity assistance (ELA)); (ii) guarantees related to EIB or ESIF financed loans; (iii) guarantees related to loans provided by the EIB or ESIF through the trade finance facility up to an outstanding amount of €500 million; (iv) guarantees granted by ETEAN (up to a total outstanding amount of €50 million provided these are fully backed by an equivalent amount of bank deposits); (v) guarantees granted under a risk sharing instrument of the EU structural funds (see COM (2011) 655 final) that do not create contingent liabilities for the Greek State; and (vi) guarantees granted to individuals and businesses for proven damages from natural disasters less any amounts received as compensation insurance up to a total amount of €30 million.

16. Supporting material. All new and modified central government guarantees will be reported in detail, identifying amounts and beneficiaries, and a risk assessment of calls and probability that the guarantees will be called. The report on modified guarantees, in which the beneficiary has changed, will include an assessment of the State's modified position as a guarantor. The GAO will provide the data monthly within three weeks after the end of each month. Non-state entities classified under the general government shall report the new guarantees they extended to the GAO monthly within three weeks after the end of each month.

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

17. Definition. For the purposes of the PC, an external debt payment arrear will be defined as a payment on debt securities or loans to non-residents contracted or guaranteed by the general government, which has not been paid when due in accordance with the relevant contract, taking into account any contractual grace periods. The performance criterion will apply on a continuous basis throughout the program period.

18. Supporting material. Any accumulation of external debt payment arrears of the general government will be reported by the PDMA immediately.

F. Floor on the Primary Spending on Goods and Services (Performance Criterion)

19. Definition: Spending on goods and services is defined as the sum of:

- State consumption and non-allocated expenditure as published monthly in the State Budget Execution monthly bulletin;
- Spending on goods and services of other general government entities as provided monthly by the GAO.

20. Adjustment: Spending on goods and services will exclude accrual spending subject to clawback that exceeds cumulative clawback ceiling until the test date. It will also exclude spending on the clearance of arrears from the special appropriation/financing.

21. Supporting material: The GAO will provide detailed information on the spending of other general government entities, distinguishing spending on goods and services, within five weeks of the end of each reporting month.

G. Ceiling of State Budget Primary Expenditure (Indicative Target)

22. Definition. The state budget primary spending consists of state budget expenditure minus interest paid by the state budget. State budget expenditure includes called guarantees to entities inside and outside the general government.

23. Adjustments: State budget primary expenditure will exclude the following:

- payments related to support of the bank system that are part of the program's financial sector strategy.[3]
- expenditures related to EU structural funds and their co-financing.
- any payments of state spending arrears or transfers for settlements of general government arrears from special appropriation for arrears clearance.
- debt assumptions of other general government entities.

24. Supporting material. The GAO will provide monthly expenditure data, as defined above.

H. "Program" Primary Balance and Overall Monitoring and Reporting Requirements

25. Definition. For the purposes of the program, the primary balance is defined as general government EDP balance (B.9) minus ESA 10 general government consolidated interest payable (D.41), adjusted for the factors delineated in paragraph 26.

26. Adjustments. The balance (B.9) will exclude the following:

- the sale of non-financial assets such as land, buildings, leases, concessions or licenses (recorded as one-off transaction), unless these have been agreed in the context of the program;
- total general government migration-related expenditure net of EU transfers to the Greek budget (see ¶6);
- costs related to banking support (see ¶6);
- SMP and ANFA revenues (see ¶6);

[3] Any financial operation by the central government to support banks, including the issuance of guarantees or provision of liquidity, will be immediately reported to the IMF, EC, and ECB staff.

- any other transactions related to debt-reducing measures agreed in the context of the program, such as the reduction of Greek Loan Facility (GLF) interest margin which are counted below the line in the debt sustainability analysis.

- any payments from banks that would undermine their solvency or liquidity (see ¶6).

The balance (B.9) will include the following:

- change of the stock of outstanding tax refunds claims without AFEK older than 90 days, net of the amount of rejected tax refund claims that exceeds the normal annual rejection volume (5% of the flow of new claims submitted in the respective year)

27. Supporting material. Performance under the program will be monitored from data supplied on a quarterly basis to the EC, ECB, and IMF by ELSTAT, the Ministry of Finance, the GAO, and Bank of Greece. The authorities will transmit to the IMF, EC, and ECB staff any data revisions in a timely manner. Monthly data by budget code on the use of the special account allocated for refugee spending, including wage and nonwage related spending, within three weeks of the end of each month. Results of the ex-post surveys of line ministries on migration-related spending on quarterly basis.

I. Coordination on Data and Statistical Provisions

28. For the purpose of standardizing the monthly monitoring of the general government cash balance and the preparation of fiscal projections of the general government, the Ministry of Finance will provide data on the monthly execution of the budget, the outturns of the general government and projections (after the completion of the reconciliation project between t-report format and ESA/GFSM methodology and the finalization and implementation of the new Chart of Accounts) in a format that is aligned with the General Government Bulletin framework based on the ESA 2010 and GFSM 2014 methodology.

29. Exchange of the information and data among ELSTAT, MoF/GAO, and the BoG will be based on a Memorandum of Understanding, regularly reviewed and updated at least on an annual basis. In particular, ELSTAT will provide the following information to the GAO, EC, ECB, and IMF, that would make it possible to compile timely projections based on the *ESA 2010* and program definitions:

- A bridge table between KAE and ESA 2010 codes. Each update of the bridge table by ELSTAT is to be provided as soon as available.

- Detailed EDP tables T2A/C/D, separately for the state, local government, hospitals, and SSFs, and a bridge table between the adjustments in and the *ESA 2010* codes for each adjustment line, on annual basis, as soon as the assessment of the Greece EDP data is concluded by Eurostat. Detailed EDP tables on quarterly basis for state, and for other subsectors, if available.

- EDP explanatory notes supplementing the official transmission of EDP data to Eurostat once the data are validated.

- Completed EDP questionnaire, as soon as the clarification process of the Greece EDP data is concluded by Eurostat

- Completed supplementary table on the financial crisis, as soon as the clarification process of the Greece EDP data is concluded by Eurostat

- Data on bank support adjustments, by subsectors and ESA 2010 codes.
- Data on consolidation of inter and intra-governmental transactions by economic categories, on annual and quarterly basis.
- Tables on revenue and expenditure (ESA T200) for the state, EBFs and SOEs, hospitals, local government and social security funds, on annual and quarterly basis as soon as the data are published.
- Explanatory notes on specific government transactions and classification of units, when submitted to Eurostat.
- Data by KAE for the state bridged into the ESA categories, and including the ESA adjustments for each category, as soon as the EDP data are published.
- Changes in the Register of the General Government Entities, as soon as the change is agreed with Eurostat.

FISCAL POLICY

J. Medium-Term Targets

Prior Action: *Adopt a medium-term fiscal strategy (MTFS) for 2018-21 in line with agreed medium-term targets, which should be reached without growth-detrimental measures.*

30. Definition: The primary balance target, as defined in section H, will be 2.2 percent of GDP in 2018, and 3.5 percent of GDP in 2019-22. The medium-term fiscal strategy (MTFS) will set a floor for 2018-21 that maintains intermediate consumption (especially for health and social protection) at its 2016 level of 3.9 percent of GDP (4.3 percent of GDP when measured on the ESA basis). The level and scope of the floor will be reassessed and refined as needed in future reviews.

31. Definition: For the purpose of the implementation of the floor, the projected **intermediate consumption** is defined as intermediate consumption in accrual terms, calculated based on a template agreed with staff of the IMF/EC/ECB/ESM, consistent with the table on consolidated general government operations to be presented in Parliament with the MTFS.

32. Adjustments. The projected intermediate consumption will exclude MTFS projections for military expenditure, EFSF fee and FISIM (in accrual terms), and will include an adjustment for the contingency reserve and the change in the general government perimeter in line with the definition of the targeted floor.

33. Definition: The following measures will be legislated to support the 2018 primary balance target:

- *Social welfare review measures*: (i) Tax credit for medical expenses (savings of €121 million): eliminate the deduction equivalent to 10 percent of private medical expenditures incurred by the taxpayer and dependents that are not covered by insurance or the State. (ii) Withholding discount (savings of €68 million): eliminate the tax credit of 1.5 percent on tax withheld from salaried work income and pension income. (iii) Heating oil allowance (savings of €58 million): reduce by half the allowance per beneficiary or decrease the income threshold to generate similar savings. (iv) Unprotected child benefit (savings of €5 million), income support for low income families (savings of about €2 million), poverty and natural disaster benefit (savings of €3 million), unemployment benefits for entrants to the labor market (savings of €2 million): eliminate the benefits as the beneficiaries will covered by other social programs such as the GMI.

- *Healthcare Clawback*: clawback ceilings on EOPYY spending in the category of "other illness benefits" as follows: €1,525 million in 2017 and €1,462.5 million in 2018 (yielding savings of €188 million).

34. Supporting material. The authorities will agree with the staff of the IMF/ECB/EC/ESM on the template calculating modified intermediate consumption, provide MTFS projections in the standard "t-report" format, as well as the table on consolidated general government operations to be presented in Parliament.

Prior Action: *Adopt legislation to reduce the personal income tax credit for wage, pension, and farming income by €650 implemented in 2020, or if deemed necessary in 2019 (as per the contingency mechanism defined below) and furnish the two supporting documents as specified below.*

35. Definition. As of January 1, 2020, the tax credit will be reduced by €650 from the current child-differentiated levels (ranging from €1,900 to €2,100) for wage, pension, and farming income in order to achieve savings of 1 percent of GDP (net of other measures) during 2020-22.

- *Contingent mechanism*. The personal income tax measures will be implemented in 2019 if IMF staff, in cooperation with staff of the European Institutions and the Greek authorities, in the context of the final program review under the arrangement on or around June 2018, considers that, based on a forward-looking assessment, a frontloaded implementation is needed in order to reach the agreed 3.5 percent primary surplus fiscal target in 2019 in a sustainable manner and without growth-detrimental measures. The assessment will take into account the overall quality of the policies supporting the fiscal targets, including all the measures legislated or introduced after the approval of the IMF arrangement, and the authorities' adherence to the intermediate consumption spending floors defined under the MTFS.

36. Supporting material.

- The Ministry of Finance will consult with the relevant highest legal authorities in Greece, including the Ministry of Justice and independent legal experts, to confirm that the contingent timing of implementation of the income tax reform (and of the growth-enhancing fiscal package defined below) are in line with the Greek constitution, and will furnish a legal opinion in this regard to IMF staff by end-May 2017.

Prior Action: *Adopt legislation to apply the new benefit formula introduced by the 2016 reform by eliminating the negative "personal differences" in main and supplementary pensions, while limiting reductions to 18 percent, coupled with a freeze of inflation indexation for all pensions during 2019-22.*

37. Definition. From January 1, 2019, the main pension benefit formula as introduced in Pension Law 4387/2016 will apply to all current pensions and those subject to transitional arrangements in Article 6 of law 4387/2016 (recalibration), where the difference between the current and the recalibrated pension is called the individual personal difference (Article 14 paragraph 2 in law 4387/2016). The negative personal differences (recalibrated lower than current pensions) are eliminated in 2019 for main pensions, while the possible decline in the main pension, including family allowances, is limited to 18. Article 10 paragraph 2 in law 4387/2016 will be repealed and the criteria for granting family allowances for current pensioners will be aligned with those applied to new pensioners as described in article 10 paragraph 1 in law 4387/2016. The remaining personal differences will be eliminated according to Article 14 of law 4387/2016. From January 1, 2019, the supplementary pension benefit formula as introduced in Pension Law 4387/2016 will apply to all current pensions (recalibration), and eliminate the remaining personal differences, while the decline in the supplementary pension is limited to 18 percent. In addition, inflation indexation (Article 14 paragraph 3 in law 4387/2016) is suspended for all pensions in 2019-22. These measures are expected to yield net savings of 1 percent of GDP in 2019-22.

38. Definition. To mitigate legal risks, the Ministry of Labor will complete and publish a detailed quantitative assessment of the redistributive effects of the pension reform and amend the explanatory notes to Art. 1 and 2 of L. 4472/2017 by adding references to the 2016 actuarial study and quantitative assessment, as well as a more robust justification of the reform.

39. Supporting material. The Ministry of Finance and the Ministry of Labor will consult with the Legal Counsel of State and furnish a formal legal opinion that the pension reform is in line with the Greek constitution and the Charter of Fundamental rights, taking on board inter alia the arguments presented in the independent legal opinion.

Prior Action*: Adopt legislation of growth-enhancing tax measures of 1 percent of GDP, and a targeted spending package of 1 percent of GDP, which will be implemented starting in 2019 contingent on an assessment of overperformance relative to the agreed medium-term targets.*

40. Definition. The package of contingent growth-friendly measures contains:

- *Revenue measures:* (i) a *reduction* of the CIT rate from 29 to 26 percent (estimated impact on the CIT revenue of 0.1 percent of GDP); (ii) a reduction of the lowest PIT rate from 22 to 20 percent (estimated impact on the PIT revenue of 0.5 percent of GDP); (iii) a progressive reduction of solidarity surcharges, while keeping the current income thresholds (estimated impact on the PIT revenue of 0.3 percent of GDP thereafter); and (iv) a redesign of ENFIA (estimated impact on ENFIA revenue of 0.1 percent of GDP).

- *Expenditure measures:* (i) targeted social spending, which will include an increase in the housing allowance (up to 0.3 percent of GDP); child allowance (up to 0.1 percent of GDP); school meals (up to 0.1 percent of GDP); nursery/pre-school education (up to 0.1 percent of GDP); means-tested reduction in health co-payments (up to 0.1 percent of GDP); (ii) high-quality public infrastructure investments, including for energy efficiency, agriculture (up to 0.2 percent of GDP); and active labor market policies (up to 0.1 percent of GDP).

- *Contingent mechanism.* The package of growth-friendly measures will be implemented starting in 2019, contingent on an assessment and agreement by the staff of the IMF/EC/ECB/ESM in consultation with the Greek authorities in the final program review, with the amount to be implemented in line with the institutions' projected over-performance relative to the agreed medium-term targets—on the assumption that the contractionary measures will have already been built into the baseline scenario—in order to ensure the achievement of the agreed targets in a sustainable manner.

FISCAL STRUCTURAL REFORMS: PRIOR ACTIONS AND STRUCTURAL BENCHMARKS

K. Revenue Administration

Prior Action: *Adopt legislation to improve prioritization of audit cases, strengthen collection enforcement, and define criteria for establishing the viability of tax debtors.*

41. Definition:

- *Prioritization of audit cases:* The legislation will revise rules on targeting and prioritization of audit cases to increase the share of cases that only target tax years within the last three years and make use of information from the most recent taxpayer returns as well as externally-sourced information, including data from electronic payments and from the Financial Intelligence Unit. This legislation will take effect for audit orders issued from January 1, 2018. All audit cases and the related main actions will be recorded in the automated audit case management system.

- *Addressing cases referred by the prosecutor*: The authorities will pass legislation to exclude the tax administration (customs excluded) and its staff from receiving and implementing audit and investigation actions ordered by the Prosecutors. Legislation will come into effect by July 2017, after the establishment of an appropriate investigation structure under the Financial Prosecutor, while the ability to issue final tax assessments will remain solely with IAPR. The previously received pending prosecutor orders non-prioritized yet by IAPR will be transferred back to the Prosecutors by end-December 2017. Prosecutors will be allowed to send information to the tax administration without binding effect, leaving the tax administration the discretion on the use of the information.

- *Unify imposition of fines and penalties*: The legislation will require that current tax procedure code fines and penalties apply to all cases irrespective of tax year/period of the case.
- *Define criteria to classify tax and social security debtors according to capacity to pay*: Internal circulars or a joint circular issued by the IAPR Governor and EFKA Governor will define the methodology for establishing the viability and capacity to pay of tax debtors. The circulars will require analyzing historical financial performance of the tax and social security debtors as well as their willingness to pay (including past tax and SSC compliance records). The analysis of past financial performance (first stage of assessment) will take into account the following parameters when available: (i) the growth of the company, measured as the sales over the last 3 years; (ii) profitability, measured as the ratio of EBITDA (earnings before interest, tax, depreciation and amortization) to turnover or to capital employed; (iii) liquidity, measured as the ratio of assets to short-term debt; and (iv) leverage ratio, measured as the ratio of debt to EBITDA or to equity. The analysis of willingness to pay will include: (i) paying patterns towards IAPR and KEAO, measured through the percentage change in the outstanding tax and SSC debts; (ii) responsiveness, measured through the frequency and speed of the debtor's response to inquiries from IAPR and KEAO; and (iii) settlement status, distinguishing whether the debtor is under a settlement plan and on track (i.e. not delinquent). Each of the above parameters will be given a weight, which will allow to attribute a score to each debtor and classify the debtor into viable, potentially viable, and non-viable group. The circulars will set a deadline for the issuance of further guidance by end-December 2017 to require an in-depth performance assessment (second stage of assessment), using information such as sector potential (e.g. growth potential of the sector and competition intensity), business performance (e.g. projected future financial performance, brand, product quality, quality of assets), and management quality (e.g. technical skills).

42. **Supporting material:** Revised decision issued by the IAPR Governor on the prioritization of audit cases; copy of legislation on the changes on the treatment of prosecutor cases as described above; copy of legislation unifying imposition of fines and penalties; copy of circulars or a joint circular issued by the IAPR Governor and the EFKA Governor describing the methodology to classify tax and SSC debtors according to capacity to pay (as described above and in line with the PWC report).

43. *Structural Benchmark (End-September 2017): Adopt legislation to address the backlog of cases for which the statute of limitations has been extended.* The legislation will aim to significantly reduce the burden on IAPR from dealing with the backlog of cases for which the statute of limitations has already been extended by resuming the application of the ordinary statute of limitation to these cases or, as applicable, if the cases have been prioritized through risk-assessment, allowing audit beyond the ordinary statute of limitation only if there is suspicion of penal tax fraud. This legislation will take effect as of January 1, 2018.

44. Supporting material: IAPR circular or legislation covering the above provisions.

Structural Benchmark (End-December 2017): *Ensure that IAPR has an adequate risk analysis system and adequate and qualified staffing.*

45. Definition.

- *Automated risk analysis system.* After a review, IAPR will issue a decision to improve the automated risk analysis and audit case selection system, requiring that it is based on all internal and third party data available within the tax administration, including on AML. This should include, at a minimum, tax return data, bank account and payment transaction data from financial institutions and reports from the Financial Intelligence Unit.

- *Collection enforcement*. Legislation will be amended to assign authority on determining debt collection enforcement priorities and their implementation to the IAPR headquarters (HQ).

- *Staffing.* Hiring by IAPR will reach at least 514 in 2016-17; a modified attrition rule will apply for IAPR (one entry for two exits in 2017 and one entry for each exit in 2018 and going forward); IAPR will make the final decision on staff to be transferred to it through the mobility scheme. The job description of all positions above directors will be published. The Board will approve the human resources policy and a modern position-based grading and remuneration system, taking performance into account. A suitability assessment will be completed for each IAPR staff based on the HR policy, with a ranking and a determination whether the staff meets IAPR's requirements. Based on this assessment, staff will be allocated to appropriate positions and grades. Staff who do not meet the IAPR requirements will be reallocated within the Ministry of Finance.

46. Supporting material:

- *Automated risk analysis system.* IAPR and FIU will publish monthly data on: (i) cases disseminated by the financial intelligence unit (FIU) to the revenue agency, (ii) tax audits decided upon by IAPR based on the information disseminated by the FIU, (iii) revenue collected from these audits, (iv) amounts frozen by the FIU in relation to tax crimes, (v) tax crimes-related cases disseminated by the FIU to Prosecutors, (vi) indictments based on these cases, (vii) final convictions and amounts of confiscated proceeds based on these cases, (viii) international requests of information made by the FIU.

- Adopted legislation making it mandatory for local tax offices to conduct debt collection enforcement actions based on directives from IAPR HQ.

- *Staffing.* Evidence of published job descriptions. Policy paper describing the new human resources policy, including a position-based grading and remuneration system and a staffing plan approved by the Board by end June, 2017. IAPR report on the finalization of the individual suitability assessment, issued by end-December 2017. Quarterly data on IAPR inflow and outflow of personnel. Joint MAREG/MoF decision determining staff reallocation process.

Structural Benchmark (End-December 2017): *Adopt legislation to amend the Code of Public Revenue Collection to align with the Code of Civil Procedure (CCP), including for e-auctions.*

47. Definition: The Code of Public Revenue Collection will be amended to establish rules and criteria for the reduction of reserve prices in the case of unsuccessful auctions in line with the CCP.

Structural Benchmark (End-March 2018): *Adopt legislation to codify and simplify the VAT legislation and administration and address VAT fraud.*

48. Definitions: By end-March 2018 as a structural benchmark, the following legislation will be adopted to limit VAT fraud:

- *Accelerate de-registration procedures, limit VAT re-registration*. Review TPC Articles 10 and 11 and the relevant secondary legislation already in place. This will, inter alia, require an amendment of paragraphs 2 and 3 of Article 10 to make the provisions applicable to natural persons, as well as an issuance of the implementation decision referred to in paragraph 3 and Article 10.

- *Codify and simplify VAT legislation*. The streamlined VAT legislation will eliminate loopholes, including those for persons under the special VAT regime. In particular, exceeding the threshold for the simplified regime will require reregistration under the regular VAT regime immediately, without waiting for the end of the financial (or calendar) year. Transfer pricing rules will be included in the revised legislation for VAT purposes.

49. Supporting material: A detailed roadmap to tackle VAT fraud by end-September 2017. Draft primary legislation by end-December 2017.

L. Pension Reform

Prior Action: *The Ministry of Labor will issue all implementing legislation for the new pension reform, repeal conflicting provisions, operationalize a single pension register, and merge the governance and management arrangements of existing funds into the new single pension fund.*

50. Definition: The following provisions are needed to fully implement Law 4387/2016:

- *Implementing legislation.* All ministerial decisions and circulars needed to fully implement the 2016 pension reform, including to: (i) obtain savings of at least €570 million in 2017 from EKAS; (ii) implement the lower spending ceiling on main pension payments of €2,000 per month and on multiple pensions at €3,000 per month (without any exemptions in both cases) in force until end-2018; and (iii) define the contribution base for self-employed as gross earnings before social security contributions of previous year, with effect in January 2018. This contribution base is temporarily reduced by 15 percent in 2018, and by 0 in 2019 and thereafter.

- *Repeal conflicting legislation.* The prior action requires that the authorities provide a comprehensive list of conflicting legislation to Law 4387/2016 and confirmation that all conflicting provisions have been repealed. The list will include all primary and secondary legislation as well as implementing circulars that are in conflict with the provisions and principles of Law 4387/2016.

- *Transfer insured individuals into EFKA and create a single register of pensioners*. In line with the current law all data on insured persons should be transferred into EFKA and a single register of pensioners and benefit values should be made fully operational, thus allowing EFKA to become the sole entity responsible for paying main pension benefits.

- *Governance and management arrangements*. A single unified pension fund (EFKA) for all retirees will focus on benefit expenditure and customer service with streamlined business processes, single management and unified account. All existing social security funds, with the exception of non-pension insurance activities of OGA, NAT, and TSMEDE will be merged and all existing governance and management arrangements of these funds will be absorbed in EFKA's management arrangements. As a matter of priority, qualified personnel will be directed to clearing unprocessed pension claims and creating electronic registries for the insured and retirees or transferred to other administrations. Staff who are not retained should be transferred to other entities—including KEAO, the National Actuarial Authorities and EOPYY (the National Organization for the Provision of Health Services), in order to strengthen their operational capacity—taking into account their hiring needs, and making use, to the extent possible, of the new mobility system introduced with law 4440/2016.

51. Supporting material:

- *Conflicting legislation*. Full list of conflicting legislation to be explicitly repealed.

- *Action plan for efficiency gains.* Action plan for the achievement of efficiency gains from resource reallocation.

- *Actuarial studies.* Full details on the actuarial studies as required in the Pension Law 4387/2016 and any associate laws within the deadline set by the Ageing Working Group December 2017.

- *Helios reports.* Regular monthly publication of Helios reports reporting all spending data in gross terms (including retirees' health contributions and EKAS and AKAGE). All past missing reports from 2015 will be published by September 2017.

- *Quantification of benefits for past higher contributions.* Benefits for past higher contributions will be provided as specified in the Pension Law 4387/2016.

- *Monthly retirement flows and stocks.* Monthly reporting based on agreed data template on pension retirement flows by the structure of previous funds and by types of pensions (old-age, disability, survivors) that reports time series on, inter alia, new retirement applications, number and average pension of new issued temporary and permanent pensions, number and average pension of exits, number and estimated value of unprocessed pension applications.

Structural Benchmarks: *The Ministry of Labor will finalize the electronic records of retirees' service histories and the recalibration of pensions and complete the full electronic records of half of insured persons by (end-December 2017).*

52. Definitions: Finalizing the recalibration of all main and supplementary pensions of all existing retirees (excluding pensions following the new pro-rated OGA benefit rule) will be based on the new unified benefit formulas applied to pensionable earnings in current value as specified in the Pension Law 4387/2016.

- *The schedule of recalibration:* This will be completed by end-2017. The recalculation will be supported by creation of automatic electronic records of retirees that, among other information, will include full details on the length of retirees' service histories and pensionable earnings. In cases these data are not possible to recover, imputation techniques based on either past formula of particular funds or pensioners with similar observable characteristics (such as age, current pension, pension fund etc.) will be used. These imputation techniques will be discussed and agreed with the staff of the IMF/EC/ECB/ESM.

- *Processing of pensions:* With a view to establish electronic records of all insured persons by end-August 2018, electronic records of half of insured persons will be established by end-December 2017. The process will target first those with longer service histories. The electronic records will, among other things, include proof of employment, histories of pensionable earnings and days of insurance, and will be updated regularly. A regular communication procedure to all insured persons on their contribution record will allow individuals to reconcile their records with the centralized registry.

53. Supporting material: Quarterly reports on the progress on creation of electronic records on the retirees and the insured persons that would include the number and share of persons covered by the electronic records, information collected as well as information that was not possible to recover. This report should also contain information on the number and share of recalibrated current pensions together with estimated cumulative fiscal savings.

M. Property Taxes

Structural Benchmark (End-December 2017): *The Ministry of Finance will align property assessment values with market prices and broaden the property tax base in a revenue neutral way.*

54. Definitions: this structural benchmark requires the following actions with the support of Technical Assistance: (i) set up property revaluation working group and high-level steering group involving Bank of Greece and ELSTAT by end-June 2017; (ii) compile all required data, complete classification of properties and determine the nature of the value based and valuation methodologies relevant to individual categories of properties by end-July 2017; (iii) improve the capacity of the real property valuation unit by hiring or contracting experienced valuators and forming a dedicated property revaluation team by end-September 2017; (iv) develop a permanent IT platform for property revaluation by end-December 2017; and (v) pass legislation to align property assessment values with market prices by end-December 2017. In case the new property assessment values result in a short fall in ENFIA revenue against the budget target of €2.7 billion, the ENFIA tax base will be broadened and tax rates adjusted to reach that revenue target to preserve the fiscally neutral character of the reform.

55. Supporting material: Methodological report, outlining the classification of properties and valuation methodologies used for individual categories of properties by end-July 2017, and fiscal estimates of ENFIA revenue yields by end-October 2017. Primary and secondary legislation adopted by end December, 2017.

N. Public Administration and Public Financial Management

Structural Benchmark (End-September 2017): *Adopt legislation to set ceilings on temporary contracts for 2017-18 and ensure that court-mandated conversions of temporary into permanent contracts as well as employment relationships that legally open the possibility for permanent contracts are fully in line with the projected wage bill in the 2018-21 MTFS.*

56. Definition. To support the fiscal consolidation, transparency, and efficient management of the public administration, legislation will be adopted to limit temporary contracts in the general government that are not financed by EU funds, and that exclude Chapter A companies. The legislation will specify that such contracts will be granted through a transparent and competitive process. The legislation will introduce quarterly ceilings for 2017-18 on temporary contracts—burdening the state budget—that are in line with the 2018-21 MTFS and projected general government wage bill (Table below), taking into account seasonality and unforeseen circumstances, such as those related to refugees and natural disasters. Conversions of temporary contracts into permanent contracts following a final Court decision will require action to ensure adherence to projected wage bill in the 2018-21 MTFS. Similarly, conversions of other employment relationships that legally open the possibility for permanent contracts will require action to ensure adherence to projected wage bill in the 2018-21 MTFS. The legislative framework will ensure that the use of the framework of company-based contracts to hire individuals will not result in permanent employment contracts and is in line with procurement rules.

Greece: Ceilings on Temporary Employment Contracts

(Number of staff, average during the quarter)

	2016	2017		2018	
	Average	Sep	Dec	Mar	Jun
Temporary contracts	47,584	42,200	47,911	50,356	49,866

Source: Greek authorities and IMF staff estimates.

57. Supporting material. The authorities will provide by end-September 2017 a copy of adopted legislation which includes the above provisions. Thereafter, the authorities will provide on monthly basis a census of public sector employment which will be available thirty days after the end of the reporting month. The census will show for the general government, excluding Chapter A companies, the number of temporary staff burdening the budget (stock, exits and entries) and temporary staff not burdening the budget.

Structural Benchmark (End-September 2017): *The Ministry of Finance will provide the final report of the independent auditor contracted by it to complete an independent assessment of government accounts payable accumulated until end-2016 and of the arrears clearance program.*

58. Definition. The Ministry of Finance, in agreement with the staff of the IMF/EC/ECB/ESM and with technical assistance, will complete the terms of reference (TOR) for the independent audit by end-May 2017. The TOR will specify the scope of the audit—including the verification of accounts payable, spending arrears and other claims on the general government accumulated until end-2016, and assessment of the arrears clearance program completed in June-December 2016—and identify the priority entities and a random sample of other entities whose audit will be required. The TOR will require that the audit report provide information on: (i) stock of payables and arrears at end-2016 for, at a minimum, the priority entities (i.e. spending arrears, processed and unprocessed tax refunds, processed and unprocessed pension claims, and a distribution of the claims by their amount); (ii) analysis of the implementation of the arrears clearance program (including amounts of cash payments, amounts of offsets, first-in first-out, payments of obligations accrued in previous years, payments of obligations accrued in current year); (iii) an analysis of the amount and sources of the new accumulation of arrears (e.g., insufficient budgets for entitlement spending, expenditures without proper commitment authorization, delays in internal processes, large and increasing carry-forwards of commitments, revenues below budgets, within-year budget adjustments, etc.); (iv) recommendations to prevent new accumulation of arrears; (v) discrepancies across the reporting systems (commitment register, e-portal, surveys); (vi) offsets with current vs. past tax liabilities; (vii) arrears towards domestic vs. foreign suppliers; (viii) interest accrued from late payments; and (ix) cross-checking of payments to final beneficiaries. A contract will be signed between the government and an independent auditor (private auditor or a foreign public sector auditor) by June 2017, under the agreed TOR, requiring the auditor to submit a final audit report to the authorities by mid-September 2017, The Ministry of Finance will by end-September 2017 provide a summary of the report and an assessment, which should include the authorities' plan on addressing the recommendations of the independent auditor.

59. Supporting material: Draft TOR by mid-May 2017. Signed contract under the TOR which include the ultimate objectives (clear old arrears, determine the outstanding stock of arrears, and avoid accumulation of new arrears), the coverage (list of priority entities, particularly sectors that have largest arrears), the claims included (spending arrears, processed and unprocessed tax refunds, processed and unprocessed pension claims), the arrears clearance process (amounts of cash payments, amounts of offsets, first-in first-out, payments of obligations accrued in previous years, payments of obligations accrued in current year). The contract will be provided to IMF staff by end-June, 2017. The final report of the independent auditor, in line with the contract described above along with the report prepared by the Ministry of Finance will be provided to IMF staff by end-September 2017.

Structural Benchmark (End-October 2017): *The Ministry of Finance and the Bank of Greece will integrate central government accounts and large accounts of general government entities into the Treasury Single Account.*

60. Definition: The Ministry of Finance, in collaboration with the BoG, will issue a Ministerial Decision to describe the design of the bank account structure, payment and accounting arrangements for a fully integrated Treasury Single Account (TSA). This decision will require the transfer to the TSA by end-October of the accounts of the central government entities, as well as of other general government entities, such that 3 billion is transferred in July-October, 2017, while ensuring financial stability. All remaining general government entities will be transferred by end-June 2018. The amounts to be transferred will be determined in agreement with the staff of the IMF/EC/ECB/ESM. If necessary, zero-balance bank accounts in commercial banks can be used for payment processing. GAO will ensure that entities have access to their deposit balances held in the TSA at all times. The TSA will be incorporated into the fiscal reporting framework, ensuring that the account balances of each entity or fund held in the TSA is consistently incorporated into the monthly fiscal reports submitted to GAO.

61. Supporting material: By end-June 2017, the MoF will provide a template showing—for central government entities and the selected other general government entities—the entities and number of accounts in and outside the TSA, as well as the amounts of deposits, debits, and credits at end-December 2015, end-December 2016, and end-March 2017. A template presenting the accounts of all remaining entities as of end-September 2017 will be provided by end-December 2017. A monthly update of the template will be provided within two weeks of the end of the month.

Structural Benchmark (End-June 2018): *The Ministry of Finance will implement a revamped system for arrears management, including monitoring of arrears clearance and structural measures to prevent new accumulation of arrears.*

62. Definition: A GAO circular will amend the structure of the information collected by the commitment registers and the e-portal to implement a comprehensive monitoring system of spending commitments, accounts payable and arrears, including to address the shortcomings identified by the GAO review of commitment registers completed in 2016 and those of the independent audit. The circular will require monthly reporting by entities with annual spending exceeding €1 million on the reasons for new arrears accumulation, cash needs and plan for clearance of existing arrears, and measures taken to prevent new accumulation of arrears. The circular will also require that the commitment registers record information identifying: (i) accounts payable and arrears accumulation to nonresidents, (ii) the amount of arrears clearance in cash and through offsets; (iii) offsets with current vs. past tax liabilities; (iv) cash needs for arrears clearance within the fiscal year; and (v) interest accrued from late payments.

63. Supporting material: By end-January 2018, the GAO will provide a draft circular designing the arrears monitoring framework. Any technical preparations, including consultation and training of general government staff, will be conducted by end-March 2018. A pilot phase will be completed by end-April 2018; the roll-out to all general government entities will be completed by end-June 2018 together with structural measures to prevent the accumulation of new arrears.

O. Social Welfare

Structural Benchmark (End-June 2018): *Parliament will adopt legislation and the government will implement a modern and streamlined system of family, disability, and housing benefits in a fiscally neutral manner, while rationalizing existing social programs.*

64. Definition. The reform of social benefits aimed at streamlining and consolidating existing programs in line with World Bank recommendations will contain the following budget neutral components:

- *Streamlining family benefit*: By end-November 2017, new legislation will be adopted in line with the recommendations in the Social Welfare Review of the World Bank to improve targeting and increase equity. This will be achieved by merging the unified family benefit and large family benefit, harmonize equivalence scales and adjusting the threshold as needed to improve targeting. The new family benefit system will be in effect as of January 1, 2018.

- *Reforming the disability benefit system*: by end-November 2017, new legislation for a pilot scheme will be adopted to move from the current impairment assessment to a functional assessment to determine eligibility (*i.e.* the ability of the person to perform activities of daily living). A pilot program of the functional disability assessment system will be rolled out by January 2018. The national rollout legislation will be adopted in May 2018 and will also harmonize all contributory disability and welfare benefit rules, including under Law 4387/2016. A national implementation will commence in end-June 2018. (i.e. by July 1, 2018, the disability benefits, for all beneficiaries nationwide, will be progressively determined and granted based on the new functional assessment).

- *Introducing a housing benefit*: by end-September 2017, new legislation will be adopted to specify the design of a means-tested housing benefit developed with advice from the World Bank, to be fully rolled-out as part of the growth-enhancing measures.

FINANCIAL SECTOR POLICIES: PRIOR ACTIONS AND STRUCTURAL BENCHMARKS

P. NPL Legal Framework

Prior Action: *(i) Establish a new out-of-court workout framework (OCW) and adopt Ministerial Decisions for the processing of cases by public creditors.*

65. Definitions. The OCW legislation will specify:

- *Scope of the regime*. The OCW legislation will be applicable to all enterprises, including individual entrepreneurs. All elements of debt, towards the State, social security and private sector, should be considered as part of the restructuring plan.
- *Information requirements*. Access to the debt restructuring mechanism will require the debtor to share information on all his debts, assets, and sources of income.
- *Eligibility test*. The legislation will define basic principles for an eligibility test using standard metrics (positive EBITDA) which will serve as a preliminary filter to exclude enterprises that are clearly not viable.
- *Debt restructuring proposals*. For viable debtors, these will specify – commensurate with the complexity and size of the case – the contents of the restructuring measures (among others, rescheduling, write-downs, debt/equity swaps, or a combination of measures) designed to restore the debtor to long-term viability, based on, where applicable, market valuations of assets and projections founded on accurate financial statements and credible business plans. The plans can also include operational restructuring measures (changes in management, fixed assets, commercial relationships, etc.). No debt restructuring proposals will be offered to unviable debtors.
- *Coordination and decision making mechanism*. The law will require that debt restructuring agreements be adopted by a qualified majority of voting creditors, and that non-action by creditors duly notified to participate will not prevent the adoption of debt restructuring agreements if the attendance quorum has been met.
- *Rapid court confirmation*. The law will set a short period for the possible ratification of debt restructuring agreements by the courts. However, the agreement will take effect upon its conclusion and the court may grant interim measures to prevent enforcement action by dissenting creditors while the confirmation application is being processed. At confirmation, the court can examine complaints presented by dissenting creditors based on the violation of the compulsory distribution rules or in procedural and substantive irregularities, which had a decisive influence on the adoption of the agreement.
- *Stay of creditor actions*. The law will stipulate a stay of creditors' actions only after the completeness of the application of eligible debtors has been determined and the invitations

to take part in the proceedings have been sent to the creditors. The stay will be automatically lifted in case the participation quorum is not reached. The initial stay period may be extended, for a maximum period of four months, by means of a court order provided the participating creditors representing the majority of claims consent.

- *Link with insolvency legislation.* The law will facilitate the initiation of the insolvency procedure in case of lack of compliance with the restructuring plans or in case the debtor has been assessed as non-viable.
- *Treatment of public claims:* all claims of the State, including tax and social security claims, but excluding withheld taxes and social security contributions for employees, will be subject to rescheduling and write-down, in conformity with the assessment of viability of the enterprise and resulting in an improved recovery in comparison with the liquidation of the enterprise. 95% of tax related fines and 85% of surcharges will be subordinated to facilitate the restructuring, and cancelled only at the successful completion of the restructuring plan. Penalty interests on the private sector's claims will be subordinated in full.
- *Treatment of guarantors:* the law will protect the position of those creditors who benefit from the guarantee of a third party and wish to enforce the claim against the guarantor, by providing them the right to abstain from the procedure without being bound by the restructuring agreement among the debtor and the other creditors.
- *Ministerial decisions:* Ministerial Decisions of article 15 par. 14 and 20 will be adopted specifying the procedures, conduct and actions of the tax administration and social security officials in debt restructuring procedures for the treatment of public claims, as far as these are necessary for the effective implementation of the law.

Structural benchmark: *Implementation of the OCW framework (end-July 2017)*

66. Definitions. *Implementation measures:* The authorities will take any measure necessary to ensure the smooth implementation of the law and to handle the high number of expected applications in an efficient and orderly manner in anticipation of the entry into force of the law. This includes:

- The SecPD will publish an invitation to submit expressions of interest to be listed in the Coordinator register. The SecPD will put in place all necessary processes to appoint all coordinator positions within 10 business days after the lapse of the application deadline. The SecPD will select and register all coordinator positions, provide training to the coordinators and establish the necessary processes and organization for the supervision of coordinators.
- The SecPD will implement and publish a mechanism applied to manage the processing of applications, in order to enable the smooth processing of applications. The mechanism, which will be consulted with creditors (including banks – also as presented by the Hellenic Banking Association – and public creditors such as the tax administration and social security entities) and aim at maximizing throughput of the framework, and provide adequate incentives for involved parties, including creditors, to maximize their case handling capacity. The mechanism will provide for the distribution of capacity to process different classes of debtors, for example small and large cases, in a proportionate way. The mechanism will be published by the SecPD.

The SecPD will also put in place initial processes and means to monitor the progress of cases and to identify potential operational and policy impediments.

- The SecPD will implement and operationalize the first functional package of the web-based system used to file and process applications and eventually to handle the majority of case-specific communications. The first functional package will provide a website where applicants can submit applications and all supporting documentation as required by the law, without resorting to paper-based communication between borrowers, creditors (public and private), coordinators and the SecPD, for the initial application step.
- The SecPD will prepare and post on its website educational material targeted to i) borrowers, including less-sophisticated ones, and ii) relevant professionals such as lawyers, coordinators, accountants, banks, etc. providing detailed information about the OCW process and the rights and obligations of all involved parties. The SecPD will also hold scheduled trainings and seminars for coordinators and relevant professionals.
- Circulars for Ministerial Decisions of article 15 par. 14 and 20 will be adopted specifying the procedures, conduct and actions of the tax administration and social security officials in debt restructuring procedures for the treatment of public claims, as far as these are necessary for the effective implementation of the law.
- The SecPD will have developed a comprehensive project plan for the extension of its IT-supported platform for sharing debtor-related information between banks, tax administration and social security entities. This project plan will have been agreed by all stakeholders involved in its implementation and will fill aim at full implementation and operationalization by December 2017.

Prior Action: *(ii) allow electronic on-line auctions, and implement the technological infrastructure to conduct e-auctions.*

67. Definitions.

- *Electronic on-line auctions in civil procedure*. A law introducing amendments to the CCP and a Ministerial Decision will provide for the regulation of electronic auctions of seized property. The electronic auction system will be based on the principles of fairness, transparency and value maximization of the proceeds through enhanced competition by providing easy and economic access to all interested parties, while guaranteeing legal certainty and security. The system will comprise a web portal to provide publicity for the auctions, including information about the assets to be auctioned (description, legal certificates, valuation reports, photographs, etc.). The web portal will be connected to a functional platform where auctions are performed. In order to participate in auctions, it will be necessary for natural or legal persons to obtain a registration. The registration procedure will be designed to allow easy and secure access. The assets to be auctioned are listed in the platform, which incorporates a search engine. Auctions are initiated after a specified period after the asset appears on the webpage. Once an auction starts, registered persons can submit bids during the period specified for the conduct of the auction. Any bid has to be submitted by safe electronic means, with appropriate certification. Every time a person submits a bid, the system sends a receipt notification, specifying the time the bid was received and the amount. The system publishes, in real time, the highest current bid and its amount, without publishing the identity of the bidder or the number of bidders. A valid bid must be superior to the latest published bid. The bidding ends at the end of the specified period with a possibility of a final extension in the event of submission of last-minute bids. The system ensures compliance with the deposit and payment obligations of the bidders. The results of the auction are certified by the person responsible for its conduct. In the certificate, the system includes the whole list of received bids in chronological order, with identification of the bidders.

- *Transition rules*: The legal amendments will include transitional rules that will allow creditors to opt, immediately upon its publication in the Official Journal, for the electronic auction system, with proper advance notice, when the seizure of the asset occurred before the modification of the legal regime, and preserving the date of the original seizure for the purpose of determining the deadlines of the procedure. The transitional rules will also allow creditors to opt for the electronic auction system, with a notice period not exceeding 2 months, in cases where auctions were suspended or failed before the modification of the legal regime.

- *Implementation actions* for the electronic auction system include the design and launch of the platform by specialized experts. The system will be built in a safe architecture, ensuring certainty and security of communications, full recording of time sequences and traceability of all actions. Implementation requires development, delivery and support of the electronic platform, with a pilot platform which will be subject to complete testing.

Prior Action: *(iii) protect creditors from civil and criminal liability for debt restructuring actions taken in good faith in accordance with the law.*

68. Definitions. A legal provision will be adopted to ensure:

- that actions taken in relation to debt restructuring – either under the Out-of-Court Workout (OCW) framework or outside of it - by either private or public officials, in good faith, and in compliance with the applicable procedures and objective criteria, are considered legitimate as far as civil or criminal liability is concerned, according to the general principles and the safeguards of the existing legal framework; and
- that sufficient procedural safeguards are enacted to prevent the unwarranted pressing of charges in that context. The applicable procedures may include additional safeguards for cases concerning very large debtors.

Prior Action: *(iv) establish the insolvency administrator framework;*

69. Definitions.

- *Secondary legislation for insolvency administrators*. This comprises the following regulatory actions: (i) Internal Regulation of the Insolvency Administration Committee, (ii) Decision of the competent authority regarding the examinations, (iii) Joint decision of the Minister of Finance and the Minister of Justice on remuneration of the examiners and fees to be paid by candidates, (iv) Decision of the Minister of Justice, establishing a code of conduct for insolvency administrators; (v) Decision of the Minister of Justice for Continuous Training; and (vi) Decision of the Minister of Justice for the initiation and conduct of disciplinary procedures.

- *Initiation of the accreditation process:* The authorities will publish the notice of the examination for the accreditation of insolvency administrators.

Prior Action: *(v) simplify and accelerate the insolvency procedures for SMEs.*

70. Definition.

- *Adopting amendments to simplify and accelerate the procedures for SMEs.* The insolvency code will be modified to include specific rules for the insolvency of SMEs. These will simplify and accelerate the procedure by assigning more powers to the rapporteur, by reducing the deadlines for procedural actions, and dispensing with the intervention of experts.

Prior Action: *(vi) streamline the licensing and supervision framework of NPL servicers.*

71. Definitions. The law regarding Debt Management Companies and Debt Transfer Companies (Law 4354/2015) and corresponding secondary legislation will be amended in the following points:

i) the NPL servicing license, if it does not include refinancing, is disconnected from Act 2577;

ii) the business plan requirements, especially for servicers that do not provide refinancing, will be significantly simplified;

iii) the Fit and Proper requirements in the BoG Acts are simplified;

iv) the IT security assessment is waived if an appropriate ISO certification is submitted;

v) the restructuring strategy requirements provided for in secondary legislation are further simplified;

vi) the processes of the Code of Conduct are not affected by a transfer of the loan;

vii) the BoG Act clarifies that the contact point requirement also includes virtual points of contact (such as websites, call centers) regardless of the latter's location;

viii) the requirement for opinion by a Ministerial committee is removed; and

ix) the purpose of the servicing companies will be expanded to include the management of real estate property connected to the loan portfolio they have been assigned to service.

Structural benchmark (End-July 2017*): Fully operationalize the platform for electronic auctions*

72. Definition.

- *Full operationalization*: after completion of the test phase, the platform is fully operational with the completion of the training of users and the production of an end-user manual, resulting in its availability for the conduct of auctions.

Structural benchmark (End-July 2017*): Complete the qualification and registration process for insolvency administrators.*

73. Definitions.

- *Enrolment of successful insolvency administrator applicants into the registry*. On completion of the examinations conducted according with the secondary legislation listed above, and after fulfilling all regulatory requirements, such as compulsory training and professional insurance, the Insolvency Administration Committee will include the applicants in the registry and the registered insolvency administrators will be able to perform the functions assigned to them by the insolvency code.

Structural benchmark (End-September 2017*): Amend legislation to strengthen the position of secured creditors.*

74. Definition: The Code of Civil Procedure, the insolvency law, and related legislation, will be amended to strengthen the position of secured creditors by aligning the treatment of secured credit with EU best practices, placing secured credit in a position of priority, which will allow lenders to provide financing based on the market value of the collateral. This modification of the ranking of claims will only apply to new secured credit extended after the legal amendments are adopted and enter into force.

Q. Capital Adequacy and Bank Governance

Prior action: *BoG will require less-systemic banks to reinforce their capital base.*

75. Definition. Less systemic banks, excluding cooperative banks, that have been identified with a capital shortfall as result of the 2015 asset quality review and stress test and/or further supervisory exercises, will have entered into binding agreements to fill any remaining gap to fully comply with supervisory requirements including Pillar II requirements and those identified under an adverse scenario of the stress test. This requires that contractual arrangements for transactions that strengthen the capital basis have been successfully concluded.

76. Supporting material: For each less systemic bank, excluding cooperative banks, in question, confirmation by the BoG as competent supervisor, describing the structure of the relevant transactions, also reporting on the resulting capital levels.

Structural benchmark (End-September 2017): *BoG to complete remedial action regarding less-systemic institutions and ensure that cooperative banks cover potential capital shortfalls*

77. Definition. Cooperative banks that have been identified with a capital shortfall as result of the 2015 asset quality review and stress test and/or further supervisory exercises, will have filled any remaining gap to fully comply with supervisory requirements including Pillar II requirements and those identified under an adverse scenario of the stress test. This requires that contractual arrangements of a capital injection have been successfully concluded, and that corresponding capital-relevant transactions have been executed.

78. Supporting material: For each cooperative bank in question, confirmation by the BoG as competent supervisor describing the structure of the relevant transactions and confirming their execution, also reporting on the resulting capital levels.

R. Payment System and Liquidity Conditions

Prior Action: *Adopt and publish a milestone-based roadmap for the liberalization of capital controls*

79. Definition.

- The roadmap will describe the sequencing of steps towards the relaxation of currently applicable capital controls and withdrawal restrictions. These steps will not be time-bound and will be objectively connected to measurable signals of the state of confidence in the banking system.

80. Supporting materials

- *Reporting entities*. The Bank of Greece will report liquidity and funding indicators to the institutions. Bank of Greece will submit to the institutions bank-specific data for each of the systemic institutions and aggregate data for the remaining of the sector in a timely manner

- *Data on deposits*.

    - Deposit stocks will be reported monthly by category (individual, business, government), by size bands (e.g. 5k, 50 k, 100k, 500k, 1m, 5m, 10m), by domicile (Greece, EA outside Greece, outside EA), by type and maturity structure (current account, time deposits by the remaining months until maturity, savings), and by currency.

    - Monthly information on the number of accounts and the number of depositors in each size band and depositor category.

    - Monthly flow transactions will be reported gross and by category (cash pay-ins and withdrawals, wire incoming and outgoing transfers by domicile of the counterparty).

- *Liquidity indicators*. In addition to banks' cash buffers, monthly data will be provided on banks' liquidity buffers, including unencumbered collateral at book and estimated liquidity value.

- *Funding data*. Monthly data on funding will distinguish between central bank funding, private market refinancing transactions (secured repos and unsecured borrowing) and intra-group transactions.

- *Deposit survey*. By end-September 2017, the BoG will publish the results of a survey evaluating depositor confidence. By November 2017, the BoG will prepare a study on the impact of capital controls on the economy, also taking into account the results of the survey. The survey is to strengthen the decision-making basis for the implementation of relaxation measures laid out in the roadmap, by forming a better understanding of the main drivers of depositor behaviour, assessing the risks involved in further relaxations, and facilitating the development of communication strategies. The survey will be conducted based on a well-targeted, representative sample of various categories of depositors (businesses in various sizes and individuals), as well as non-resident depositors. The survey will be designed to assess depositor sentiments in the following regards: (i) Level of knowledge regarding the current restrictions in place and conditions of the financial sector; (ii) Extent to which the current restrictions are binding; (iii) Expectations on the improvement of economic situation and financial stability; (iv) Drivers of confidence in Greek banking system; (v) Expectations on the sequence and pace of relaxation steps; (vi) Impact of further relaxation on depositors' financial decisions. The BoG will consult the institutions in designing of the survey, make available detailed finding to the institutions, and publish key findings.

STRUCTURAL REFORMS: PRIOR ACTIONS AND STRUCTURAL BENCHMARKS

S. Labor Market

Prior action: *Adopt legislation to provide that the 2011 collective bargaining reforms will remain in force until the end of the program.*

81. Definition. Primary legislation will require for the duration of the program the suspension of extensions of collective bargaining agreements and of the application of the favorability principle.

Prior action: *Adopt legislation to replace the administrative approval of collective dismissals with a notification process, which will not involve ex ante approval.*

82. Definition. Primary legislation on collective redundancies will replace the current framework of administrative approval of collective dismissals with a notification procedure, in line with EU Directive 98/59, which will allow collective dismissals to take effect within three months of the notification by the employer and will not require an ex-ante approval. The system of notification is to be administered by the Supreme Labor Council (ASE), which will comprise equal representation of the State, the employees' and the employers' representatives. ASE will check compliance with the legal requirements of information and consultation of workers and inform the employers and employees representatives of its assessment. The notification process will entail:

- Consultations with the workers' representatives that last up to 30 days.

- The company will communicate to the public employment service (OAED) the list of dismissed employees to be registered with the public employment service.

- The company, after the legally required relevant consultations with the workers' representatives, may submit a 'social plan' mitigating the consequences of the collective dismissal while preserving the financial viability of the enterprise. The social plan may include measures for redeploying or retraining workers being made redundant, the provision of counselling and outplacement services, training, redundancy payments other than those arising out of national legislation, and the commitment to re-hire first the workers dismissed when economic conditions improve.

- ASE will verify that all required information has been provided by the employer and the consultation process has taken place, which will allow collective redundancies to take effect earlier than the standard three-month period. Otherwise, collective dismissals can take effect 3 months after the notification to the public authorities.

Structural benchmark (End-September 2017): *Analyse and adopt legislation to raise the minimum quorum of first level unions for voting on a strike to 50 percent of union representatives.*

83. Definition. Following analysis of the existing framework, Law 1264/1982, it will be amended to specify that for a vote on a strike to be legitimate: (i) the presence of at least 50 percent of members of first level unions who are current on union membership contributions will be required; and (ii) a simple majority rather than a two third majority vote will be required for second and third calls.

T. Product and Service Markets

Prior Action*: Adopt legislation to implement the notification system for investment licensing for food, beverages, and tourism.*

84. Definition. The first phase of the investment licensing reform includes food, beverage, shops of hygiene interest and tourism sectors. The government will adopt all secondary legislation needed to implement the reform for these sectors. This includes one ministerial decision and two joint ministerial decisions for the implementation of the notification system, one for each sector. The decisions list the activities of these sectors and set the details for the notification procedure, the information and certificates required by the applicant, and the notification fees and penalties in case of non-compliance. The interim electronic notification system will be implemented for all these sectors.

Prior Action*: Adopt legislation to liberalize Sunday trade.*

85. Definition. An amendment to law 4177/2013 will liberalize Sunday trade by (i) removing the restriction on shops with more than 250m^2, chain stores, shops-in-shops, and outlets or outlet villages; (ii) allowing Sunday trade in tourist areas during the months of May to October—the main tourist season—in the following areas of touristic interest: (i) municipality of Athens; (ii) selected areas of the sub-prefecture of Southern Athens; (iii) key commercial areas around the port of Piraeus; (iv) key areas of the historical center of Thessaloniki as defined in MD3046/51009/1994; and (v) key commercial areas around the Athens international airport. To address the CoS ruling concerns, the legislation will be accompanied with detailed explanatory notes, including an economic impact assessment.

Prior Action*: Adopt legislation to liberalize over-the-counter sales of pharmaceuticals (OTC).*

86. Definition. With the objective to increase competition and reduce average pharmaceutical prices, primary and secondary legislation will be issued by the government to implement OTC liberalization with no price restrictions—regardless of the point of sale—except for purchases by hospital. This legislation provides indicative retail prices and maximum hospital prices.

Prior Action*: The government to submit presidential decrees to liberalize engineers' professional rights, including for public works engineers, and adopt secondary legislation for stevedores.*

87. Definition. Primary legislation on registries will remove restrictions on public work engineers, including to disconnect the class registration as a requirement for participation in tenders, abolish the legal form requirement to access registry classes, remove the geographical barriers on regional registries and expand registration of designers by category. A presidential decree will be submitted to the Council of State to implement the law on registries for public work engineers. The decree will modify the structure of registries, including the permission on contemporaneous registration, and allow professionals to belong to the registries of experience for designers and contractors. A second presidential decree will be submitted to the Council of State to liberalize engineer's professional rights, reducing reserved activities, and broadening the access on engineering activities to more specialties of engineers. For stevedores, secondary legislation will be adopted to implement the law, including a ministerial decree on the operation of the registries.

Structural benchmark (End-September 2017): *Adopt legislation to complete the implementation of remaining actions in the OECD Toolkit III competition assessment except for eight recommendations.*

88. Definition. Primary and secondary legislation and documented actions will provide for the implementation of all remaining 163 recommendations of the OECD toolkit III report to complete the full set of 371 recommendations in the sectors of wholesale, construction, media, e-commerce, chemicals and pharmaceuticals. The legislation will among other simplify the rules and lift restrictions on the operation of pharmaceutical warehouses, update legislation for the advertisement of over-the-counter (OTC) medicines, review the regulatory framework for Pay TV, allow trading detergents in bulk at wholesale level, and remove restrictions on public work registries.

89. Exemptions. The follow recommendations will be excluded: (i) replacing the prior approval of scientific events organized or funded by pharmaceutical companies with a notification and introducing in the legislation an ex-post mechanism to accompany the notification requirement (an implemented commitment under the EFSF-supported program, Pharmaceutical 14), (ii) homogenizing the taxes for pay TV/radio (has a negative fiscal impact, Media 59), (iii) releasing the map for TV licenses (requires coordination with other countries, Media 37). The following recommendations will be completed with delay: (i) amending the legislation to limit the liability of tax warehouses (Wholesale 127, November 2017); and amending legislation to require operational GPS systems on vessels and tanker trucks and inflow-outflow systems on vessels (Wholesale 29, December 2018), introduce an electronic registry for electrical equipment (Chemicals 80, December 2017), review ownership and cross ownership rules on electronic media (Media 32, December 2017), abolish minimum number of full time employees (Media 43, December 2017).

Structural benchmark (End-September 2017): *Adopt horizontal measures to facilitate licensing.*

90. Definition. The government will implement the second phase of the investment licensing reform by preparing and adopting the framework law on inspections and regulatory legislation on (i) installation license for all manufacturing activities, and (ii) logistics (warehouses and distribution centers). The pilot implementation of the inspection framework law will apply to food and beverage.

Structural benchmark (End-December 2017): *Adopt primary and secondary legislation to remove remaining restrictions (geographical, pricing, establishment, etc.) for key professions (health care providers, legal professionals, etc.).*

91. Definition. Primary and secondary legislation will simplify notification or license procedures for establishment and remove geographical and pricing restrictions for healthcare providers, modernize the legal framework for private clinics; and remove restrictions hairdressers, fertilizer salesmen, and haulers. In addition, new legislation will remove restrictions on other professions, to be identified by end-June 2017 (e.g. legal professionals, etc.).

Structural benchmark (End-June 2018): *The government will implement the follow-up phases of the investment licensing reform covering remaining sectors.*

92. Definition. The government will implement the third phase of the investment licensing reform, which includes most remaining sectors. The sectors will be specified by June 2017 and notification will be implemented through an IT system by June 2018.

MONITORING OF KEY PERFORMANCE INDICATORS (KPI)

U. KPI on Revenue Administration

Progress in revenue administration will be defined as reaching or exceeding the targets set in TMU Table 2.

93. Definitions:

- **A completed audit** is defined as an audit formally reported as finalized in the ELENXIS audit case management system, including signed off by the audit supervisor, and the corrective assessment as referred to in Article 34 of the TPC has been issued, or the audit report states that no underpayment has occurred.

- **High Wealth Individual** (HWI) audits carried out on a legal person owned or controlled by the high wealth individual will also count as an HWI audit case if the audit is carried out by the auditor(s) who carry out the audit of the relevant high wealth individual. Furthermore, audit of off-shore companies with the aim of identifying the natural person owing or controlling the offshore company will also be regarded as an HWI audit case. These audits will be reported separately.
- **Collection of new tax debt is** collection of debt accrued in the period from the 1st of December of the previous year till the 30th of November of the current year and does not include items of non-tax nature for which the tax authority is responsible for collecting on behalf of other public sector entities, such as loans, loan guarantees, penalties and fines, parafiscal taxes, rentals, services, other parafiscal charges, revenue stamps, debits, and other contributions.
- **Old tax debt collection** is collection during current year of debt accrued before 30th November of previous year.
- **Fresh tax audit cases** are closed audit cases, concerning tax years, fiscal years, cases, periods or obligations related to the last five years, including the year when a IAPR decision was issued to define the priority cases.
- **Taxpayer service:** The KPI is a ratio defined as follows. The numerator is the number of VAT refund claims paid or rejected within 90 days during the quarter. The denominator is the sum of the numerator and the number of pending VAT refund claims, for which 90 days have passed at the end of the quarter. The 90-day period refers to the period between a claim is made and final payment to the claimant is completed or the taxpayer is notified that the claim can be paid, or an offset has been made, or the claim is rejected.
- **Tax paid on time**: The numerator is tax liabilities paid by due date, from the beginning of the year to the quarter-end; the denominator is total tax liabilities assessed that should be paid from the beginning of the year and to end of the quarter.
- **Enforcement measures**: The indicator is defined as a fraction where the numerator consists of the total number of debtors against whom some enforcement measure are taken by IAPR at the end of the quarter, and the denominator consists of the total number of debtors against whom GSPR/IAPR could legally impose enforcement measures at the same date. Enforcement measures are defined as one of the following: garnishment orders, garnishments at the hands of third parties (including e-garnishments), auctions, mortgages, imposing liens against assets-garnishments) wages, income or assets seizures. From the denominator are excluded debtors which cannot, by law, be pursued.

94. Supporting material. Monthly Information will be made available by IAPR in the Tax administration monitor no later than three weeks after the end of each month, including:

- On stock, collection, and write off of tax debt (old, new, and by LDU);
- On the number of debtors under enforcement.
- On assessed taxes and penalties, collection of assessed taxes and penalties, percent of fresh tax audit cases in total completed audits, the stock of priority cases for audit, and inflows and outflows of such cases. The data will be provided for large taxpayers audit center (KEMEP), high

wealth individuals audit center (KEFOMEP), local and regional tax centers (DOYs), FAE, and investigation center (YEDDE).

- On stock, payment and rejection of tax refund claims (within or in more than 90 days during the period; for VAT, CIT, and PIT).
- On collection of taxes paid during the period before they become overdue, and after they became overdue.
- On cases registered and closed by the Dispute Resolution Unit, with number of cases closed within the time limit and closed by implicit rejections. The table will also include suspension requests as well as cases closed by explicit decision or by withdrawal of petition.
- Monthly report of the standard 15 tax collection tables by type of tax, by age of tax, by amount of debt due, by status of debtor.
- Installment schemes, with amounts and number of debtors.
- Applications under the out-of-court debt restructuring legislation, with amounts and number of debtors, on the basis of which future KPIs will be established.

V. KPI on Collections of Social Security Contribution

Progress in collecting social security contribution will be defined as reaching or exceeding the targets set in TMU Table 3.

95. Definitions:

- **Social security fund payment compliance** is defined as the ratio of the amount of current year social security contribution paid to the fund divided by the amount invoiced or declared for each reporting period, expressed as a percentage.

96. Supporting material. A monthly submission no later than three weeks after each month-end is required on the following: total amount of social security contribution paid (flow), total amount of social security contribution invoiced or declared (flow), amounts of SSC debt transferred to KEAO, and KEAO's SSC debt collection.

W. KPI on Public Financial Management

Progress in implementing public financial management reforms will be defined as reaching or exceeding the floor targets and staying at or below the ceiling targets as set in TMU Table 4.

97. Definitions:

- **Invoices received by the state** are the invoices or other equivalent documents consisting of a request for payment that have been submitted (accompanied by a submission document) by ministries to the fiscal audit offices (FAOs), or by suppliers to the general directorates of financial services (GDFSs) after the financial service responsibilities are transferred from FAOs to GDFSs, for payment, which include the information on the date when line ministries received the invoice from suppliers or the dates as specified in the Late Payment Directive.
- An **unprocessed pension application** is an application filed by an insured or entitled person for receiving an old age, disability or survivors' pension. The pension claim will be counted as unprocessed if a decision on the validity and amount due under the claim has not been reached by the end of the month following the month in which the application was filed.

- **Social security funds-to-EOPYY transfer** is the amount of cash transfer to EOPYY and the expenditures paid by all social security funds (SSFs) on behalf of EOPYY year to date. The amount that should be transferred from all social security funds to EOPYY is the revenue collected by all social security funds on behalf of EOPYY during the same period, calculated as percent on full monthly net (after measures) pensions received by each pensioner, and 6.45 percent on monthly insurable earnings of each worker. The exact amount of insurable earnings is calculated ex post based on monthly filings of Analytical Periodic Declarations.
- **Medical claims submitted by public hospitals to EOPYY electronically** are claims (invoices and associated documents) using KEN-DRGs and/or hospital fees submitted to EOPYY electronically for insured patients on inpatient services with at least one-night stay. No more than one claim is allowed for each inpatient service.

98. Supporting material. Monthly summary information on the following (i) stock of unpaid processed pension applications (number and total value of claims of the application); (ii) stock of unpaid non-processed pension applications (number and total value of claims of the application) provided by the Ministry of Labor; (iii) number of days and processing time of invoices received, invoices paid, and invoices rejected upon verification by the state government (including ministry of finance and line ministries), as well as invoices that have been neither paid nor rejected since the date of receipt of the invoice or the other dates as specified in the Late Payment Directive for a period longer than the ceiling days specified in the Late Payment Directive, (iv) the amount of all SSFs-to-EOPYY cash transfer, expenditure paid by all SSFs on behalf of EOPYY, and revenue collected by all SSFs on behalf of EOPYY, (v) the number of medical claims submitted by public hospitals to EOPYY electronically, and the number of inpatient services with at least one night stay, and (vi) the number of claims submitted by private entities (including private hospitals, clinics, diagnostic centers, etc.) to EOPYY for insured patients and the number of full-scope audits conducted by EOPYY on those claims.

Table 1. Greece: Program Quantitative Performance Criteria
(Billions of euro)

	2017		2018	
	Sep. PC	Dec. PC	Mar. PC	Jun. Indicative
Performance Criteria				
1. Floor on the modified general government primary cash balance /1	3.5	5.0	1.7	0.5
2. Ceiling on the stock of domestic arrears /2	7.2	7.2	7.2	7.2
3. Ceiling on the overall stock of central government debt	325	325	325	325
4. Ceiling on the accumulation of external debt payment arrears by the general government /3	0	0	0	0
5. Ceiling on new general government guarantees /4	0	0	0	0
6. Floor on the general government spending on goods and services /1	4.8	7.8	1.2	3.1
Indicative Targets				
1. Ceiling on state budget primary spending /1	31.5	45.0	9.4	20.3

/1 Applies cumulatively from the start of the target's calendar year.
/2 Will be adjusted down by the amount of the ESM disbursement for arrears clearance.
/3 Applies on a continuous basis from the date of the program approval in principle.
/4 Applies cumulatively from the date of the program approval in principle.

Table 2. Greece: Key Performance Indicators on Tax Administration

Indicator	2017		2018	
	End-Sep.	End-Dec.	End-Mar.	End-Jun.
Debt collection				
Collection of tax debts as of the end of the previous year (EUR million)	2,210	2,700	940	1,710
Collection of new debts in the current year (percent of new debt in the year)	19%	24%	15%	18%
Collection of debts by Large Debtor Unit (EUR million)	495	690	170	350
Audits of fresh tax cases by the whole GSPR				
Percent of tax audit cases in total completed audits	60%	60%	70%	70%
Tax audits and collection of large tax payers				
Collection after audits in the year (percent of assessed tax and penalties)	41%	41%	48%	48%
Audits and collection of high wealth individuals				
Collection after audits in the year (percent of assessed tax and penalties)	24%	24%	16%	23%
Taxpayer service				
Percent of VAT tax refund claims paid or rejected within 90 days	58%	70%	64%	69%
Compliance and enforcement				
Percentage of total tax paid on time for VAT, Income and Property taxes	82%	83%	82%	84%
Percentage of debtors under enforcement measures	54%	57%	53%	54%
Pre litigation phase				
Percentage of cases closed by explicit decision of the Dispture resolution Unit	93%	95%	75%	80%

Sources: Greek authorities; and IMF staff estimates.

Table 3. Greece: Key Performance Indicators on Social Security Contributions 1/

Indicator	2017		2018	
	End-Sep.	End-Dec.	End-Mar.	End-Jun.
Social Security Fund Payment Compliance				
Percent of total invoiced or declared current-year SSC amount paid to the fund 2/	88%	89%	90%	91%
KEAO Collection Performance and Enforcement				
Collection of SSC debts transferred to KEAO 3/	755	1,007	280	560

Sources: Greek authorities; and IMF staff estimates.

1/ Cumulative targets from the beginning of each year.

2/ For each reporting period, social security fund payment compliance is calculated as the amount of current year SSC paid to the fund divided by the amount invoiced or declared, expressed as a percentage.

3/ In millions of euros.

Table 4. Greece: Key Performance Indicators on Public Financial Management 1/

Indicator	2017		2018	
	End-Sep.	End-Dec.	End-Mar.	End-Jun.
1. Ceiling on average period for expenditure payments or rejection after receipt of invoices by state government, including ministry of finance and line ministries. 2/				
Ceiling on number of days	29	29	29	29
2. Ceiling on unprocessed main pension applications in thousands.				
Ceiling on pension applications	95	70	50	30
3. Floor on percentage of all social security funds-to-EOPYY actual transfer of the amount that should be transferred. 3/				
Floor on percentage	92%	94%	96%	98%
4. Floor on percentage of number of claims submitted by public hospitals to EOPYY for insured patients electronically. 4/				
Floor on percentage	90%	99%	99%	99%

Sources: Greek authorities; and IMF staff estimates.

1/ Cumulative targets from the beginning of the year unless otherwise specified.

2/ Applies to all invoices received since January 1, 2017. The average period is calculated on all the invoices paid or rejected during the quarter, and invoices still pending beyond the target. The period for each invoice is measured from when the invoice is received to the final payment, or to rejection upon verification, or to the test date if the invoice is pending beyond the target for the average for that test date (e.g. 29 days on Sept 30, 2017).

3/ The ratio in percentage is calculated as follows. The numerator is the amount of cash transfer to EOPYY and the expenditure paid by all social security funds on behalf of EOPYY during the period. The denominator is the revenue collected by all social security funds on behalf of EOPYY during the period.

4/ The ratio in percentage is calculated as the number of claims (invoices and associated documents) using KEN-DRGs and/or hospital fees submitted to EOPYY electronically for insured patients divided by number of treatment cases provided by hospitals to insured patients.

INTERNATIONAL MONETARY FUND

GREECE

REQUEST FOR STAND-BY ARRANGEMENT—INFORMATIONAL ANNEX

July 7, 2017

Prepared By

European Department
(In Consultation with Other Departments)

CONTENTS

FUND RELATIONS

(as of May 31, 2017)

Membership Status: Joined December 27, 1945.

Exchange Rate Arrangements: Greece's currency is the euro, which floats freely and independently against other currencies. Greece has accepted the obligations of Article VIII, Sections 2, 3, and 4, but maintains exchange restrictions subject to Fund approval under Article VIII, Section 2(a) of the Fund's Articles of Agreement. Specifically: (i) An exchange restriction arising from absolute limits and discretionary Bank Transactions Approval Committee (BTAC) approval on the availability of foreign exchange for certain payments and transfers for (a) current international transactions related to normal business activities and (b) international services and remittances (such as travel, except for tuition fee and medical expenses). (ii) An exchange restriction arising from the discretionary BTAC approval of transfers abroad of moderate amounts for the amortization of loans and of income from investments including dividends and interest payments of non-financial entities to non-residents. (iii) An exchange restriction arising from absolute limits on withdrawal of cash from bank accounts in Greece in the absence of an unrestricted channel for payments due to discretionary BTAC approval and absolute limits.

General Resources Account:

	SDR Million	Percent Quota
Quota	2428.90	100.00
IMF's Holdings of Currency	11,847.38	487.77
Reserve Tranche Position	572.85	23.58

SDR Department:

	SDR Million	Percent Allocation
Net Cumulative Allocation	782.36	100.00
Holdings	5.19	0.66

Outstanding Purchases and Loans:

	SDR Million	Percent Quota
Extended Arrangements	9,991.32	411.35

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
EFF	May 15, 2012	Jan 15, 2016	23,785,30	10,224.50
Stand-by	May 09, 2010	Mar 14, 2012	26,432.90	17,541.80

Projected Payments to the Fund:
(SDR Million, based on existing use of resources and present holdings of SDRs)

	Forthcoming				
	2017	2018	2019	2020	2021
Principal	475.34	1,452.95	1,704.08	1,704.08	1,704.08
Charges/Interest	158.54	278.00	208.11	130.56	69.05
Total	633.88	1,730.95	1,912.20	1,834,64	1,773.14

Article IV Consultations:
The previous consultation discussions took place during September 17-22, 2016, and the staff report (Country Report No. 17/40) was discussed on February 6, 2017. Article IV Consultations with Greece are currently expected to take place on a 12-month consultation cycle.

Resident Representative:
Mr. Dennis Botman (Senior Resident Representative) assumed his position in September 2016.

Technical Assistance:[1]

Department	Purpose	Date
FAD	Tax administration: Information System	January 2017
STA	Strengthening Fiscal Reporting	February 2017
FAD	Tax administration: Information System	March 2017
FAD	New Revenue Administration Agency: Invigorating Tax Administration Reform	April 2017
FAD	Closing of project on social security contribution	April 2017
FAD	Chart of Accounts and Cash Management	April 2017
STA	Strengthening Fiscal Reporting	May 2017

[1] Since the 2016 Article IV consultation with Greece. See IMF Country Report 17/40 for details on earlier technical assistance.

STATISTICAL ISSUES

As of June 7th, 2017

I. Assessment of Data Adequacy for Surveillance
General. Data provision has some shortcomings but is broadly adequate for surveillance. The quality of Greek statistics has improved since the establishment of the independent Hellenic Statistical Authority, ELSTAT, in 2010.
Real sector. Quarterly and annual national accounts are compiled in accordance with the *ESA 2010* standard. The CPI is chained annually, and weights from the 2015 household expenditure survey were introduced at the start of 2017.
Fiscal sector. General government accounts are compiled in accordance with *ESA 2010*. Eurostat has not validated and published Greece's general government financial accounts reported by Bank of Greece (BoG). The financial accounts data reported by the BoG do not follow Eurostat standards (Reg. 479/2009 and Reg. 549/2013 interpreting ESA 2010) in a number of areas. In addition, compilation issues result in flows that appear implausible and have also not been validated by Eurostat. Therefore reported data are not comparable to non-financial accounts data and data reported in the context of EDP. Shortcomings in source data, such as the absence of accounting records on operations not passing through the state budget (e.g. Single Treasury Account), also present risks to fiscal data quality.
Trade and balance of payments. Since January 2015, data are provided according to the IMF's sixth edition of the Balance of Payments and International Investment Position Manual (BPM6). Historical data based on BPM6 methodology are available from January 2002. Since July 2015, the Bank of Greece has been using ELSTAT's trade statistics instead of the settlements data used until June 2015. Therefore, the trade in goods statistics reflect customs-based data, as collected or estimated by ELSTAT. Historical series based on ELSTAT data are available from January 2002. Issues deserving review include: (i) the errors and omissions for 2013-2015 increased significantly compared with previous periods and are equal to, or exceed the current account balance; (ii) Greece has received debt relief from external creditors, including from the euro area, however, no exceptional financing is reported in the balance of payments. Greece participates in the IMF's Coordinate Direct Investment Survey, Coordinated Portfolio Investment Survey, and reports external debt statistics to the World Bank Quarterly External Debt Database
Monetary sector. Data on the central bank balance sheet and on the consolidated balance sheet of other monetary financial institutions are available from the Bank of Greece's website. The data is also reported to the IMF through the ECB using standardized report forms: 1SR for the central bank and 2SR for other depository corporations (ODCs). Data on other financial corporations (OFCs) is not reported.
Financial Soundness Indicators (FSIs): Data on FSIs are compiled and reported to IMF on a quarterly basis and covers deposit takers, other financial corporations, nonfinancial corporations and households.

II. Data Standards and Quality	
Greece has been a subscriber to the Fund's Special Data Dissemination Standard (SDDS) since November 8, 2002.	A data module of the Report on the Observance of Standards and Codes (ROSC) was published in 2003, and it was updated in 2004 and 2005 in the context of the Article IV staff report.

Greece: Table of Common Indicators Required for Surveillance
(As of June 7, 2017)

	Date of Latest Observation	Date Received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]	Memo Items: Data Quality – Methodological soundness[8]	Memo Items: Data Quality –Accuracy and Reliability[9]
Exchange Rates	6/6/17	6/6/17	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	05/17	6/7/17	M	M	M		
Reserve/Base Money	05/17	6/7/17	M	M	M	O, O, O, O	LO, O, O, O, O
Broad Money	04/17	5/31/2017	M	M	M		
Central Bank Balance Sheet	04/17	5/16/17	M	M	M		
Consolidated Balance Sheet of the Banking System	04/17	5/29/17	M	M	M		
Interest Rates[2]	05//17	6/1/2017	M	M	M		
Consumer Price Index	4517	6/9/2017	M	M	M	O, O, O, O	O, LO, O, O, O
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	2017	4/17/17	A	A	A	LO, LO, LO, O	LO, O, O, O, NA
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	4/16	5/24/17	M	M	M		

Greece: Table of Common Indicators Required for Surveillance (concluded)
(As of June 7, 2017)

Stocks of Central Government and Central Government-Guaranteed Debt[5]	2017:Q1	05/18/17	Q	Q	Q		
External Current Account Balance	03/17	05/22/17	M	M	M	O, LO, LO, O	O, O, O, O, O
Exports and Imports of Goods and Services	03/17	05/22/17	M	M	M		
GDP/GNP	2017:Q1	6/2/17	Q	Q	Q	O, O, O, O	LO, LO, O, O, LO
Gross External Debt	2016:Q4	03/31/17	Q	Q	Q		
International Investment Position[6]	2016:Q4	03/31/16	Q	Q	Q		

[1]Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.
[7] Daily (D), weekly (W), monthly (M), quarterly (Q), annually (A), irregular (I); and not available (NA).
[8] Reflects the assessment made on continuous basis. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O); largely observed (LO); largely not observed (LNO); not observed (NO); and not available (NA).
[9] Same as footnote 8, except referring to international standards concerning (respectively) source data, assessment of source data, statistical techniques, assessment and validation of intermediate data and statistical outputs, and revision studies.

Statement by Mr. Psalidopoulos, Alternate Executive Director for Greece
July 20, 2017

Following their request for a Stand-by Arrangement (SBA), the Greek authorities welcome IMF staff's recommendation to the Board for approval in principle giving access to Fund resources in an amount equivalent to SDR 1.3 billion. The approval in principle marks an important step for Greece, since it reflects converging views on shared conditionality with the ESM program, limits uncertainty in the Greek economy and allows the Government's efforts to focus on the ongoing reforms in the context of program implementation.

The Greek authorities take note of the IMF staff's assessment of the recent fiscal and economic developments in Greece, as presented in the staff report, and regret to note that it remains more conservative than the assessments prepared by European institutions. The overall tone is similar to the one of the February 2017 Article IV report, which, based on the latest economic evidence, has proven to be unnecessarily pessimistic. The Greek authorities regret that the latest report does not pay enough attention to several points made during the Article IV consultation by the Ministry of Finance and the Bank of Greece, nor to the latest economic evidence.

The Greek economy has moved during the last two years from a state of prolonged economic crisis to a state of economic recovery. Following years of protracted recession, the first signs of solid growth, declining unemployment rate, and increasing confidence in the economy are now evident. Three out of the last four quarters were in positive territory and economic growth is expected to accelerate further over the next years. Private consumption grew in most of the year, industrial production has recorded a 5% y-on-y increase in June 2017 and exports in services have accelerated. Unemployment, although still high, has fallen to its lowest level since 2011, on the back of increasing job creation. Inflation has turned positive in 2017 and has continued to be in positive territory, signaling a return to normalization. The increased confidence in the economy, following the conclusion of the second review of the ESM program, is expected to boost consumption and private investment, through improved economic sentiment.

The fiscal performance has strengthened significantly in recent years, producing the highest surplus in at least the past 25 years. Against an initial prediction by IMF staff for a -0.5 percent primary balance deficit for 2016, and a 1.1 percent forecast in the article IV report, Greece overly exceeded the target to produce a 4.2% of GDP primary surplus. While part of the surplus was one-off, a significant part was structural and is expected to be carried forward to the following years. Early indicators suggest that the over-performance was the result of deep structural changes in the economy, such as a shift from the informal to the formal sector and increased efficiency of firms during the crisis. In addition, the staff estimates of the effect of newly introduced revenue measures were overly pessimistic in almost all revenue categories.

Based on parametric fiscal measures, the fiscal performance continues to be strong in 2017, yielding a primary surplus close to 1 percent of GDP above target for the first six months of the current FY. The recommendation by the European Commission to close the Excessive Deficit Procedure for Greece a week ago, provides strong evidence of sustainability in public finances. Based on the available evidence on the structural fiscal measures adopted, the Greek authorities believe that the staff's report remains very conservative on the future fiscal path and particularly on the implementation of the post-2018 growth-enhancing fiscal measures.

Numerous structural reforms have been implemented over the past years, causing growth enhancing changes in the economic environment. To name a few, wage grids in the public sector have been reviewed and consolidated, the selection of public sector managers was overhauled, pension funds have merged into a single fund with common rules, product market reforms have been implemented under three OECD toolkits, the tax authority has become fully independent, privatizations in key markets have progressed swiftly and a guaranteed minimum income has been implemented for the entire country. Indeed, the reform effort has been one of the strongest among OECD countries since 2010. Significantly, Greece's average reform responsiveness rate for 2007-2015 stood above 0.6, the highest figure among all OECD countries. Following the conclusion of the second review and 140 prior actions legislated, the reform effort was further intensified and will continue at the same pace during the coming years. Despite the enhanced reform effort, we regret to note that the report contains limited recognition on both implemented reforms and their effect on future growth.

The Greek authorities note that the staff's updated DSA assumptions remain conservative and more pertinent to a downside scenario. These include assumptions on the fiscal path, long-term growth rates, long-term TFP growth, inflation, market interest rates and the effect of the short-term debt relief measures. The Greek authorities believe that the analysis does not account sufficiently for the effect of structural reforms, for other investment initiatives, for future market interest rates and for the agreed fiscal surpluses. In line with the 15th of June 2017 Eurogroup agreement, and to provide additional clarity on debt sustainability, the Greek authorities look forward to a mechanism that will link debt relief measures to future growth developments, accompanied by additional debt relief to the extent necessary and on the basis of an updated DSA.