March 2011
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Greece: Third Review Under the Stand-By Arrangement—Staff Report; Informational Annex; Press Release on the Executive Board Discussion; Statement by the Staff Representative on Greece; and Statement by the Executive Director for Greece.

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

- The staff report, prepared by a staff team of the IMF, following discussions that ended on February 11, 2011 with the officials of the Greece on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on February 28, 2011. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A Press Release

- A statement by the Staff Representative on Greece

- A statement by the Executive Director for Greece

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

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

*Also included in Staff Report

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

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INTERNATIONAL MONETARY FUND

GREECE

Third Review Under the Stand-By Arrangement

Prepared by the European Department in Consultation with Other Departments

Approved by Ajai Chopra and Martin Mühleisen

February 28, 2011

- **Stand-By Arrangement**: On May 9, 2010, the Executive Board approved a three-year Stand-By Arrangement for Greece in the amount of SDR 26.4 billion (3,212 percent of quota). A first purchase was made upon program approval; a second purchase was made upon completion of the first review in September 2010, and a third purchase was made upon completion of the second review in December 2010 (in amounts equivalent to SDR 4.8 billion, SDR 2.16 billion, and SDR 2.16 billion, together totaling €10.5 billion). The fourth disbursement, subject to completion of this review, would be in an amount equivalent to SDR 3.6045 billion (about €4.1billion). To date euro-area countries have disbursed €27 billion, and will make available another €10.9 billion with this review.

- **Recent Developments***:* The economy has been evolving broadly as projected, with a GDP decline in 2010 of around 4½ percent, continued low underlying inflation, and unit labor costs beginning to fall. Against these headwinds, the authorities achieved a 5¾ percent of GDP fiscal adjustment in 2010, reducing the deficit to 9½ percent of GDP. In the banking system, deposit outflows have continued at a modest pace, and credit has begun to contract, but financial system stability has been preserved with the assistance of exceptional liquidity support from the ECB. In the structural area, there have been some delays, but key labor market, service market, and business environment reforms are advancing.

- **Program status**: Staff's overall assessment is that Greece has made further progress towards its objectives, and the underlying fiscal and broader reforms necessary to deliver the program's medium-term objectives are gradually being put in place. However, major reforms still need to be designed and implemented to build a critical mass necessary to secure fiscal sustainability and economic recovery. All performance criteria were met, but the indicative target on domestic arrears accumulation was again missed. The measures supported by structural benchmarks have been either implemented or partially implemented (with slight shortfalls in substance for collective bargaining reforms and the study of public pay and employment). Looking ahead, a strategy was agreed to address a nascent ¾ percent of GDP fiscal gap for 2011, namely by drawing in structural measures now under preparation in the context of the medium-term budget strategy. The review defined in detail the process and the key elements of the medium term strategy, which the authorities intend to complete by May. It also addressed the next steps in fiscal institutional reforms, and the next steps towards an accelerated privatization and real estate development program. In the banking sector, the focus was on how to establish medium-term funding plans for banks consistent with macro and fiscal constraints, and on strengthening supervision. Broader structural reforms for 2011 have been more fully articulated.

- **Discussions.** See the Fund relations Annex.

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

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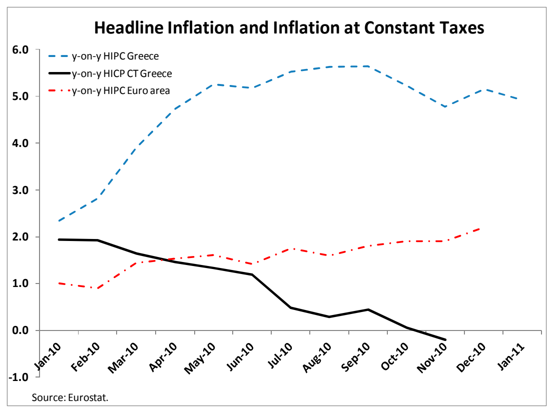
Appendices

Attachments

I. Recent Developments

1. **The contraction in economic activity in 2010 was significant, and continues, but signs have emerged that the anticipated rebalancing of the economy is underway** (Table 1):

- **The GDP decline** in 2010 is estimated to have been close to previous projections. The statistical agency's flash estimate for the fourth quarter of 2010 suggests that GDP contracted by 4½ percent over the full year, slightly more than previously expected. This was mainly due to an upward revision of historical data for 2006-09; the quarter-on-quarter decline in 2010Q4 was less than projected. High-frequency indicators on industrial production, retail trade, economic sentiment, and employment suggest a continuing compression of domestic activity (Figure 1). However, the fourth quarter saw some improvement among leading economic indicators, such as hotel reservations and industrial orders and turnover for the foreign market, pointing to an improving external orientation.



- **Inflation** has remained elevated on account of previous increases in indirect taxes and excise duties, but for the first time since euro adoption, inflation at constant taxes fell well below the Euro area average in the second half of 2010. Average 2010 headline inflation—at 4.7 percent—ended a notch higher than programmed owing to higher oil prices. January 2011 HICP inflation came in at 4.9 percent year-on-year, down from 5.2 percent in December 2010.

- Economy-wide **unit labor costs** (ULC) started to fall in the first quarter of 2010 (Figure 2). Downward pressure on private sector wages has increased following public sector wage cuts, deteriorating labor market conditions (unemployment hit 13.9 percent in November), and labor market reforms. This will benefit external competitiveness, although ULCs in absolute terms remain high, particularly in agriculture and non-traded services. The real effective exchange rate depreciated slightly against the backdrop of a weakening euro. Nevertheless, CGER-type analysis based on estimated 2010 data continue to point to significant overvaluation ranging from 20–34 percent. Greece has continued to lose market share in tourism and goods exports in 2010.

- The **external current account deficit** has continued to narrow gradually (Figure 3). The current account deficit began to contract during the third quarter, and in the June-December period has contracted by a total of 16 percent in euro-denominated terms compared to a year ago. This reflects a substantial decline in goods imports (despite a rising oil import bill) and a large increase in shipping receipts, only partly offset by weaker tourism receipts. These same factors drove a 27 percent improvement in the euro-denominated trade balance (excluding oil and ships) during the same period. Overall, the contraction of the current account deficit has been driven by stronger public saving, with private saving falling as a result of loss of income (and shift of income to the public sector via higher taxes).

2. **The financial sector remains under stress, but the banks' own capital raising efforts and ECB liquidity support have supported the system:**

- **Liquidity remains very tight.** Over the course of 2010, total deposits shrunk by €35.8 billion (12¾ percent) (Table 2). The bulk of the outflow took place during the first half of the year (€28.8 billion), while during the second half of the year there was a substantial slowdown. The continued outflows are at this point not related to confidence effects, and are in line with what one would expect in a shrinking economy where savings are being used to smooth consumption. Wholesale funding markets remain closed, and banks have relied on extraordinary liquidity support from the ECB (including by accepting as collateral uncovered bank bonds guaranteed by the government). ECB funding has stabilized just below €100 billion, or 18 percent of total liabilities, one of the highest levels in the Euro area. The end-November package of government guarantees for uncovered bonds (€25 billion) gave the banking system some breathing room, but changes in ECB collateral rules on January 1 and a Fitch downgrade in January have tightened liquidity conditions again.

- **Credit also remains tight** (Figure 4). Credit growth to the domestic private sector slowed sharply in 2010 and turned negative year-on-year in December (-0.2 percent) on account of a contraction in credit to households. Weak economic activity is dampening demand for loans. The main constraint to credit growth appears to be funding constraints and weakening credit quality, and indeed lending surveys show that banks continue to tighten lending terms and credit standards.

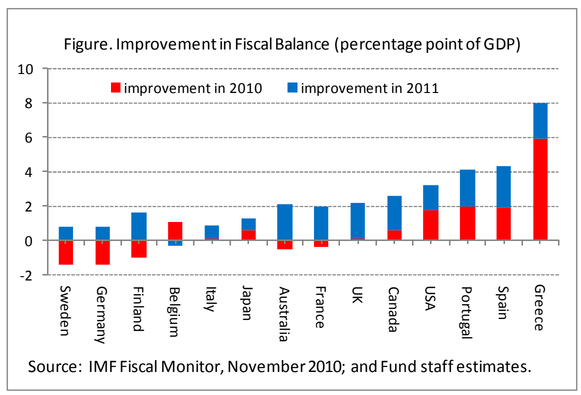
- **Asset quality and profitability continue to deteriorate, in line with program projections** (Table 3). At the consolidated system level, the stock of nonperforming loans (NPL) increased 30 percent during the first nine months of 2010, reaching 10 percent of total loans, while the ratio of coverage by provisions remained broadly unchanged. While problems are concentrated in the consumer loan segment, asset quality deteriorated across all sectors, including mortgage loans. Significant restructuring of loans by banks does not appear to have started yet. The largest four banks all posted a profit on a group level up to the third quarter of 2010, but on average two-thirds less than the year before, and their domestic activities were loss-making.

- **Capital levels are being reinforced.** The Tier 1 ratio remains above 10 percent, with total CAR at 11.4 percent. The National Bank of Greece completed a €1.8 billion rights offering during Q4, and Piraeus Bank has raised €800 million in new capital. Some banks have put on sale their most easily marketable foreign businesses (e.g. in Turkey and in Poland). A restructuring plan is being finalized for ATE Bank (the only Greek bank that failed the July 2010 CEBS stress-test), which would see the government, as principal shareholder, participate in a capital increase.

3. **Private sector balance sheets are under increasing stress, although debt levels remain below European averages.** Greek households' debt-to-disposable-income ratio (at about 40 percent in 2009) remained well below the European average and significantly lower than in other European peripheral countries. However, the structure of household debt compares unfavorably with peers, as the share of consumer credit in total debt is one of the highest in the EU. Corporate indebtedness is slightly lower than the European average (with the exception of small enterprises), and substantially below levels in other European peripheral countries, but rose very rapidly in the run up to the crisis. Nevertheless, corporate credit quality has held up relatively well in the downturn so far, with non-performing loans increasing at a more moderate rate than in housing and consumer lending.

4. **The authorities achieved significant fiscal adjustment and reform in 2010, but some tensions remain evident** (Tables 4-5; Figure 5):

- **The general government deficit is estimated to have been reduced by about 5¾ percent of GDP on an ESA95 basis, to about 9½ percent of GDP.** Recessionary headwinds necessitated some 8 percent of GDP in measures to achieve this outcome. This improvement in the deficit would exceed targets, but as discussed in the 2nd review, the level target for the deficit would be missed by some 1½ percent of GDP due to November data revisions agreed with Eurostat (which among other changes expanded the definition of general government to include a loss-making group of state enterprises).



- **Tensions have been evident through the 2010 budget implementation cycle.** Revenues have been weaker than projected (growing by 5.6 percent, compared to the original program target of 13.7 percent, and falling short again at end year, on an underlying basis). Preliminary data suggest notable expenditure overruns in subnational entities and social security funds. These were offset by state budget under execution (-9.5 percent spending reduction, versus -5.3 percent foreseen in the original program) which allowed cash budget targets to be met. Some arrears arose within the year, and at end-November the stock amounted to €4.0 billion (excluding health arrears predating 2010). However, at least at the state budget level, higher cash payments at end-year have helped partially unwind arrears, as planned.

- **A tight budget for 2011 was passed in December.** It targets a general government deficit of 7½ percent of GDP, consistent with the program. Due to continued recessionary headwinds, some 3½ percent of GDP in net new measures will need to be implemented to achieve the target. Most of these measures have either been passed into law or are under preparation.

- **Structural fiscal reforms in general government entities are beginning to deliver savings.** The deficit of non-state entities is estimated to have fallen from some 8½ percent of GDP in 2009 (excluding state transfers) to about 7¼ percent of GDP in 2010. Many significant reforms commenced (Table 6). Most recently, in the social security sector, the authorities have completed actuarial studies for the largest pension funds, which suggest that by 2060 the recently enacted reforms would stabilize spending of the main pension funds at the 2009 level (in relation to GDP). In the health system, the focus has been on extending IT work throughout the fragmented system, to better control pharmaceutical spending (about 40 percent of total public health spending) and to centralize procurement. Finally, state enterprise restructuring is underway, and in early 2011 legislation introduced wage cuts of over 10 percent and increases in public transport tariffs (averaging 30 percent). Specific restructuring plans were also articulated for the railroad companies and the Athens urban transportation system.

- **Reforms to fiscal institutions are proceeding, but there are some areas where progress has been slow, including arrears reporting.** The revenue administration has now completed its plan to combat tax evasion, including defining quantitative indicators to monitor progress. The Ministry of Finance has separately begun to implement a three pillar plan to improve public financial management (PFM), involving improvements in budgeting, spending controls (commitment registers are being established in line ministries), and fiscal reporting. The PFM agenda has proceeded at a slower-than–expected rate: commitment registries may only be fully effective throughout general government by mid-year, while the timeliness and comprehensiveness of arrears reporting remains a concern outside the state budget, where about 50 percent of general government entities still do not report.

5. **Structural reforms got off to a strong start in 2010** (Table 7). Labor markets have been reformed in two rounds covering employment protection, and in December, arbitration and collective bargaining. Product and service market reforms have focused on road and rail transportation, and more recently on the regulated professions. The authorities have legislated a number of business environment reforms, including an investment fast-track approval process for large projects, and a one-stop shop for business start-ups, but implementation in both cases has been delayed, pending resolution of IT and personnel issues, and issuance of the various implementing ministerial decisions. The authorities' focus of late has been on simplifying licensing procedures and strengthening the competition authority. In both cases draft legislation now awaits consideration by parliament.

6. **Market sentiment towards Greece remains weak** (Figure 6). Following a brief rally during the summer, helped by sovereign wealth funds and emerging market investors, Greek spreads increased significantly during the fourth quarter. To a large extent this reflected the general deterioration in sentiment towards the euro-area periphery which followed on public discussions of a sovereign debt restructuring mechanism for the euro arera, and the spread of the Euro debt crisis to Ireland. A short resurgence of volatility in mid-January 2011 saw spreads on 10-year bonds briefly spike to previous record highs of close to 1000 bps. Markets have since calmed somewhat, with spreads stabilizing at around 800 bps, and with the ECB stepping up its purchases under the SMP.

II. THE MACROECONOMIC OUTLOOK

7. **The macroeconomic outlook is broadly unchanged since the last review** (MEFP ¶1–3; Tables 8–9; Figure 7):

- **The economy is expected to bottom out in the second half of 2011.** Keeping projected quarter-on-quarter growth rates for 2011 unchanged (given the better than expected performance in Q4 2010), suggests that the -3 percent projection remains well within reach. From an aggregate demand perspective, domestic demand is trending weaker than anticipated, reflecting the deteriorating labor market and tight credit conditions. However, improved prospects for external demand, due to faster recovery in Greece's main trading partners, improving competitiveness, and a rebound in tourism from the low 2010 base, should offer some offset.

- **Inflation remains broadly in line with program estimates.** The impact of the commodity price shock will be muted due to the cyclical position of the economy, and inflation is projected to retreat to close to 1 percent by end-2011 as the statistical carryover from indirect tax hikes peters out. Inflation is expected to remain around 1 percent for some time, as structural reforms put downward pressure on prices via strengthened competition and expanded supply.

- **Improvements in competitiveness are expected to be gradual.** Looking at the GDP deflator-based real effective exchange rate (which captures productivity and ULC developments better than CPI based measures) program projections suggest an improvement of about 10 percent over the next 5 to 6 years, and additional improvements thereafter. Much of the improvement comes against trading partners in emerging and developing countries (representing almost 40 percent of Greece's exports, mainly in eastern europe and the middle east), where inflation rates are expected to remain well above Greek rates.

- **The current account is projected to improve against the backdrop of falling imports and stronger external demand and competitiveness.** While oil import prices will be higher, improving exports (due to the global economic recovery), a rebound of tourism from a low 2010 base, and import compression (as domestic demand further contracts) should help offset this. The overall improvement, projected at about 2½ percent of GDP will be driven largely by a stronger public sector savings-investment balance, and a moderate improvement in the private sector balance.

8. **The baseline projections are broadly in line with other forecasters' expectations.** Most forecasters project a continuation of the current recession through 2011, with a gradual return to positive GDP growth thereafter. While there is broad consensus on the 2011 outlook, analysts' opinions diverge on the strength of the ensuing recovery, with Greece-based forecasters being generally more bullish than outsiders, and the program projection being close to the middle. A similar pattern emerges for the inflation, and external outlooks. Compared to forecasts for other countries (Figure 8), Greece is expected to take more time to recover from recession, reflecting the fact that it entered the downturn with about a one-year lag, and has experienced a crisis of greater scale.

Greece--Comparison of Growth Projections

(percent change)

	2010	2011	2012	2013	2014	2015	Vintage
Actual	-4.5						
EC/ECB/IMF	-4.2	-3.0	1.1	2.1	2.1	2.7	Nov-10
OECD	-3.9	-2.7	0.5				Nov-10
NBG	-4.0	-3.0					Jan-11
Alpha	-3.8	-1.0	1.8	2.6	3.4	3.3	Jan-11
Eurobank	-3.6	-2.9	1.5				Jun-10
Piraeus	-4.5	-3.0 to -4.0					Feb-11
Bank of America	-4.1	-2.5	1.1				Dec-10
Citi	-4.0	-2.6	-1.0	0.5	1.0	1.5	Jan-11
Natixis	-4.0	-3.0					Jan-11
KEPE	-4.1	-3.5					Jan-11
IOBE	-4.0	-2.9					Jan-11
EIU	-3.9	-4.1	0.2	0.5	1.6	2.0	Dec-10
Average	-4.0	-2.9	0.8	1.6	2.0	2.4	

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

9. **Near-term risks remain skewed to the downside, but risks are more balanced in the medium-term.** Market sentiment remains fragile, and much fiscal, financial sector, and structural adjustment lies ahead. In this environment, contagion is a risk, and sovereign spreads could increase sharply if market doubts about the response to the crisis in the Euro area intensify. While this would not have a direct effect—the program keeps the government out of the market during 2011—increased contagion would have indirect impacts on banking system liquidity, and would frustrate efforts to revive business confidence and investment. On the other hand, there remains a good prospect for higher growth in the medium term, via convergence to higher core-EU levels of output and productivity. The level of growth achieved by Greece in the decade leading up to the crisis provides an indication of the upside. Still, realizing this will require vigorous and timely structural reform implementation, and a significant productivity dividend from reducing Greece's large shadow economy.

10. **Under the program baseline, debt remains sustainable, although large risks remain, including from growing contingent banking sector liabilities** (Appendix 1). The public debt sustainability assessment is broadly unchanged compared to the 2nd review. Debt is expected to crest at high levels and to begin to decline in 2013. This outcome continues to

hinge crucially on sustained fiscal and structural adjustment. The updated sustainability analysis highlights the risk from banking system problems given the government guarantees that have been, or are likely to be, extended. Under a banking shock, and with no second-round impacts (e.g. via higher interest rates), debts would jump to over 200 percent of GDP before declining (although asset recovery by the government could provide some benefit). The analysis also highlights the upside to be realized as the government begins to implement its more ambitious plan to maximize the return from its assets. As discussed below, the debt could drop by an additional 16½ percent of GDP by 2015. Once the government has completed its preparations and fully defined its plan, the DSA baseline scenario will be updated to incorporate higher proceeds.

III. Discussions

11. **The discussions focused on strengthening the underpinnings of the program.** There has been further progress towards program objectives, but there remain a number of challenges to overcome. The focus was on: (i) designing a sustainable fiscal adjustment program based on accelerated fiscal structural and institutional reforms; (ii) establishing a framework to ensure that liquidity and deleveraging needs for the banking system are appropriately balanced against program fiscal and macro targets; and (iii) catalyzing progress on pending labor, service market liberalization, privatization and business environment reforms, to support competitiveness and the economic recovery.

Fiscal Policy

12. **The authorities noted that their priority is to put the fiscal adjustment on a more sustainable footing** (MEFP ¶5). They recognized that state budget expenditure under execution—the safety valve used in 2010—could not be sustained for very much longer. Indeed, the portion of the budget devoted to discretionary spending has been steadily shrinking and has fallen from nearly 30 percent in 2005 to under 25 percent at present.

13. **For 2011, the authorities reiterated their commitment to meet the program target of a 7½ percent of GDP general government accrual deficit** (MEFP ¶6). On present trends, the budget would fall short of the program target by some ¾ percent of GDP. The main source of this fiscal shortfall is a downward adjustment to revenue projections, which in turn turn reflects the weak performance of underlying revenues at end-2010 (i.e. excluding tax settlement payments). A decomposition of forecasts errors suggests that problems may

Table. Change in 2011 Tax Revenue Projections (billion of Euro)

	May Progr.	Second Review
Direct tax		
Total change from	-0.8	-0.8
due to		
Changes in macro	0.4	0.0
Policy changes 1/	0.4	0.2
Other 2/	-1.6	-1.0
Indirect tax		
Total change from	-1.8	-0.6
due to		
Changes in macro	0.3	-0.1
Policy changes 1/	-0.1	0.2
Other 2/	-1.9	-0.8

1/ Includes upward revision in yield of measures.
2/ Compliance and tax efficiency effects.

emanate from tax efficiency and compliance effects, underscoring the importance of progress with tax administration reforms (below). The authorities expect to meet their near term fiscal targets due to their conservative first quarter budget implementation plans. They also noted that a second cushion existed in their budget in the form of a contingency reserve (newly introduced in 2011). It was agreed that these combined buffers could provide a bridge to the medium-term strategy, expected by the end of the first quarter. Any shortfall still projected at this point would be addressed by adopting some structural measures from this strategy (which will define and quantify gains from specific measures). Given the still-early point in the budget calendar, this should be technically feasible, and much less risky than a renewed attempt at full-year budget underexecution.

14. **The authorities are now focused on preparing their medium-term public sector structural adjustment plan** (MEFP ¶7–8):

- The focus will be on **measures** that limit the impact on growth, protect the most vulnerable, and aim at cutting and restructuring the inefficient parts of Greece's oversized public sector. For each of the areas for action identified in the last review (state enterprises, extra-budgetary funds, tax reform, the wage bill, public administration reform, better targeting of social spending, and military spending) the authorities specified in more detail the broad options they would consider (Table 10). They also indicated that they would closely review and prioritize public investment projects. The next step is to design and quantify the specific measures.

- A **macro-fiscal baseline** was agreed to guide the planning process. This shows that about 8 percent of GDP in measures will be needed during 2012-2014 to achieve the target of a general government deficit under 3 percent of GDP (Box 1 relates this baseline to the original program baseline). The authorities indicated they would also seek to define additional measures to handle contingencies—for instance the probable fiscal shortfall in 2011. Based on the known base for these policy changes—for instance, the size of the wage bill in relation to European peers or the amount of tax expenditures—sufficient scope exists to reach the targeted amount (Table 10). The authorities already have some numerical targets in mind in specific areas, for instance to realize 2 percent of GDP through the wage bill, and over 1 percent of GDP through state enterprise reforms.

- The **process of finalizing the plan** is complex. To handle the technical challenge of designing and quantifying specific measures, a timeline was mapped out that allows some time for working groups to analyze options, including with inputs from external advisors. To handle the political challenge, the authorities are planning to engage in public consultations in March. The medium-term plan is expected to be adopted by the Cabinet in mid-April, with technical refinements to be made during the course of the year. This plan will form the basis for the 2012–15 fiscal strategy, to be adopted in May in line with new budget procedures.

15. **After an intense and successful initial phase of social security reforms, the authorities are working to lay the groundwork for a second stage of reforms** (MEFP ¶9):

- In the **pension system**, the next step is to deal with the supplementary and welfare funds. Some of these funds have structural deficits which are set to worsen significantly over time. By the second quarter an actuarial assessment will be complete, and by early 2012, reforms to correct problems will be implemented. The mechanisms to correct problems have already been indentified, including stricter links between contributions and benefits.

- In the **health system**, the challenge remains to strengthen spending controls and to extend measures to reduce pharmaceutical spending across all social security funds and hospitals. This is a complicated IT project for which the government is preparing to issue a tender by end-April. Meanwhile a working group is preparing a detailed study of the sector, which will allow the government to formulate and adopt a time-bound action plan of further reforms by end-June.

16. **The authorities and staff agreed on steps to support continued progress with fiscal institutional reforms** (MEFP ¶10, Tables 11-12):

- **Revenue administration.** Since the last review, the authorities have prepared and expect to pass in March a law to remove various legal and administrative obstacles to effective revenue administration (which would meet a program **structural benchmark**). They have also identified quantitative performance indicators to guide the application of the anti tax evasion plan, which they expect to publish monthly (these include targets on collection of tax arrears, and on the number of risk based audits of the largest taxpayers and of high wealth and self employed taxpayers). The initial figures, against EU-25 and OECD averages, show the scale of the challenge Greece confronts. To consolidate expected progress under the anti-tax evasion plan, the authorities remain committed to articulate a medium term reform plan, which will introduce a large taxpayer unit, a risk management framework, and re-organize the tax audit function (proposed as a new **structural benchmark**). However, it was agreed that in order to focus on maximizing the output of the anti-evasion plans, the completion of this second planning phase would be pushed back to mid-year.

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

VAT Gap (2006)	
Greece	30.0
EU-25 average	12.0
Shadow economy (2007)	
Greece	25.1
OECD 21 average	13.34
Tax debt to annual net revenue (2007)	
Greece (2010 estimate)	37.9
OECD average	8.5
Number of verifications to taxpayers (2007)	
Greece	0.2
OECD average	4.1

Sources: OECD 2009, EC 2009, Schneider 2010.

- **Public Financial Management (PFM).** Since the last review, the authorities have begun to establish commitment registers (which would shift the spending control point back from the point of cash payment to the point of commitment), and are preparing to appoint accounting officers across general government entities (to oversee strengthened financial management)(**structural benchmark** for end-March). However, complications are evident across all three pillars of the PFM strategy (budgeting, control, and reporting). These include: weak control over the introduction into parliament of new laws with unfinanced mandates; problems in high volume spending agencies and small entities with adopting commitment registers; and continued poor timeliness and comprehensiveness of fiscal reporting (especially of arrears data). To address these problems, the authorities intend to strengthen financial certification requirements concerning new spending bills; simplify commitment registrations for high volume spending agencies and phase in more gradually the full implementation of the registers in small general government entities (to allow more time for training); and will introduce sanctions for non-reporting. A newly proposed **structural benchmark** covering fiscal reporting (over a three month period ending in mid-year), should provide a good signal about progress with the overall reform program.

Asset and liability management

17. **The authorities and staff agreed that policy should continue to focus on facilitating a gradual return to bond markets** (MEFP ¶11, Table 13, Figure 9). It remains essential to provide time to convince still-skeptical markets that the program will deliver, at which point higher demand for Greek sovereign bonds can help bring spreads down to affordable levels. The authorities are poised to gear up their privatization and real estate development program—in order to shield the public from even deeper budgetary cutbacks and support growth—and it was recognized that this could also deliver dividends in terms of reducing financing requirements. The authorities noted the potential for longer maturities on EU/IMF loans to help reduce private sector rollover requirements, and the higher spreads that these bring. Concerning the near-term debt issuance strategy, it was agreed that this would need to be geared towards instruments that would be likely entry points for new investors.

18. **The authorities intend to pursue a more ambitious program to maximize the return from state assets** (MEFP ¶12):

- **The potential and preparatory process.** The asset side of the authorities' balance sheet is nominally quite large. Among the assets, public corporations are estimated to have a value of €44 billion (OECD, 2010), of which liquid holdings of shares in public enterprises represent some €8 billion. The authorities are also confident that significant new resources can be generated through the government's vast real estate and land holdings. To facilitate this, commercially viable properties will be catalogued and valued in two stages during 2011, and the authorities intend to draw on experts in real estate law and management to help them manage the process of development. More explicit valuation and better management may be helpful in their own right, to the extent they help markets better assess Greece's level of net debt.

- **The plan.** Taking into account the types of assets available to them, the authorities felt that a privatization and real estate development program amounting to €15 billion until the end of the program, would be achievable. They expected to be able to achieve considerably more through 2015, tentatively setting a target of €50 billion (to be confirmed as the preparatory work is completed). This medium-term target would be at the high end of the pace that other countries have in the past managed to adhere to, but with Greece within the common market provided by the EC (and within the common-currency area) there are likely to be potential buyers for the assets in question. If the authorities can execute such a program in a timely manner—and it needs to be borne in mind that such a program would have to be done on an "as market conditions permit" basis—then it could make a significant dent in Greece's debt, perhaps knocking some 18 percent of GDP off of it by 2020. Moreover, this excludes potentially higher growth by unlocking potential in various industries—the sales and concessions could rationalize areas where waste of public resources is well documented (e.g., excessive salaries and operating costs), reshape the organization of some critical economic sectors, and attract needed FDI (e.g. in the tourist sector).

Large privatization programs

	Years of active privatization	No. of years of active privatization	Average annual proceeds (% of GDP)	Total amount (% of avg. GDP)	Amount in peak year (5 of GDP)
Peru	1994-97	4	3.2	12.8	
Estonia	1992-98	7	2.9	20.3	
Argentina	1990-95	6	2.0	12.0	
Hungary	1991-98	8	4.0	32.0	
Greece	1998-03	6	1.8	11.1	3.2
Greece	2011-15	5	4.0	20.0	

Source: Fiscal and Macroeconomic Impact of Privatization, Occasional Paper. 194, IMF.

19. **The authorities reiterated that they would strongly welcome if resources from European partners and the Fund were provided with longer repayment periods.** Management and staff are of the view that providing financing to Greece under the EFF is justified on the basis of Greece's serious balance of payments needs, the resolution of which requires a medium-term structural reform program. Management intends to propose to the Executive Board an extended arrangement, upon cancellation of the existing SBA by the authorities, once understandings can be reached with the EU and European governments on an extension of the maturity of their loans. An extended arrangement under the EFF would provide Greece with a repayment schedule of 10 years on new disbursements (the five-year amortization schedule for existing SBA disbursements would not change). In the event of an extension by the EU and the approval of an extended arrangement by the Fund, amortizations during 2013–15 would drop by a third from €163 billion to €110 billion, which in turn would raise the probability of earlier market access on better terms.

20. **Against this backdrop, the authorities' near-term debt issuance strategy emphasizes entry points back into the market** (MEFP ¶13). Greece's gross financing need

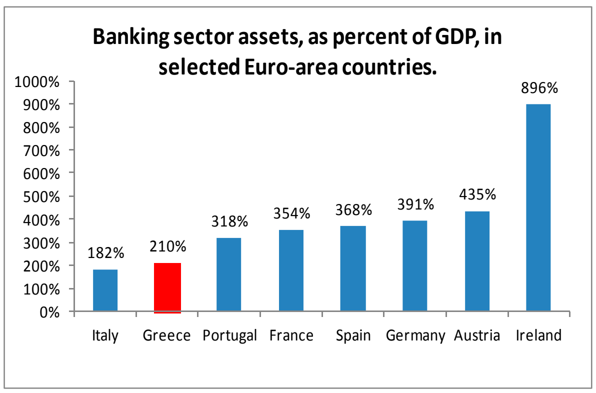
in 2011 amounts to some €58 billion (including clearance of budgetary arrears). Almost all of this will be covered by EU and IMF financing. Beyond this gross financing need, Greece needs to build up its level of government deposits, which are targeted to remain well above the low points realized in late 2009 and early 2010, but below the level staff would consider minimally appropriate in the present circumstances (three months of gross financing needs). The authorities recognized that final demand was limited at the moment to domestic financial institutions, and expected this demand to remain relatively stable, since deleveraging plans for domestic banks (see below) are not expected to force disposal of government debt holdings. They expect that they can generate some interest from Greek expatriates for a "diaspora" bond, and they expect that non-traditional buyers (e.g. those specializing in emerging markets) would be among the first to purchase any new debt issues. They also recognized that given their circumstances, the likely entry points for new investors, and those choosing to rollover exposures, would be treasury bills. They will focus their issuance program in this area during 2011, and move to 9 month and 1 year bills as market conditions permit.

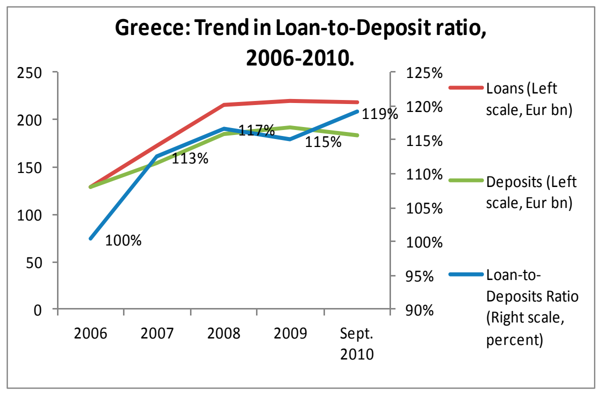
Financial Sector

21. **The authorities recognized many challenges to bring the financial system to medium-term stability** (MEFP ¶14). The banking system has remained stable so far, but challenges are accumulating as the recession deepens. Deposits are still falling, and since banks still have no access to the markets, their liquidity position remains very tight and their dependency on Eurosystem liquidity acute. The priority is thus to support banks' efforts to deleverage and restructure in an orderly manner, if and when needed, without exacerbating the ongoing economic contraction. Continued delays in increasing resources available for banking supervision is adding to these challenges, because the volume of work has increased considerably.

22. **Additional liquidity will be made available to banks under some conditions** (MEFP ¶15). Liquidity needs are likely to increase. ECB collateral rules are due to be tightened again in March 2011, and combined with the risk of further ratings downgrade, this could lead to a loss of available collateral. Continuing losses of deposits as the recession continues, plus maturing bank bonds, will contribute further to liquidity needs. To address any sudden and large new liquidity needs, the Bank of Greece remains fully prepared to extend emergency liquidity assistance (ELA) to solvent, fundamentally sound banks. However, to meet these liquidity pressures in a smoother way, while also anticipating the first results of the deleveraging process, the government is requesting Parliament's approval for a new tranche of €30 billion of guarantees for uncovered banks bonds (**structural benchmark** for end-March). This would make them eligible as collateral at the ECB. The total amount should provide for sufficient system liquidity. To prepare for the eventual phase out of government guarantees over the medium-term, more demanding conditions will be attached to the allocation of this tranche. These are expected to include approval on a case-by-case basis by the ECB, conditioned on the adoption by banks of credible medium-term funding plans and subsequent satisfactory implementation.

23. **It was agreed that the time was right to begin planning for the orderly deleveraging and restructuring of the banking system** (MEFP ¶16). Although the size of the Greek banking system compared to that of its economy is lower than in several other European countries, its leverage increased significantly during the years prior to the crisis, and its dependency on Eurosystem refinancing operations ranks among the highest in the Eurozone. The Bank of Greece has asked banks to devise and implement medium-term funding plans, and preliminary drafts will be completed by mid-April. A guiding principle will be the need for consistency with the program's macroeconomic and fiscal framework (to avoid intensification of credit constraints and the sale of assets at depressed prices, which would exacerbate macro, fiscal, and financial sector problems). A top-down program forecast for the banking system has been prepared as a baseline against which to evaluate options and potential feedbacks (Box 2). Each bank will need to examine all options pertaining to the disposal of non-core assets, including for example sales of subsidiaries and/or of pools of assets, or the accelerated run-down of non-core lending portfolios. The Bank of Greece and the ECB, in close cooperation with the EC and IMF, will assess the adequacy of such plans and call for adjustments to keep them in line with the aggregate constraints**.** The speed of this process will ultimately depend on market appetite for Greek banks' assets.





24. **The authorities are taking steps to move the state bank restructuring process forward** (MEFP ¶17). For ATE, due diligence of its loan portfolio has been performed by a reputable international accounting firm. The review, which looked at the loan quality of a significant part of ATE's loan book, including single reviews of 58 of the largest loans, suggests a capital need of €300-400 million (i.e. to bring the bank back in full compliance with Pillar II capital requirements). The exact size of the capital increase will be finalized by end-February 2011, also based on a review by the Bank of Greece. ATE will then proceed with all other necessary steps, including approval by the EC. The government confirmed its intention to meet the bulk of ATE's capital needs by relying on the surplus reserves of the HCLF. To this end, they are on track to unbundle the HCLF's commercial activities by end-March. The 2011–13 privatization plan shows the authorities' commitment to sell state bank holdings, although they intend to approach this cautiously, considering the timing based on evolving market conditions.

25. **Systemic banks remain sound** (MEFP ¶18). The four large private banks are determined to rely on market-based solutions to preserve their soundness, and have taken painful choices to date to do so (including by selling valuable foreign assets, and raising capital through rights issues at prices highly detrimental to existing shareholders).

26. **The FSF retains adequate capacity to provide a safety net for systemic and solvent banks** (MEFP ¶19). In terms of funding, €1½ billion is available in an account at the Bank of Greece, and a further €1 billion will soon be set aside in an intermediate (blocked) account. The amounts now available would provide the capacity to deal with up to a five percent reduction of capital in the banking system. Fully funded, the FSF will have the capacity to deal with up to a one-third reduction in Tier I capital in the banking system, or 3½ percent of risk-weighted assets. The next transfer to the blocked account, in an amount of €1 billion, will be made in the second quarter. With no present projected near-term need by banks (who in any event would first have an opportunity to raise capital on their own); and since the FSF will not be used to support small, non-systemic, non-viable banks, amounts available to it are more than adequate at present. From an operational perspective, if the FSF is called upon to act, the Board is in place and steps are being taken to recruit qualified staff by end-June 2011. Additionally, the FSF has established arrangements for sourcing additional human resources from reputable consultancy firms and the Bank of Greece.

27. **The authorities and staff agreed that supervision capacity had to be strengthened** (MEFP ¶20). Higher staffing can help resolve stresses, but owing to the centralized process for recruiting government employees—which attaches importance to factors other than core qualifications—the Bank of Greece has faced challenges meeting its commitment to be fully staffed in the area of bank supervision by end-March 2011. Full staffing is now expected by end-June.

28. **Supervisory attention to the insurance sector will need to be increased** (MEFP ¶21. The Bank of Greece takeover of insurance supervision became effective in December 2010. The Greek insurance sector represents three percent of financial system assets (€14 billion), and a large part is affiliated with banks or large international insurance companies. The sector continues to exhibit characteristics found in the 2005 FSAP: poor profitability, weak corporate governance, weak risk and asset liability management techniques, and an inadequate regulatory framework. The Bank of Greece's preliminary review of the sector, based on 2009 data, found that the market in total has available capital exceeding the required solvency margin by €390 million. The central bank plans to immediately perform a diagnostic assessment of insurance companies. In addition, it has requested technical assistance from the Fund to help develop a more effective framework for supervisory oversight of the insurance sector, including correcting inadequacies related to the funding structure of the policy protection schemes.

Structural Reforms

29. **The authorities remain focused on putting in place a critical mass of structural reforms to support an investment and export led recovery** (MEFP ¶22, Table 14, Figure 10). Overcoming Greece's legacy of weak market contestability and high administrative burdens necessitates a broad and deep agenda, unprecedented in Europe, covering far-reaching labor market reform, product and service market liberalization, and reforms to encourage entrepreneurship. The authorities recognize that doing the reforms together carries an additional important benefit: by rapidly reducing uncertainty about the future regulatory environment and quickly helping firms improve their costs and competitiveness, a threshold or "critical mass" can be reached. This would help trigger the investment decisions (including FDI) which are crucial to help jump start the recovery.

30. **In the labor market area, collective bargaining reforms have been completed, but more time will be needed to assess their impact** (MEFP ¶23). After consultations with social partners, the authorities decided to allow an opt-out from the automatic extension of collectively agreed wages to non-negotiating parties (rather than eliminate it entirely, as planned). The effectiveness of this reform will thus depend on how rigorously the conditions to access the opt-out are applied in practice. Under the reform, an opinion must be given by the Labor Inspectorate (which gathers representatives of the government, social partners, and local authorities), and consent must be given by sectoral unions in small firms. The authorities committed to full enforcement of current legal requirements affecting the extension and even-handed implementation of the opt-out. They noted that if in practice the reform did not deliver its objective of helping small firms become more competitive, then they would be prepared to amend the legislation. Experience with the opt-out clauses will be monitored during the first half of the year, to make a determination.

31. **The authorities have implemented an ambitious upfront approach to liberalization of the regulated professions** (MEFP ¶24). They have enacted framework legislation to prohibit in general terms restrictions related to quantity, geography, scale, incorporation, prices, number of licenses, and prior conditions for licenses. Since some restrictions may be necessary, non-discriminatory, and the least cost way to handle an economic distortion, the law allows a 4 month period to define exceptions to the general liberalization. A ministerial decree will be published to list professions affected to ensure that Ministries do undertake this work and reflect the liberalization principles in future legislative acts. Oversight by the Council of State and the requirement for an economic rationale to restore any restrictions is meant to control the risk that the reform delivers too little. Still there remains a margin of uncertainty, since courts in general could uphold the previous specific legislation, and the authorities may thus need to follow up with specific legislation in the various sectors. The law itself already does this for the so-called closed professions (lawyers, notaries, engineers, architects, and auditors). A separate health care law covers pharmacists. Completing this reform can have an important macro impact. Staff estimates based on input-output analysis suggests that every 10-percent reduction in the costs of business services

achieved through this liberalization initiative could translate into a ½ percent reduction in overall prices.

32. **Further industry specific liberalization initiatives are in the planning phase**. (MEFP ¶25). Studies of the tourism and retail trade sectors, which together represent about 20 percent of Greek gross value added, have revealed problems of insufficient scale and over-regulation, among others. With the diagnostic phase largely complete, the work is now focused on articulating a time bound action plan to address problems not already tackled by the program's extensive agenda. In addition, the authorities are working toward liberalization of the energy sector, with a view to improve the quality of the service, attract new investments, and reduce prices for consumers. The reform package, being developed with EC assistance, is complex and comprehensive, covering generation, wholesale and retail distribution, and comes in the context of the ongoing energy sector liberalization effort across European countries. Experience suggests that achieving a fully competitive electricity market will take time. Some transitory upward drift in final prices could be observed as previously regulated prices gradually become cost reflective. As long as it is accompanied by more efficient energy consumption, the final energy bill for final consumers need not increase.

33. **Concerning business environment reforms, the authorities are balancing continued legislative drive against follow-up implementation work** (MEFP ¶26):

- The authorities noted their impressive track record of **legislation** in this area, covering one-stop shops, fast-track procedures for large investments. The discussions helped finalize draft laws, soon to be passed, that will simplify licensing procedures and strengthen the competition authority. In the period ahead, several key initiatives will be undertaken: (i) the establishment of a single public procurement authority (by March) (to improve transparency, combat corruption in public tenders and improve the cost-effectiveness of services); (ii) reform of the labor inspectorate (to help fight the informal economy); and (iii) reduction of the administrative burden on exports (by September). The latter reform can contribute directly to rebalancing the Greek economy, and the data suggest ample room for improvement: it takes Greek companies, many of which are small and not well-positioned to bear higher costs, 20 days, 6 documents and $1,153 per container to export, against EU (best-3) averages of 6 days, 4 documents, and $934. As part of this initiative, it will also be important to review VAT refund procedures to ensure that export refunds are paid on time. Overall, these are important steps that will make it easier to start and operate a business (Box 3).

- The authorities acknowledged that in some instances **implementation of the reforms** is lagging. Delays have been evident in the set up of one-stop shops and fast track investment procedures, largely reflecting limited administrative capacity. With the new licensing law also requiring a good deal of back-end implementation work, it was agreed that it would be critical to solve the problem. Actions were identified and deadlines defined to address particular issues slowing implementation in each case.

The authorities also indicated that they intend to exercise greater oversight of the work, including by undertaking a mid-year status review.

IV. Program Modalities

34. **The program continues to meet key targets** (Letter of Intent and MEFP Tables 1–2). All end-December performance criteria were met, as well as the continuous PC on external arrears. However, despite a substantial reduction of state budget arrears late in 2010, the indicative target on government spending arrears was again missed owing to persistent problems in subnational entities. The implementation record regarding structural benchmarks was mixed: a privatization plan was prepared, and an actuarial study of the impact of recent pension reforms on the main pension funds was completed. However, other benchmarks were partially met: collective bargaining legislation allowed for firm level opt out from sectoral wage agreements, but left ambiguous to what extent conditions would be applied; a report on general government employment and compensation was published with delay and its coverage fell short of earlier aims; and new statistical regulations have been specified, but not yet approved by the ELSTAT Board. There are two prior actions for the review that have been met: tabling of legislation in parliament to strengthen the tax administration (passage of the legislation is a benchmark, and passage should be achieved with a small delay, by mid-March); and passage of legislation concerning liberalization of the regulated professions.

35. **Program monitoring for 2011 has been updated**:

- **Quantitative performance criteria** are proposed for September 2011 and December 2011 (these convert existing indicative targets, with a small modification to the end-September general government cash deficit ceiling) (MEFP Table 1). The schedule for broadening the definition of the program fiscal cash balance target has been maintained. Time is needed to assess whether fiscal reporting reforms gain traction.

- Several new **structural benchmarks** are proposed in support of program objectives (MEFP Table 2). The adoption of a new tranche of government guarantees for uncovered bank bonds (MEFP ¶15) will be instrumental to securing banking system liquidity. Submission of medium-term funding plans by banks to the Bank of Greece (MEFP ¶16) will help balance the deleveraging of the banking system against growth and fiscal financing constraints. A strategic plan for revenue administration reform (MEFP ¶10) is crucial for the fight against tax evasion, which in turn is a key underpinning to fiscal consolidation. Improvements in fiscal reporting (MEFP ¶10) will support stronger monitoring and control of the implementation of the fiscal consolidation program. Reforms to the general government personnel system (MEFP ¶8) will directly contribute to medium-term fiscal adjustment. Finally, a revised and more comprehensive privatization plan (MEFP ¶12) will help deliver direct reductions in Greece's high public debt.

36. **Financing needs and repayment capacity remain as previously evaluated** (Tables 15–17). The program can continue to fully cover government financing needs through early 2012. Risks to a successful return to the bond market are clearly higher at present, but prospects should improve as strong program implementation helps the authorities build a track record. As assessed before, under the current SBA arrangement, Greece's capacity to repay the Fund will critically depend on successful post-program market re-access. In this regard, a potential extension of EU loans, now under discussion, and possible approval of an extended arrangement by the Fund (upon cancellation of the SBA), would significantly improve repayment capacity. As an illustration, the peak debt-service to export ratio in 2013–15 would decline from 17 percent to 12.6 percent.

37. **There remain substantial risks to the program.** These have been well enumerated in program documentation to date. At present, the most notable risks include:

- *Delays in implementing needed fiscal-institutional and structural reforms*. This could be due to either political constraints or administrative capacity constraints. Fiscal structural delays could leave the deficit stuck at an unsustainable level, while macro-structural delays could undermine the recovery. A tailored DSA scenario (Appendix I), capturing the possible macro impacts of delays, suggests that debt could be brought under control, albeit at a significantly higher level, provided financing could be sustained. Clearly, however, delays would be likely to also undermine the authorities' efforts to regain market access. The tight implementation schedule supported by the program, and extensive technical assistance from both the Fund and EC, are critical to mitigating this risk.

- *Inability of the government to re-access markets even with the program on track*. Continuing problems in the euro-area periphery could lead to such an outcome, but it may also prove difficult to convince markets to reengage before the economy and debt dynamics have turned the corner. A successful conclusion to the present discussions in Europe about a more permanent crisis management framework would help mitigate this risk: Greece could benefit considerably from a comprehensive European solution and the improvements in overall financial market climate this could bring. A shift to an EFF and to similar (or better) terms by European Union countries, would also help, by allowing a more gradual return to the markets.

- *An excessively fast bank deleveraging process*. Too fast a pace would almost certainly have negative macroeconomic and fiscal repercussions, and could through these channels also undermine the banking system. The constraints placed on the aggregate of the plans—consistency with the program's macro and fiscal framework—should help mitigate this risk.

V. Staff Appraisal

38. **The program has made further strides towards its objectives.** Output remains close to the targeted path, underlying inflation remains low, and unit labor costs are beginning to fall. Policies continue to be prepared and legislated broadly as planned, although implementation has lagged in a few instances.

39. **The government has successfully completed a first phase of adjustment.** This was necessarily focused on stabilization, and undertaken amidst a very unfavorable and rapidly deteriorating external environment. The reduction in the general government fiscal deficit from 15½ to 9½ percent of GDP in 2010 required measures of about 8 percent of GDP, because of the headwinds from a weakening economy. Through socially difficult wage and pension cuts, tax increases, and deep spending cuts, the government achieved the extraordinarily ambitious stabilization goals that it had set for itself for 2010. By any international comparison, the government's achievements last year were very impressive.

40. **The program is now entering a second phase, which will require much greater emphasis on structural reforms.** Developments during 2010 point to what the government should aim at as the main priority. While the overall fiscal target was met, this happened because the government under executed the state budget in order to offset revenue shortfalls and overspending at local levels. These in turn reflected weak tax administration and problems in controlling spending, leading to a build up of budgetary arrears. Thus, in some ways the fiscal consolidation began already last year to run ahead of underlying structural and institutional changes.

41. **To put the fiscal adjustment on a firmer foundation, the government is rightly giving priority to developing its medium-term budget strategy.** The strategy will need to focus on comprehensive and far reaching policy reforms covering virtually every area of the public sector. Specific measures should be carefully designed to ensure a fair adjustment burden, and to limit impacts on growth. The process has started with delays, in part because the reforms are technically complex, but also because they touch on sensitive social and political issues. The government rightly plans on having a dialogue with social partners as a critical element of the design and implementation of these reforms.

42. **The aim should be to begin implementing medium-term policy reforms during the second half of 2011.** Staff believes that doing so is critical to the sustainability of the program. Technical work to design public personnel policy reforms, tax reforms, and reforms to better target social spending should be completed by the middle of the year. Implementation should begin immediately, both to support achievement of the 2011 fiscal target—there is no room to continue to eliminate a projected shortfall by again under executing the budget —and to support the planned 2012 adjustment. To make these reforms effective the government must in parallel continue to make progress with combating tax evasion and tightening its control over spending. The government will have to show determination in the face of what undoubtedly will be strong resistance from vested interests.

In this regard, the resolve with which the government is now pushing ahead with much needed reforms in the health sector is encouraging.

43. **The staff welcomes the government's commitment to notably scale up its privatization program, and more generally to realize better returns from its extensive portfolio of assets**. More efficient use of state assets will promote growth and employment, reduce the need for even deeper budgetary cutbacks, and as a bonus can play an important role in helping Greece to retire maturing debt, thereby limiting financing requirements. To help define a phased action plan, the government should complete the first stage of a comprehensive inventory of government real estate assets by mid-year.

44. **Progress with structural reforms more broadly must be deepened to support the economic recovery.** Much has been achieved already; not least the reform of the labor market and more recently the legislation to open up regulated professions. However, there have also been some delays in making operational already legislated reforms, and these delays need to be overcome. Work to address remaining key reforms, including cutting administrative barriers to exports, and strengthening public procurement procedures, must also be advanced. Overall the reform effort is still well away from the critical mass needed to secure a gradual economic recovery beginning in 2012

45. **In the financial sector, time must be provided to allow the banks to deleverage and restructure in an orderly fashion.** The banking system needs to extricate itself from the exceptional liquidity support being provided by the Eurosystem. This will take time, since the fragile macroeconomic and fiscal situation cannot bear the additional impact that accelerated deleveraging would have. It will be crucial for the Bank of Greece and ECB to heed macro-fiscal constraints in approving banks' medium-term funding plans. The Financial Stability Fund should be available to provide support to solvent systemic banks, if needed. Problems in smaller non-viable banks should not be allowed to consume FSF resources.

46. **Financial supervision should be strengthened.** The capacity of the supervisors to track emerging issues urgently needs to be upgraded, and restrictive personnel rules holding up recruitment of additional staff must be overcome.

47. **In conclusion, the program is slowly gaining traction, but more work is needed to deliver the necessary critical mass of reforms.** The program remains at a crossroads. The authorities need to achieve a shift from stabilization of the fiscal and financial sectors, to a full set of structural reforms that set the stage for higher growth and strong job expansion. The policies to affect such a shift have been identified and are being designed, and can be implemented within 2011. They will be a key subject for future reviews. Staff supports the completion of the 3rd review.

Box 1. What Explains the 8 percent of GDP Fiscal Gap for 2012–14?

The present fiscal gap is considerably larger than the gap estimated at the time of program approval. At the time of approval, yet to be specified measures amounted to 1¾ percent of GDP through 2013 (expected to come from revenue administration reforms). The reasons for the larger gap can be attributed to several factors:

What explains the 8 percent of GDP fiscal gap? 1/
(in percent of GDP)

Fiscal gap (Third review)	8.0
Fiscal gap (May program)	1.7
Difference	6.3
of which:	
Inclusion of 2014	2.5
Economic factors	1.0
Measures	2.8
of which:	
Lower yields or advanced measures	2.3
Expiration after 2013	0.5
Changes in fiscal baseline	0.0

1/ Assumes investment spending is reduced with reduced EU inflows over time.

- *Inclusion of 2014.* The extra adjustment to reduce the deficit below the 3 percent of GDP Maastricht criterion adds 2½ percent of GDP in measures.

- *Economic factors.* The economy is rebalancing faster than projected in May, with wages dropping, weighing negatively on wage related taxes (1 percent of GDP).

- *Other changes in the fiscal baseline.* The gains from the pension reform broadly offset the increase in interest payments following the upward revision of debt.

- *Measures*. For some measures the estimated yield has fallen, other measures have dropped out (having been advanced to the 2011 budget to help close the larger gap due to the upward statistical revision of the 2009 starting deficit), and others will expire at end-2013. Among remaining measures, most overlap with the areas the authorities have targeted for identifying new measures. To simplify presentation they have been excluded. (total 2¾ percent of GDP).

For purposes of precise comparison, under the measurement norms used at the time of the 2nd Review, the gap would now be calculated as 5¾ percent of GDP. That is, if one were to continue to capture measures defined in the original program, and to make the previous assumptions about tax administration gains.

Box 2. Greece: Banking System Deleveraging

Since the sovereign debt crisis in Greece unfolded in 2010, domestic banks have faced increasing funding pressures. To ensure consistency between Greek banks' medium-term deleveraging plans and the program's macroeconomic framework, staff projected credit demand and the likely evolution of bank balance sheets over the medium term (Table 18). The key assumptions underlying this analysis include:

Liability side

- Deposit/GDP ratios fall back to about their pre-2008 levels in mid-2012, before they start rising again as the economy recovers and external adjustment proceeds;
- Banks' access to the wholesale funding market remains very limited until the sovereign successfully returns to the market.
- Banks aim to increase capital and loan loss provisions, beginning in line with recent trends and gradually stabilizing towards the end of 2012;

Asset side

- Total domestic private sector credit is estimated based on projected GDP, house prices, and long-term interest rates. Consumer loans are reduced faster than the stock of corporate and housing loans, which have a longer average maturity
- Net issuance of domestic public debt is fully absorbed by the domestic banking system;
- Banks shrink their net claims on foreign financial institutions, however, there are limits connected to maturities and commitments towards foreign subsidiaries, e.g. in the context of the Bank Coordination Initiative;
- Banks reduce foreign non-financial corporate credit exposures faster than domestic exposures.

Preliminary results project a contraction of credit demand in the coming two years on a similar scale as economic activity, albeit with about a one year lag. This is broadly consistent with the empirical evidence from international episodes of financial system distress,[1] which suggests that real bank credit falls markedly in the first three years after a crisis, even after real output begins to recover (Hoggard and Reidhill, 2003).

The overall results suggest that deleveraging will be a medium-term process. Deposits will likely contract until the economy stabilizes, and banks will remain dependent on exceptional liquidity support until market access is reestablished. The time frame is consistent with global experience: a study by McKinsey (2010) finds that deleveraging episodes last on average 6-7 years and reduce the ratio of credit to GDP by 25 percent.

References:
Hoggard, G. and J. Reidhill (2003), Resolution of banking crises: a review, in: Financial Stability Review: December 2003, pp. 109-123.
McKinsey Global Institute (2010), Debt and deleveraging: The global credit bubble and its economic consequences, McKinsey & Company, London and Washington, DC.

[1] Credit data needs to be interpreted with caution during crises, as it includes write-offs of bad loans; capitalization of interest payments; revaluation adjustments of foreign currency loans; and possibly transfers of impaired loans to special institutions outside the banking system.

Box 3. Impact Assessment of Business Environment Reforms

One way to assess the potential impact of business environment reforms is to look at the World Bank's Doing Business Index. This is composed of several blocks, including: starting a business; dealing with licenses; trading across borders; getting credit, protecting investors; paying taxes; enforcing contracts; and closing a business:

- **Business start ups.** This is a composite indicator consisting of: (i) the number of procedures required; (ii) the number of days required; (iii) the minimum required company capital; and (iv) the total cost for a start-up (including payments to lawyers and notaries). Greece's new legislation reduces the necessary steps from 15 to 4, the number of days from 21 to 7, and the estimated total cost from €4,134 to €1,416. These changes, when fully implemented, would bring Greece from position 140 to position 43 in the starting a business indicator ranking (all else equal).

- **Business licensing.** The reform should place Greece in the EU average in terms of ease of licensing, reducing the number of days and procedures in dealing with licenses from the current 169 to 119 days and from 15 procedures to 11 procedures. These changes, when fully implemented, would improve Greece's position in the licensing ranking from 52nd to 18th (all else equal).

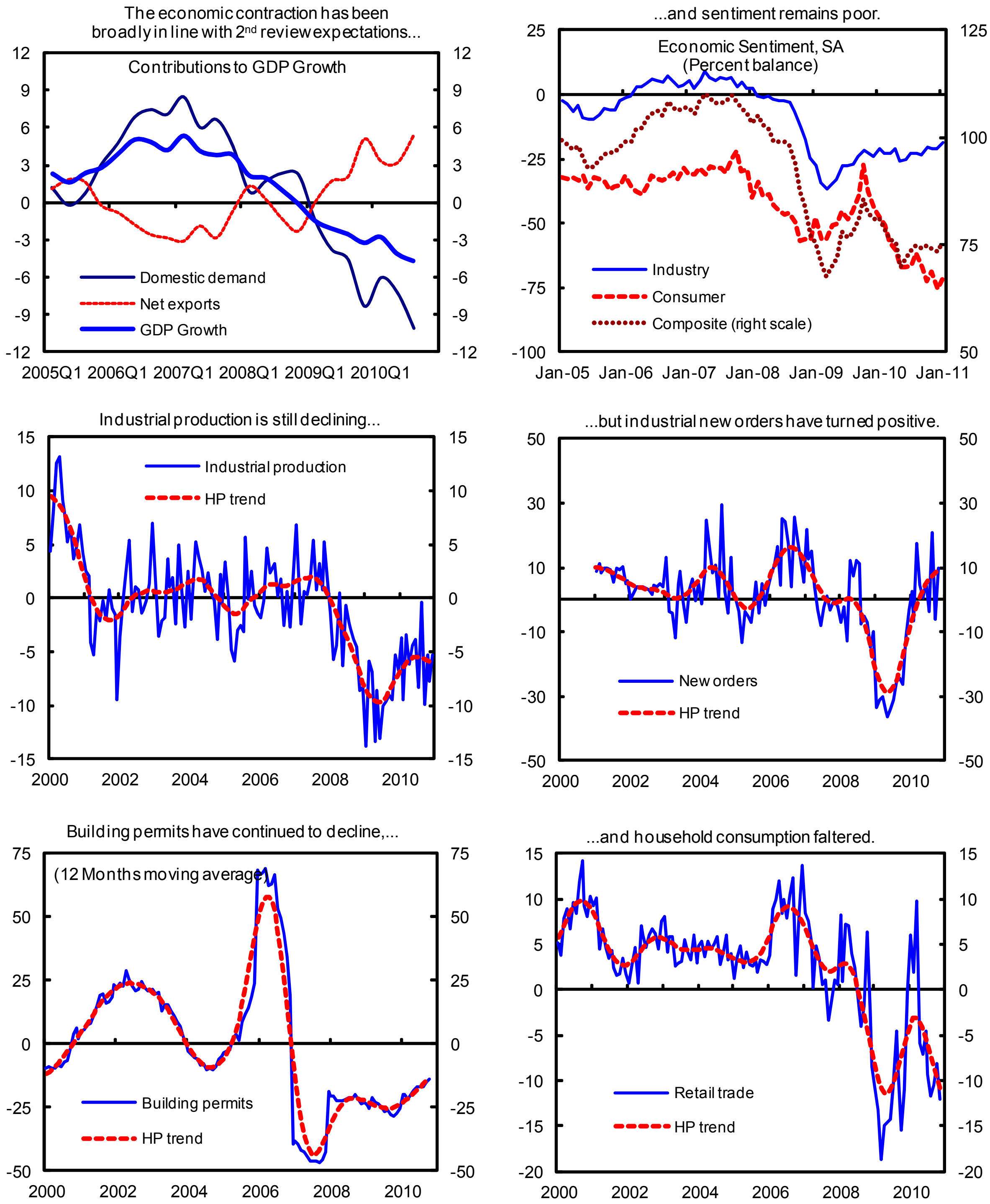
- **Trade**. Reducing administrative barriers to exports to align Greece with best practices, could improve Greece's position in the trading across borders ranking from 83rd to 44th (all else equal).

- **Other categories**. The recently introduced tax administration reforms will simplify paying taxes. Legislation has also been passed to eliminate a significant gap in Greece's current insolvency framework (covering procedures to allow over-indebted natural persons to repay debts and obtain relief where necessary). These changes will have additional to-be-assessed effects.

The reforms to date should significantly improve Greece's ranking in the Doing Business Index (all else equal). The combined effect of business start up and licensing reforms, both nearing completion, would be to move Greece from 109th to 85th place in the rankings, and once the administrative barriers to exports are lowered, the ranking could further improve to 79th.

Figure 1. Greece: Selected Economic Indicators, 2005–10

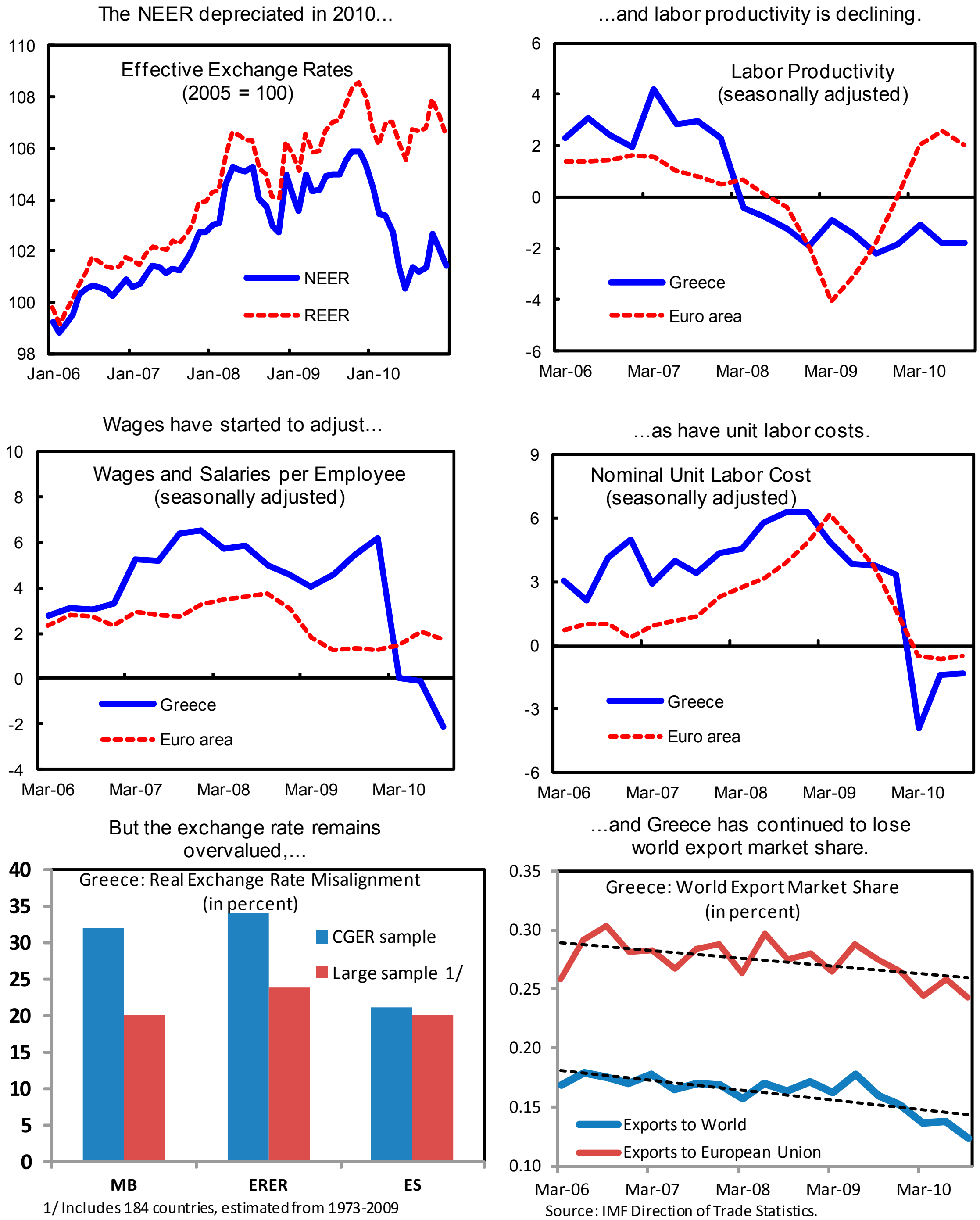
(Year-on-year percent change, unless otherwise indicated)



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

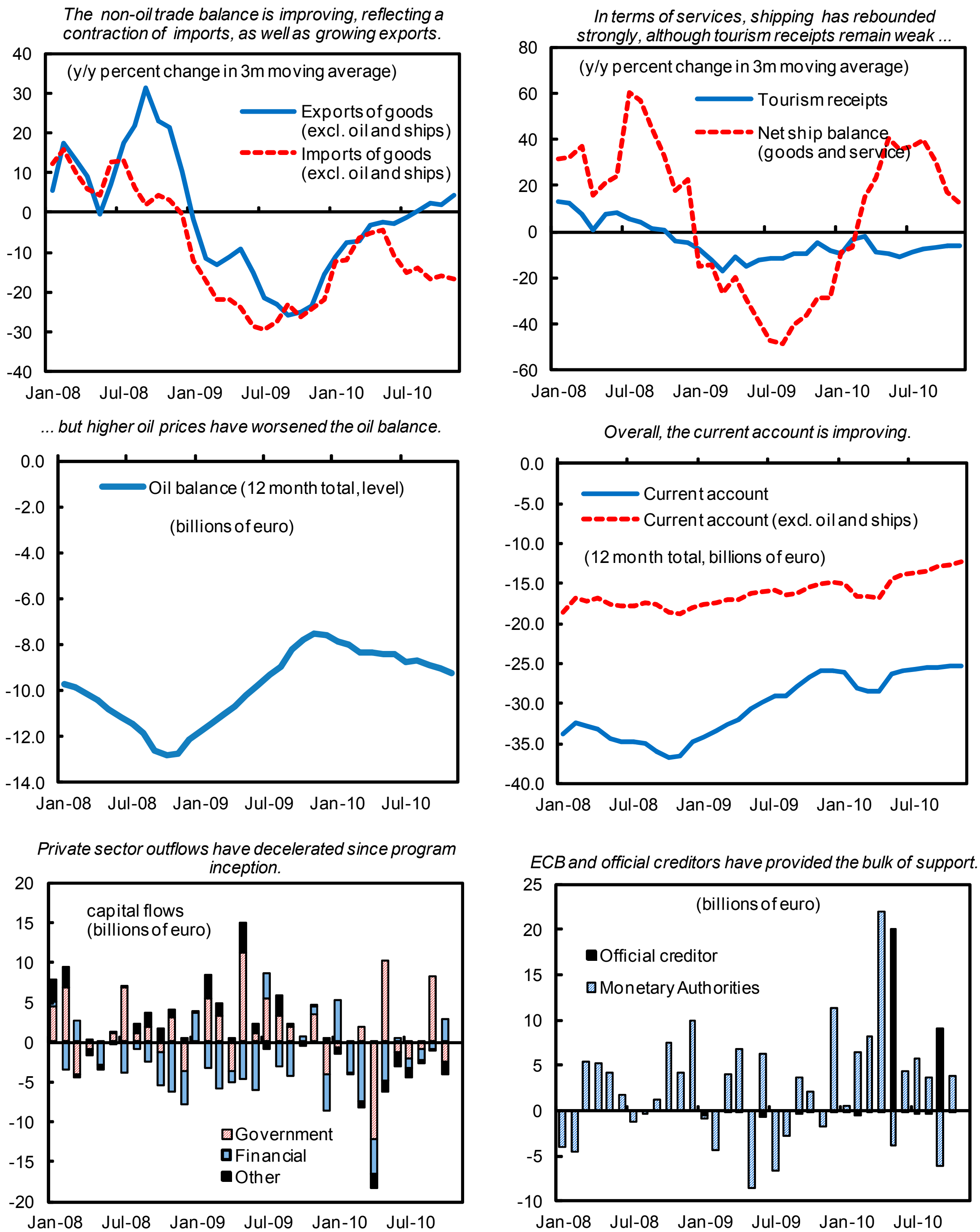
Figure 2. Greece: Competitiveness Indicators, 2006–10

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



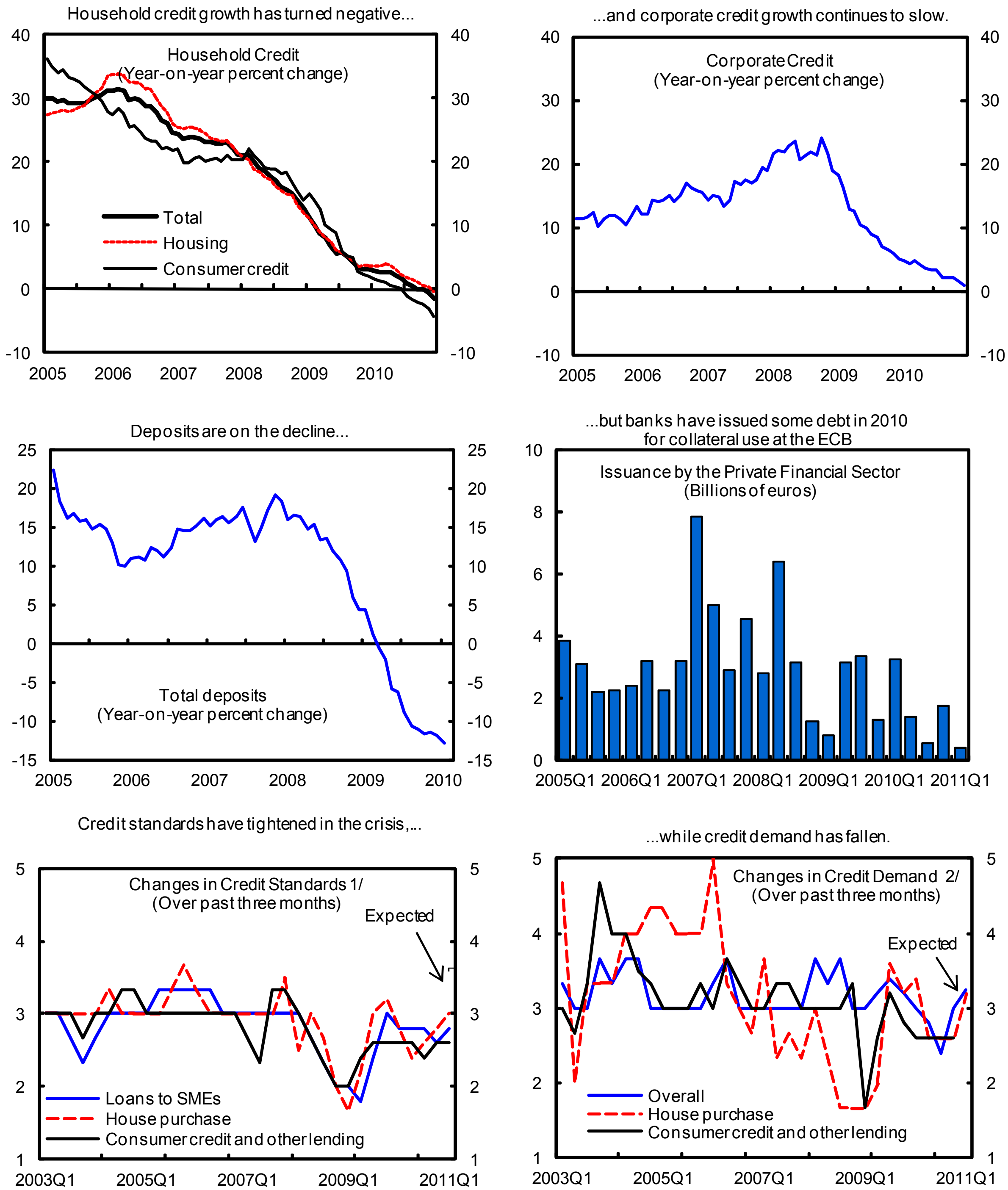
Sources: Eurostat; World Economic Forum; and IMF staff calculations.
1/ Includes 184 countries, estimated for 1973-2009.
2/ MB = Macrobalance approach; ERER = Equilibrium Real Exchange Rate approach;
ES = External Sustainability approach.

Figure 3. Greece: Balance of Payments



Sources: Bank of Greece; and IMF staff calculations.

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

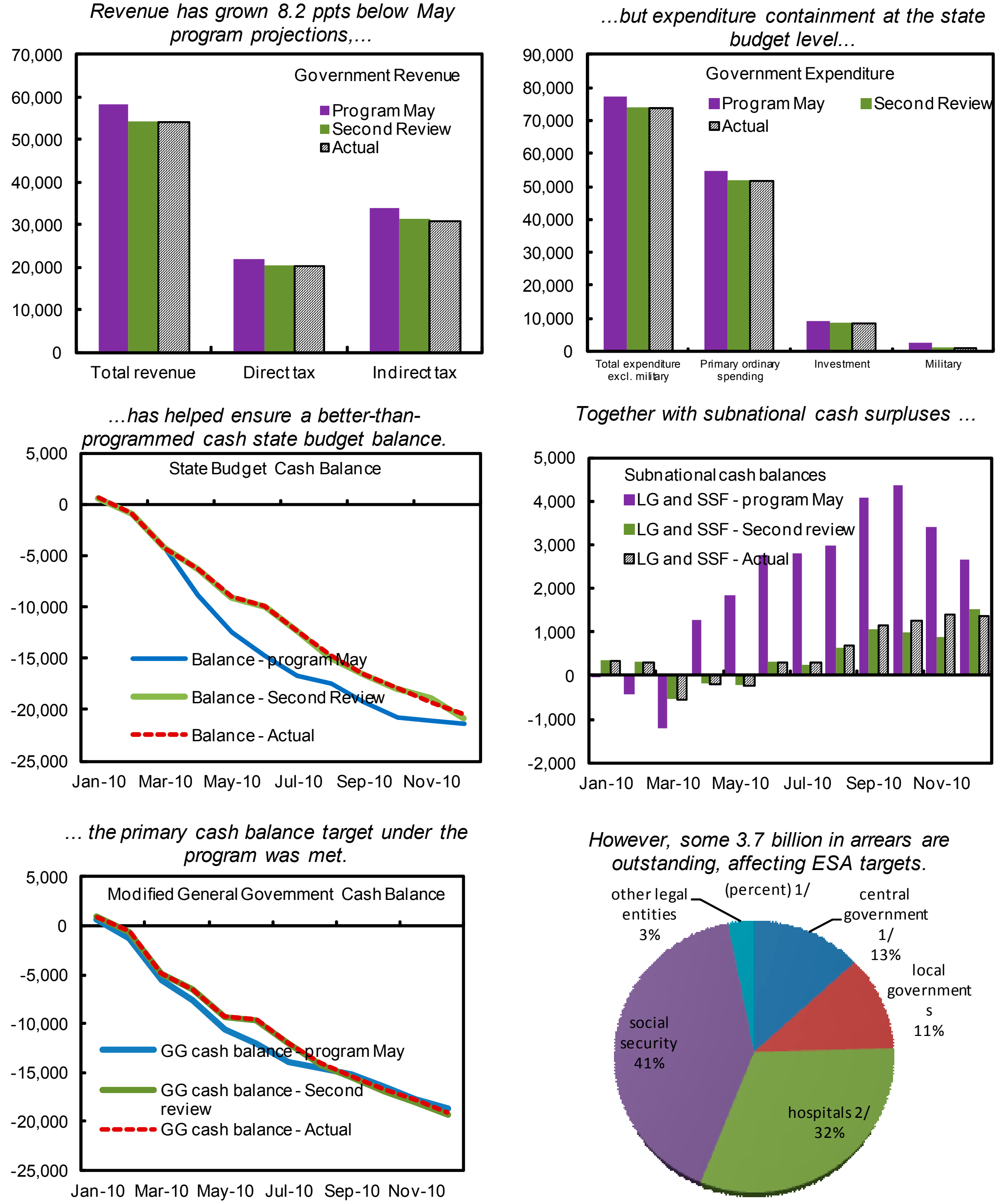


Sources: National Statistical Service; Bank of Greece; Bloomberg; ECB; and IMF staff calculations.

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

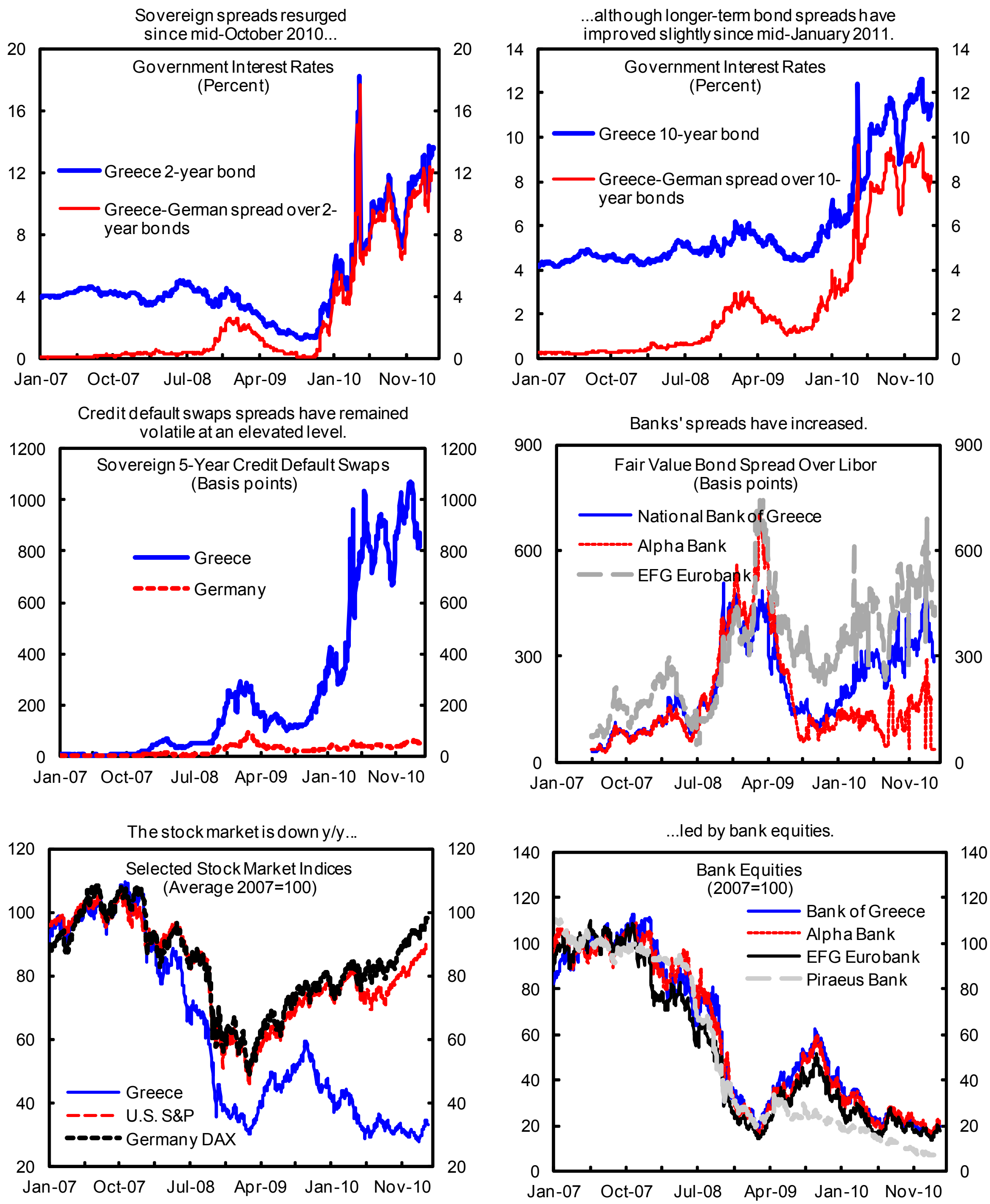
2/ 1= decreased considerably; 2= decreased somewhat; 3=remain unchanged; 4=increased somewhat;
5= increased considerably

Figure 5. Greece: Budget Execution, up to end-2010



Sources: National authorities; and IMF staff calculations.
1/ Survey results. Data for central government refer to end-December; other data are end-November. 2/ Hospital arrears exclude the stock of 5.3 billion of arrears to suppliers known at end-2009 currently being settled. It includes 0.3 billion of arrears on lump sum payments to civil servant pensioners related to 2009 and 0.4 billion related to 2010.

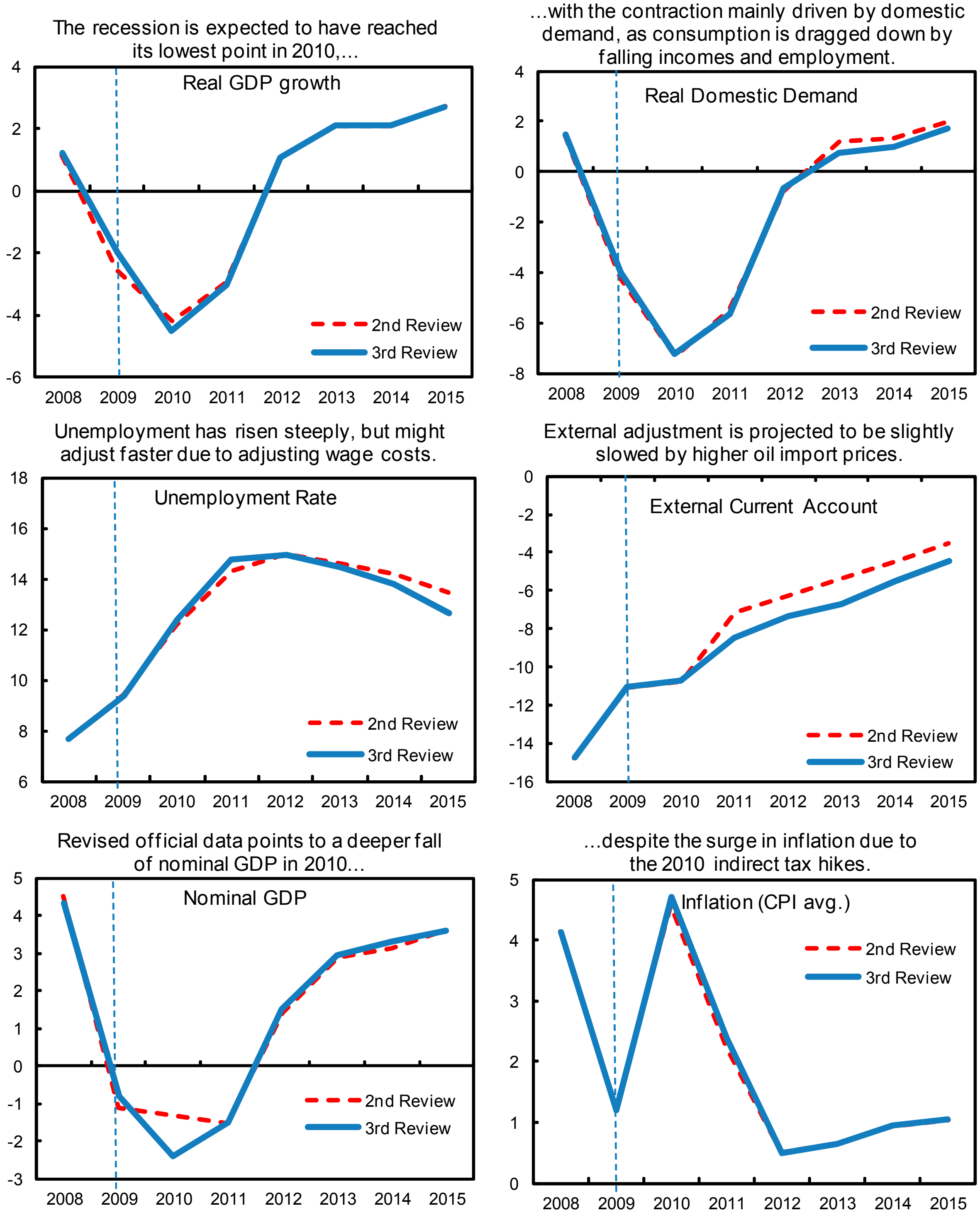
Figure 6. Greece: Financial Indicators, 2007—10



Sources: Bloomberg; and Moody's Creditedge.

Figure 7. Greece: Revised Macro Projections

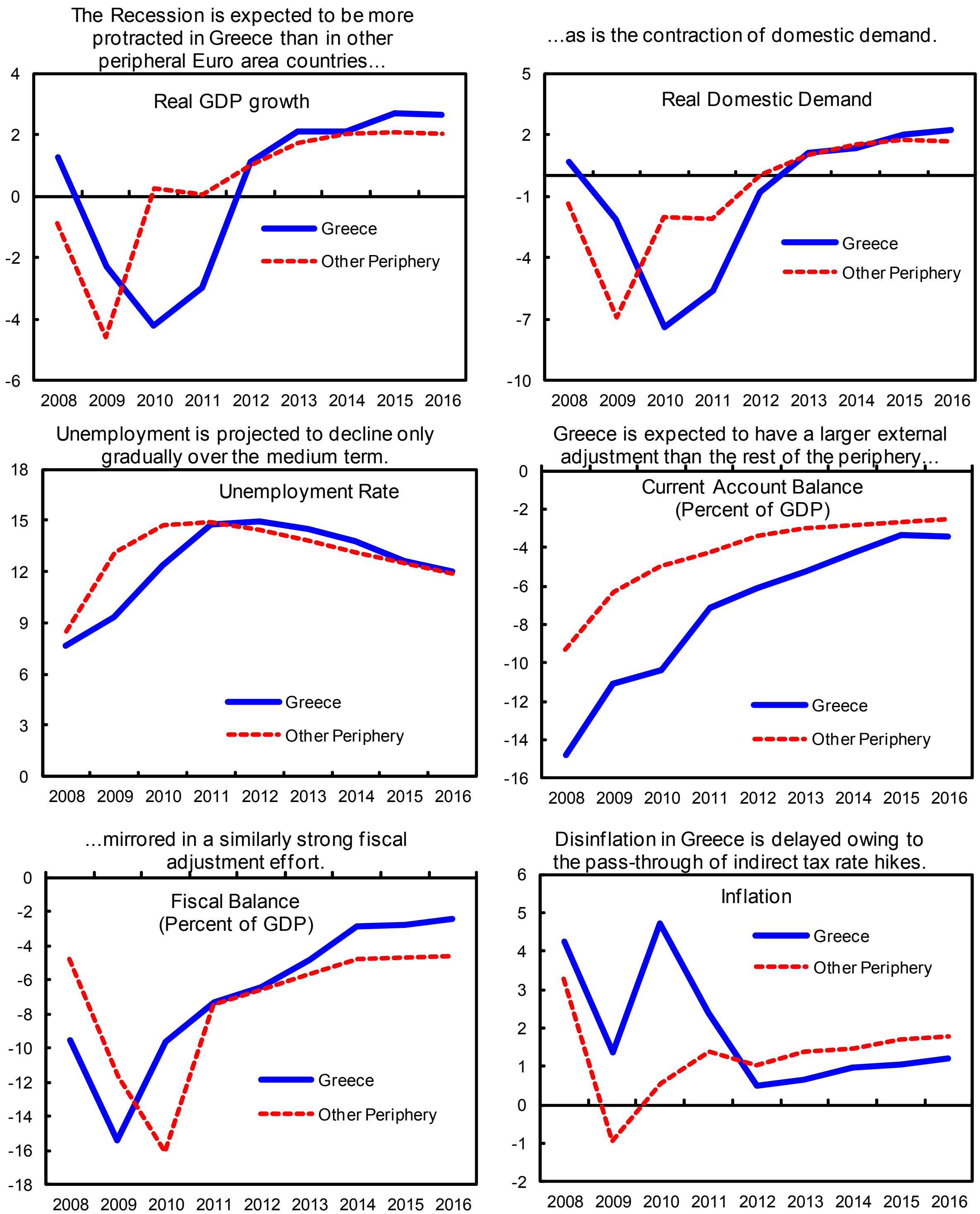
(Year-on-year percent change)



Sources: National authorities; and IMF staff projections.

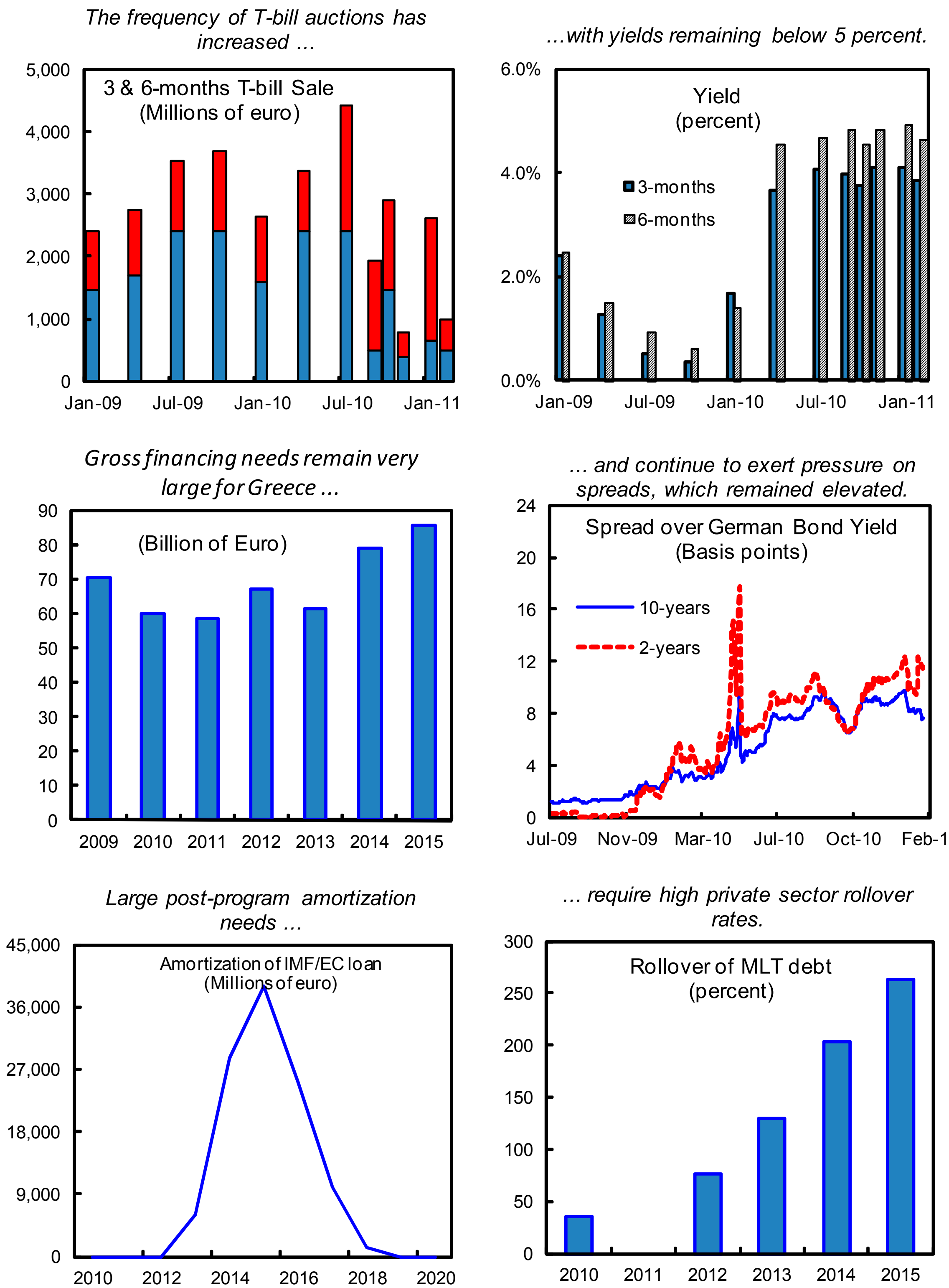
Figure 8. Greece: Macroprojections—International Comparison

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



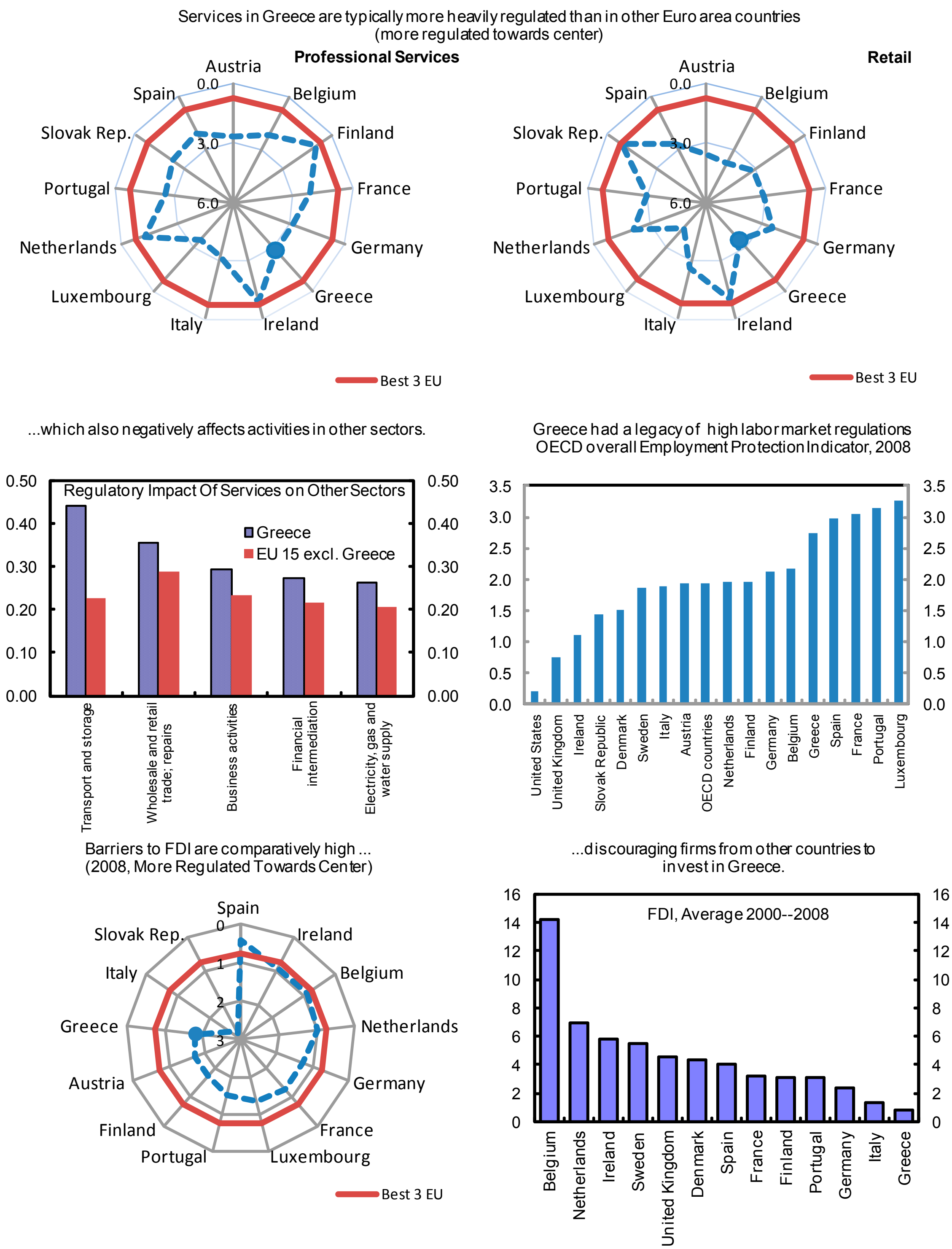
Sources: National authorities; and IMF staff projections.
1/ Starting 2010 data are projections.

Figure 9. Greece: Fiscal Financing Challenges



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

Figure 10. Greece: Structural Reform Challenges



Sources: OECD, Eurostat, and Ameco.

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

	2006	2007	2008	2009	2010	2010	2011
					Prog.	Act.	Proj.
	(Percentage change, unless otherwise indicated)						
Domestic economy							
Real GDP 1/	5.2	4.3	1.0	-2.0	-4.2	-4.5	-3.0
Output gap (percent of pot. output)	4.6	7.2	7.2	3.7	-1.3	-0.3	-3.1
Total domestic demand	5.9	5.7	1.5	-4.2	-7.3	-6.9	-5.6
Private consumption	5.6	3.1	3.2	-1.8	-4.1	-4.1	-4.6
Public consumption	1.3	9.2	1.0	7.6	-9.0	-9.0	-8.5
Gross fixed capital formation	10.6	5.4	-7.6	-11.4	-18.8	-17.4	-7.5
Change in stocks (contribution)	0.4	0.8	1.1	-2.4	0.1	0.3	0.1
Foreign balance (contribution)	-1.8	-1.2	0.9	2.2	4.0	3.9	3.1
Exports of goods and services	5.3	5.8	4.0	-20.1	0.9	0.6	6.3
Imports of goods and services	9.7	9.8	4.0	-18.6	-12.0	-12.0	-6.0
Unemployment rate (percent) 2/	8.9	8.3	7.7	9.4	12.2	12.4	14.8
Employment 2/	1.9	1.2	1.1	-1.0	-2.8	-2.5	-2.5
Hourly wage (manufacturing)	2.1	3.4	2.4	5.3	0.5	-1.0	…
Consumer prices (HICP), end of period	3.2	3.9	2.2	2.6	4.4	5.2	1.2
Consumer prices (HICP), period average	3.3	3.0	4.2	1.3	4.6	4.7	2.4
Core prices, period average 2/	2.4	3.1	3.1	2.3	3.2	2.2	...
GDP deflator	3.1	3.1	3.3	1.3	3.0	2.3	1.6
	(Percent of GDP)						
Balance of payments							
Current account	-11.2	-14.4	-14.7	-11.0	-10.4	-10.5	-8.2
Trade balance	-9.4	-11.0	-11.4	-7.7	-7.0	-6.6	-3.9
Export of goods and services	21.1	21.5	22.7	18.0	19.4	19.9	22.1
Imports of goods and services	30.5	32.5	34.1	25.7	26.4	26.5	26.0
Total transfers	1.6	0.7	1.2	0.6	0.3	0.1	0.5
Net income receipts	-3.4	-4.1	-4.5	-3.8	-3.8	-4.0	-4.8
Net international investment position	-84.3	-94.4	-75.6	-86.6	-97.7	-98.2	-106
Public finances (general government)							
Total revenues	39.0	39.8	39.7	37.8	39.8	40.4	42.3
Total expenditures	45.2	46.5	49.2	53.2	49.4	50.0	50.6
Primary expenditures	40.5	41.8	44.2	47.9	43.1	43.5	44.0
Measures (unidentified)	…	…	…	…	…	…	0.8
Overall balance	-6.1	-6.7	-9.5	-15.4	-9.6	-9.6	-7.5
Primary balance	-1.5	-1.9	-4.5	-10.1	-3.3	-3.2	-0.9
Gross debt	106	105	110	127	141	143	153
Interest rates and credit							
Lending rate 3/	6.3	7.0	7.4	5.7	6.2	8.2	...
Private credit growth 4/	21.1	21.5	15.9	4.1	1.4	-0.2	...
Exchange rates							
Nominal effective exchange rate	1.8	1.9	2.1	0.4	-3.6	-3.8	...
Real effective exchange rate (CPI-based)	2.4	2.1	2.2	1.6	-0.4	-1.3	...
Real effective exchange rate (man. ULC-based)	5.0	-0.7	-1.7	4.2	-1.6	-1.1	...
Memorandum item:							
Nominal GDP (billions of euros) 1/	211	227	237	235	230	229	226
Nominal GDP (percentage change)	8.5	7.5	4.3	-0.8	-1.3	-2.4	-1.5

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

1/ Historical headline GDP series revised to align national accounts data with November EDP notification, according to February 15, 2011 ElStat press release. No detailed information on expenditure components available at this time.
2/ Core prices exclude energy, food, alcohol, and tobacco (Eurostat).
3/ Loans to corporations, up to 1 year. 2010 as of November.
4/ Domestic credit growth of households and enterprises.

Table 2. Greece: Monetary Survey

	2006	2007	2008	2009				2010			
				Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10
				(in billions of euro)							
Aggregated Balance Sheet of Monetary Financial Institutions (MFIs)											
Total assets	356.5	434.6	536.1	554.9	581.5	558.4	579.2	603.9	677.8	662.0	653.4
Cash (held by credit institutions)	2.6	2.7	2.7	2.1	2.3	2.1	2.5	2.3	2.2	2.1	2.1
Claims on Bank of Greece	4.6	7.2	7.9	4.3	12.9	4.2	8.2	4.7	10.1	9.1	10.6
Claims on other MFIs	51.3	76.8	130.3	146.7	159.1	146.3	163.2	187.7	211.4	199.0	186.6
Claims (Loans) on non MFIs	182.2	213.7	234.6	226.2	221.8	219.3	222.7	224.3	289.3	286.6	288.2
Domestic	177.4	205.6	222.0	213.0	208.5	206.3	209.7	210.5	282.3	279.8	281.7
General government	20.5	21.8	21.6	15.4	14.7	14.9	16.5	17.7	20.3	19.9	26.2
Other sectors 1/	156.9	183.7	200.4	197.6	193.8	191.3	193.2	192.8	261.9	259.9	255.5
Other countries	4.8	8.2	12.6	13.3	13.3	13.0	13.0	13.8	7.0	6.8	6.5
Securities 2/	73.5	83.6	95.9	112.8	123.1	121.1	116.0	116.2	99.1	99.1	100.0
Other assets	36.7	45.3	59.5	57.5	57.0	60.0	61.2	64.0	60.9	61.2	60.9
Fixed assets	5.6	5.2	5.2	5.3	5.3	5.3	5.4	4.6	4.9	4.9	5.0
Total Liabilities	356.5	434.6	536.1	554.9	581.5	558.4	579.2	603.9	677.8	662.0	653.4
Liabilities to Bank of Greece	4.9	8.8	40.6	48.1	54.0	38.0	49.7	67.1	94.3	94.5	97.8
Liabilities to other MFIs	57.9	88.0	121.9	126.5	146.2	134.7	149.4	159.5	170.9	171.5	165.3
Deposits and repos of non MFIs	212.8	249.7	281.7	292.4	287.9	288.6	280.1	273.6	295.5	290.9	280.6
Domestic	181.8	206.1	237.4	253.7	253.7	253.2	246.7	240.4	230.9	230.8	224.4
Other countries	31.0	43.6	44.3	38.7	34.2	35.4	33.4	33.2	64.6	60.1	56.2
Capital and reserves	26.3	30.6	30.0	31.3	36.9	40.3	41.6	42.5	42.7	44.4	46.7
Banknotes and coins in circulation	16.0	16.9	19.0	20.1	20.5	20.6	21.6	21.4	21.8	21.8	22.5
Other liabilities	38.7	40.5	42.8	36.7	35.9	36.2	36.7	39.9	52.7	39.0	40.5
Money and credit											
Broad money	193.6	219.9	251.4	253.8	262.0	262.1	261.1	248.2	240.0	236.2	232.9
Credit to the private sector 3/	179.2	215.1	249.3	249.6	249.3	251.5	253.0	254.4	263.4	261.4	256.8
Credit to government 3/	35.7	31.5	36.7	48.0	50.8	44.9	46.9	53.6	53.8	57.0	63.0
				(annual percent change)							
Broad money 4/	11.5	13.8	12.4	10.2	9.3	6.6	4.1	-2.2	-9.4	-10.4	-11.2
Domestic deposits 5/	9.1	13.4	15.2	19.4	15.5	10.6	3.9	1.2	-6.3	-11.0	-11.7
Credit to the private sector 5/	19.7	20.1	15.9	10.9	5.9	3.2	1.5	3.8	3.0	1.2	-0.1
Credit to government 6/	-6.1	-11.8	16.6	68.9	64.0	51.6	27.9	22	15.3	34.0	34.2
				(in percent of GDP)							
Broad money	88.5	93.8	104.5	120.5	109.8	106.1	107.0	115.6	103.6	106.5	104.2
Domestic deposits	83.1	87.9	98.7	120.5	106.4	102.5	101.1	111.9	99.7	96.9	96.3
Credit to the private sector	81.9	91.7	103.7	118.6	104.5	101.8	103.7	118.4	113.7	109.8	110.2
Credit to government	16.3	13.4	15.2	22.8	21.3	18.2	19.2	25.0	23.2	23.9	27.0
Memorandum items:				(in percent)							
Capital to assets	7.4	7.1	5.6	5.6	6.4	7.2	7.2	7.0	6.3	6.7	7.2
Credit/deposits	100.9	98.7	101.5	101.8	104.2	102.7	107.1	112.6	107.3	109.5	113.9

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

1/ As of June 2010, securitised assets are no longer derecognised from the balance sheet of banks that have adopted the International Accounting Standards. The counterpart of these assets is recorded on the liabilities side as deposit liabilities to non-euro area residents.
2/ Holdings of securities other than shares and derivatives.
3/ Credit to domestic non-MFI residents by domestic MFIs excluding the Bank of Greece, including securitized loans and corporate bonds.
4/ Growth rates are calculated from differences in outstanding amounts adjusted for revaluations, exchange rate valuation differences, reclassifications and any other changes which do not arise from transactions.
5/ From 2010, rates of change based on actual net flows (i.e. adjusted for reclassifications, valuation adjustments, and write-offs).
6/ Rates of change based on reported end-of-period stocks.

Table 3. Greece: Financial Soundness Indicators
(Percent)

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

Source: Bank of Greece.

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

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

	2009	Program					
		Jun-10	Sep-10	Dec-10		Dec-11	
	Actual	Actual	Actual	Progr.	Actual	Progr.	Proj.
I. State budget							
Revenues	50.5	24.2	37.8	54.3	54.2	59.5	58.4
Net income Ordinary Budget (A+B-C)	48.5	23.8	36.5	51.4	51.2	55.6	54.5
A. Recurrent/ordinary revenue	52.3	25.1	38.6	54.9	54.4	57.5	56.2
1. Direct taxes	21.4	8.9	14.3	20.4	20.3	20.9	20.6
Income taxes	16.6	6.0	10.3	14.9	14.3	14.8	14.5
PIT	10.9	4.3	6.8	10.0	9.4	10.6	10.0
CIT	3.4	1.1	2.2	3.3	3.2	2.8	3.0
Other	2.3	0.6	1.3	1.6	1.7	1.4	1.5
Property taxes	0.5	0.1	0.4	0.6	0.5	0.9	0.9
Tax arrears collection	2.4	1.2	1.6	2.3	2.9	2.7	2.9
Other direct taxes	1.9	1.6	2.1	2.6	2.6	2.5	2.4
2. Indirect taxes	28.3	14.8	22.0	31.5	31.0	32.0	31.0
Transaction taxes	17.9	8.9	13.6	18.8	18.5	19.3	18.6
VAT	16.6	8.4	12.8	17.7	17.4	18.0	17.5
other	1.3	0.5	0.8	1.1	1.1	1.3	1.1
Consumption taxes	9.6	5.5	8.0	11.9	11.8	11.6	11.4
Tax arrears collections	0.4	0.2	0.3	0.4	0.3	0.5	0.5
Other indirect taxes	0.4	0.2	0.3	0.4	0.4	0.5	0.4
3. Transfers EU	0.3	0.1	0.2	0.4	0.3	0.3	0.3
4. Nontax revenue	2.3	1.4	2.1	2.6	2.8	4.3	4.3
B. One-off revenue	1.1	0.9	1.2	1.6	1.8	1.8	2.1
C. Tax Refunds (-)	5.0	2.3	3.3	5.1	5.0	3.8	3.8
Public investment budget	2.0	0.4	1.3	2.9	3.1	3.9	3.9
A. EU flows	1.9	0.3	1.2	2.6	2.8	3.7	3.7
B. Own revenues	0.2	0.1	0.2	0.3	0.3	0.2	0.2
Total expenditure	83.6	34.1	54.4	75.1	74.7	78.6	78.8
Total ordinary spending	70.3	30.2	48.4	65.0	64.9	68.1	68.2
Total ordinary primary spending	58.0	24.5	36.8	51.7	51.7	52.1	52.1
A. Remuneration and pensions	25.2	11.3	16.9	22.7	22.8	21.6	21.6
B. Insurance and Healthcare	17.6	7.4	10.7	16.0	15.7	16.0	16.1
C. Operating and other expenditure and returned resources	14.5	5.4	8.6	12.4	12.6	13.3	13.3
D. Payments in exchange of claims of insurance fund 1/	0.8	0.4	0.5	0.6	0.6	0.6	0.6
E. Reserve	…	…	…	…	…	0.6	0.6
Interest expenditure	12.3	5.7	11.7	13.3	13.2	15.9	16.1
Transfers to hospitals for the settlement of past debt	1.5	0.0	0.3	0.3	0.4	0.5	0.5
Investment spending	9.6	3.7	5.4	8.5	8.4	8.5	8.5
Spending on military procurement	2.2	0.2	0.2	1.3	1.0	1.6	1.6
State Budget primary spending *(variable monitored for PC)*	71.3	28.4	42.4	61.5	61.1	62.7	62.7
Balance state budget	**-33.1**	**-9.9**	**-16.5**	**-20.8**	**-20.5**	**-19.2**	**-20.4**
II. Balance local governments 2/	**0.0**	**0.3**	**0.1**	**0.0**	**-0.4**	**0.0**	**0.0**
III. Balance social security funds 2/	**0.5**	**-0.1**	**1.0**	**1.5**	**1.8**	**0.7**	**0.7**
IV. Balance of extra-budgetary funds (ETERPS) 2/	…	…	…	…	…	**0.2**	**0.2**
V. Called guarantees from non-general govt entities	…	…	…	…	…	**-0.1**	**-0.2**
VI. Balance of reclassified public enterprises 2/	…	…	…	…	…	**-0.8**	**-1.0**
VII. Modified general government cash balance	**-32.5**	**-9.7**	**-15.5**	**-19.3**	**-19.1**	**-19.1**	**-20.6**
of which : Modified general government primary cash balance *(variable monitored for PC)*	…	-3.9	-3.5	-5.7	-5.5	-3.2	-4.5
VIII. Adjustments 3/	-3.6	…	…	-3.1	-2.9	2.3	1.8
IX. General government balance (ESA 95) before measures	**-36.1**	**…**	**…**	**-22.3**	**-22.0**	**-16.8**	**-18.8**
X. To be identified measures	…	…	…	…	…	…	**1.8**
XI. General government balance (ESA 95) incl. measures	**-36.1**	**…**	**…**	**-22.3**	**-22.0**	**-16.8**	**-17.0**
Memorandum items							
Floor on the modified general government primary cash balance	…	-3.9	-3.5	…	-5.5	-3.2	-4.5
Ceiling on state budget primary spending	…	28	42	…	61	63	63

Source: Greek Ministry of Finance and Fund staff projections.
1/ For the personnel of the Public Power Company.
2/ Change in net financial assets. Excludes valuation changes.
3/ Cash to accrual, coverage, and other ESA adjustments.

Table 5. Greece: General Government Operations, 2009–11

	2009	2010		2011	
		Progr.	Proj.	Progr.	Proj.
	(billion of Euro)				
Revenue	88.8	92.3	92.6	96.9	95.6
Taxes on production, and imports	26.1	29.7	29.1	31.6	31.0
Taxes on income, and property	19.2	17.1	17.1	18.4	17.7
Social contributions	30.8	30.1	30.9	29.4	30.0
Other	9.6	10.6	10.7	13.1	12.4
Capital transfers	3.1	4.7	4.8	4.4	4.5
Primary expenditure	112.5	99.9	99.9	98.7	99.4
Wages	31.8	28.6	28.6	27.6	27.7
Social benefits	49.0	46.8	46.7	48.4	48.9
Goods and services	16.7	12.2	12.2	10.0	10.0
Subsidies	0.3	0.2	0.2	0.3	0.3
Other current	4.1	3.7	3.7	3.8	3.8
Capital	10.6	8.4	8.5	8.6	8.7
Primary balance	-23.7	-7.6	-7.3	-1.8	-3.8
Interest payments	12.4	14.7	14.7	15.0	15.0
Overall balance	-36.1	-22.3	-22.0	-16.8	-18.8
To be identified measures	…	…	…	…	1.8
Overall balance including measures	-36.1	-22.3	-22.0	-16.8	-17.0
Gross debt (Maastricht)	298.0	327.2	326.9	347.2	345.6
	(percent of GDP)				
Revenue	37.8	39.8	40.4	42.4	42.3
Taxes on production, and imports	11.1	12.8	12.7	13.9	13.7
Taxes on income, and property	8.2	7.4	7.4	8.1	7.8
Social contributions	13.1	13.0	13.5	12.9	13.3
Other	4.1	4.6	4.7	5.7	5.5
Capital transfers	1.3	2.0	2.1	1.9	2.0
Primary expenditure	47.9	43.1	43.5	43.2	44.0
Wages	13.5	12.3	12.5	12.1	12.3
Social benefits	20.9	20.2	20.4	21.2	21.7
Goods and services	7.1	5.3	5.3	4.4	4.4
Subsidies	0.1	0.1	0.1	0.1	0.1
Other current	1.7	1.6	1.6	1.7	1.7
Capital	4.5	3.6	3.7	3.7	3.9
Primary balance	-10.1	-3.3	-3.2	-0.8	-1.7
Interest payments	5.3	6.4	6.4	6.6	6.6
Overall balance	-15.4	-9.6	-9.6	-7.4	-8.3
To be identified measures	…	…	…	…	0.8
Overall balance including measures	-15.4	-9.6	-9.6	-7.4	-7.5
Gross debt (Maastricht)	127	141	143	152	153
Memorandum items:					
Nominal GDP (in euro billions)	235	232	229	228	226

Source: Greece authorities, and IMF staff estimates.

Table 6. Greece: Status of Fiscal Structural Reforms

Action taken	Time	Status of Implementation and Comments
Pensions		
Comprehensive pension reform adopted	Jul-10	The new law lowers the projected increase in pension spending in 2010-2060 to 2.5-4.5 percent of GDP (from 12.5 percent of GDP). The full impact of the reform needs to be assessed and supplementary and welfare funds need to be reformed. However, a safeguard clause allows to adjust the parameters of the system by administrative decision in case the projected increase in pension spending exceed 2.5 percentage points of GDP. Preliminary studies by the National Actuarial Authority show that the reform has significantly reduced the total increase in pension spending by the three main pension funds (IKA, OAEE and OGA) in 2010-2060.
Health		
Pension law includes institutional reforms in the health sector.	Jul-10	The law provides for the financial and accounting independence of health funds (by December 2010), creates a central health agency in charge of implementing uniform benefit packages across funds, and requires the integration of social security funds with the NHS (December 2012)
Arrears and unpaid bills in the health sector are identified and settlement procedure provided for.	Jun-10	About €5.5 billion arrears and unpaid bills for the period 2005-09 in the health sector were identified to be settle using bonds. Clearance of arrears ongoing.
Prices of pharmaceuticals are reduced by 20 percent	Jun-10	Across the board cuts of pharmaceuticals implemented (average cut 20 percent); drugs started to be priced using international benchmarks.
Actions to improve budgeting and reduce pharmaceutical costs	Jan/Feb-2011	2011 budget included for the first time a consolidated budget for social security funds; e-prescribing introduced in one of the funds (OAEE) and electronic scanning introduced in the largest fund (IKA); extended negative list of non reimbursable medicine approved; and co-payment for outpatient services increased to €5 (from €3).
Law to implement reforms of health services and organization adopted	Feb-11	The law reduces profit margins and partially liberalizes pharmacist profession, starts unifying primary healthcare services, and reforms the supply and procurement system.
Local Governments		
Law reforming local governments adopted	May-10	The law reduces the number of municipalities (from 1034 to 325), regions (from 13 to 7 now called decentralized administrations), and local legal entities (from 6,000 to 1,500); transfers new functions to local governments (e.g. water management, specific health services); introduces new revenue sharing agreements with the central government; and, sets borrowing and debt limits. The merging of local governments is expected to be completed by March 2011.
State Owned Enterprises		
Law to reform the railway sector adopted	Oct-10	The law sets: upper limits for government subsidies, number of staff to dismiss or transferred to other public entities, assets and liabilities to be transferred to the central government, and a regulatory framework for the sector.
Business plan for railway companies adopted	Nov-10	The business plan specifies actions for railway companies to immediately breakeven, including tariff increases, and salary reductions.
Quarterly financial statements of the 10 largest loss-making and other public enterprises published.	Oct-10	Financial statements published on a quarterly basis for 52 public enterprises, including consolidated summary results and main performance indicators.
Wages of employees of public enterprises reduced	Jan-11	Wages exceeding €1,800 per month reduced by 10 percent, main supplementary pay limited to no more than 10 percent of total remuneration; monthly earnings not to exceed €4,000 per month.
Law to reform Athens urban transport companies presented to Parliament	Feb-11	The law sets: upper limits for government subsidies, number of staff to transfer to other public entities, liabilities to be transferred to the central government, reorganization of the companies' structure, and a performance monitoring system.

Source: IMF Staff

Table 7. Greece: Status of Sectoral Reforms

Measures	EC MoU deadline	Status of Implementation	Comments
Labor market			
Employment Protection Legislation	Q4-2010	Legislation completed	Law 3863/2010 approved on 15 July 2010 introduces changes in minimum wages and overtime premia, and eases collective dismissals and employment protection legislation as a means to facilitate job reallocation
Mediation/arbitration services	Q4-2010	Legislation completed	The law provides for symmetric access to arbitration of both unions and firms if parties disagree with the proposal of the mediator. The bill ensures mediation/arbitration decisions based on transparent objective criteria and free from government influence. The new act explicitly indicates that mediators and arbitrators pay due attention to cost competitiveness.
Collective bargaining	Q4-2010	Legislation completed	The draft proposal allows for downward deviations of firm from sector wages by introducing opt out clauses under certain conditions, including an evaluation of the Labor Inspectorate (gathering representatives of the government, social partners and local authorities) and consent by sector unions in small firms.
Services Liberalization			
Endorsement of liberalization established in the Services Directive	Q2-2010	Legislation completed--Operationalization in progress	Law 3844/2010 adopted on 29 April 2010 transposes to national legislation the principles of free establishement and cross-border freedom of provision.
Liberalization of regulated professions	Q1-2011	Legislation completed	The law aims at liberalizing regulated professions by removing remaining restrictions related to quantity, geography, scale, incorporation, prices, number of licenses, and prior conditions for licenses. "Optional" or "permitted" restrictions listed in art. 15 are subject to evaluation by MS and should abide by the principles of the non-discrimination, necessity, and proportionality. The law liberalizing cosed professions deals explicitly with lawyers, notaries, engineers, architects, and auditors.
Business environment			
Legal framework for one-stop-shops	Q2-2010	Legislation completed--Implementation in progress	Law 3853/2010 adopted by Parliament on 17 June 2010 aims at reducing the number of steps needed to create a company. For OSS to be fully functional a number of actions must be completed, including: the completion of data migration from the Chambers' data bases to the General Commercial Registry (GEMI); creation of a bank account for the payment of the fee for the setting up a company; installation of the GEMI software; connection of the services of the Ministry of Finance to the GEMI (ensuring access to the taxis system needed to complete the granting of the tax identification number and the tax compliance certificate for the shareholders of the companies created).
Law on fast-track procedure for large investment projects	Q4-2010	Legislation completed	The law, approved by Parliament on 17 November 2010, simplifies procedures and accelerates deadlines for approval of large-scale investment projects (mainly projects of more than €200 million or more than €75 million and creating 200 jobs). Implementation efforts are underway. The President of "Invest in Greece S.A" was appointed in January 2011, but the recruitment process--involving transfers from other public entities to the new entity--is ongoing. The authorities expect at least 5 private projects in tourism, energy, industry and gold mines to go through "Invest in Greece S.A" as soon at it becomes operational.
Law on simplification of business licensing	Q4-2010	Legislation in progress	Law 333/2005 will be amended to accelerate access to the main permits needed for the physical installation of enterpises (environmental permit, installation authorisation and authorization to operate). The draft law sets clear standards for applications. Binding deadlines for necessary opinions are set to 30 days. The companion law smplifying environmental permits will be adopted later this year and will ensure a number of procedures and days to obtain permits comparable to EU averages.
Legislation on the Competition Authority	Q1-2011	Legislation completed	The draft law strenghthens the independence and continuity of its Board; maintains its financial capacity, and reinforce its governance and accountability.
Sectoral deregulation			
Road transportation	Q3-2010	Legislation completed	The granting of licenses is automatic upon meeting objective criteria set by the law. During a transition period of 2.5 years new entrants are nevetheless required to pay an entry fee equal to the goodwill of existing licenses. After 2013 the fee shouldered by the new entrants will exclusively cover administrative costs.
Railway sector reform	Q4-2010	Legislation completed	The law establishes the competencies of each railway company, defines the regulatory framework for the sector, regulates the State compensation framework (including an upper limit for annual service obligation contribution from the government), provides for part of the staff to be transferred to other units of the public sector and for managing boards of the railways companies to negotiate new collective agreements.

Table 8. Greece: Medium-Term Macroeconomic Framework, 2011–2016

	2010	2010	2011	2012	2013	2014	2015	2016
	Prog.	Est.	Projections					
	(Percentage change, unless otherwise indicated)							
Domestic economy								
Real GDP	-4.2	-4.5	-3.0	1.1	2.1	2.1	2.7	2.9
Output gap (percent of pot. output)	-1.3	-0.3	-3.1	-2.8	-1.8	-1.1	0.0	0.3
Total domestic demand	-7.3	-6.9	-5.6	-0.7	0.7	1.0	1.7	2.3
Private consumption	-4.1	-4.1	-4.6	0.5	1.1	1.2	1.3	1.2
Public consumption	-9.0	-9.0	-8.5	-6.0	-1.0	-0.3	1.1	4.3
Gross fixed capital formation	-18.8	-17.4	-7.5	-2.6	1.1	1.2	4.6	5.5
Change in stocks (contribution)	0.1	0.3	0.1	0.3	0.0	0.0	0.0	0.0
Foreign balance (contribution)	4.0	3.9	3.1	1.8	1.4	1.1	0.9	0.0
Exports of goods and services	0.9	0.6	6.3	5.9	7.3	6.7	7.3	6.0
Imports of goods and services	-12.0	-12.0	-6.0	-1.5	1.5	2.1	3.6	3.6
Unemployment rate (percent) 2/	12.2	12.4	14.8	15.0	14.5	13.8	12.7	11.6
Hourly wage (manufacturing)	0.5	-1.0	-0.5	0.5	0.6	0.7	0.9	1.0
Employment	-2.8	-2.5	-2.5	0.0	0.8	1.0	1.5	1.2
Consumer prices (HICP), end of period	4.4	5.2	1.2	0.5	0.7	1.0	1.0	1.2
Consumer prices (HICP), period average	4.6	4.7	2.4	0.5	0.7	1.0	1.0	1.2
Core prices, period average 1/	3.2	2.2	...	...	...	...	...	...
GDP deflator	3.0	2.3	1.6	0.4	0.8	1.2	0.6	1.2
	(Percent of GDP)							
Balance of payments								
Current account	-10.4	-10.5	-8.2	-7.1	-6.6	-5.5	-4.4	-3.8
Trade balance	-7.0	-6.6	-3.9	-2.5	-0.6	1.2	2.9	4.0
Export of goods and services	19.4	19.9	22.1	23.5	24.6	25.5	26.6	27.4
Imports of goods and services	26.4	26.5	26.0	26.0	25.2	24.3	23.7	23.4
Total transfers	0.3	0.1	0.5	0.4	0.3	0.3	0.3	0.4
Net income receipts	-3.8	-4.0	-4.8	-4.9	-6.4	-7.1	-7.6	-8.2
Net international investment position	-97.7	-98	-106	-111	-113	-114	-114	-112
Public finances (general government)								
Total revenues 3/	39.8	40.4	42.3	42.3	41.9	39.1	38.3	37.8
Total expenditures 3/	49.4	50.0	50.6	51.1	51.6	49.8	48.3	47.8
Primary expenditures 3/	43.1	43.5	44.0	43.5	43.3	41.2	39.9	39.6
Measures (cum.) 4/	…	…	0.8	2.3	4.9	8.1	7.9	7.9
Overall balance	-9.6	-9.6	-7.5	-6.5	-4.8	-2.6	-2.1	-2.1
Primary balance 4/	-3.3	-3.2	-0.9	1.0	3.5	6.0	6.3	6.1
Gross debt	141	143	153	159	158	154	151	147
Memorandum item:								
Nominal GDP (billions of euros)	229	229	226	229	236	244	252	263
Nominal GDP (percentage change)	-1.5	-2.4	-1.5	1.5	2.9	3.3	3.3	4.2

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

1/ Core prices exclude energy, food, alcohol, and tobacco (Eurostat).

2/ Based on Labor Force Survey.

3/ Excluding unidentified measures in 2011 and other measures from 2012 onward.

4/ Includes unidentified measures.

Table 9. Greece: Summary of Balance of Payments, 2009—15

	2009	2010				2010	2010	2011	2012	2013	2014	2015
	Prel.	Q1	Q2	Q3	Q4	Program	Projections					
						(Billions of euro)						
Current account balance	-25.8	-9.7	-4.4	-3.1	-6.8	-25.6	-24.0	-18.5	-16.2	-15.7	-13.4	-11.1
Balance of goods and services	-18.1	-7.1	-3.7	-0.3	-4.1	-16.9	-15.1	-8.8	-5.7	-1.4	3.0	7.4
Goods balance	-30.8	-8.2	-7.0	-7.0	-6.0	-30.6	-28.3	-24.8	-23.8	-21.8	-19.9	-18.2
Exports	15.3	3.6	4.2	4.4	4.9	16.0	17.1	19.2	20.8	22.5	24.1	25.8
Imports	46.1	11.8	11.3	11.4	10.9	46.6	45.4	44.0	44.6	44.3	43.9	44.0
Services balance	12.6	1.2	3.4	6.7	2.0	13.7	13.2	16.0	18.0	20.4	22.9	25.6
Credit	27.0	4.9	7.2	10.6	5.8	29.0	28.5	30.9	33.2	35.7	38.4	41.4
Debit	14.3	3.8	3.9	3.8	3.8	15.3	15.3	14.9	15.1	15.3	15.5	15.8
Income balance	-9.0	-1.9	-2.5	-2.5	-2.3	-9.5	-9.2	-10.8	-11.3	-15.1	-17.3	-19.3
Credit	4.3	1.0	0.9	1.0	0.9	4.3	3.8	4.2	5.6	7.5	9.4	11.3
Debit	13.3	2.9	3.4	3.5	3.2	13.7	13.0	15.0	16.9	22.6	26.7	30.7
Current transfers (net)	1.3	-0.7	1.8	-0.3	-0.5	0.7	0.2	1.1	0.8	0.8	0.8	0.8
Capital and financial account balance	26.4	9.4	-15.2	-5.2	3.5	-12.4	-7.4	-28.0	-7.8	7.7	13.4	11.1
Capital account balance	2.0	0.1	0.0	0.6	1.3	2.8	2.1	2.9	2.8	2.7	2.6	2.5
Financial account	24.4	9.2	-15.2	-5.8	2.2	-15.3	-9.5	-30.9	-10.5	5.0	10.8	8.6
Direct investment	0.3	0.7	-0.3	-0.1	0.3	1.0	0.7	1.4	1.9	2.3	2.7	2.9
Portfolio investment	27.9	4.9	-9.9	-13.3	-2.6	-10.3	-20.9	-22.2	0.4	9.7	-8.9	-16.5
of which: government	29.1	1.6	-23.1	-3.3	1.3	-12.9	-23.5	-24.5	-3.5	5.2	-14.0	-21.8
Other investment (excl. program financing)	-3.6	3.6	-5.1	7.5	4.5	-5.9	10.5	-10.1	-12.8	-7.0	17.0	22.2
Reserve assets (increase = -)	-0.1	0.0	0.1	0.1	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0
Net errors and omissions	-0.6	0.3	-0.6	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Program financing	0.0	…	20.2	8.8	2.5	38.0	31.5	46.5	24.0	8.0	0.0	0.0
						(In percent of GDP)						
Current account balance	-11.0	-4.2	-1.9	-1.9	-0.4	-10.8	-10.5	-8.2	-7.1	-6.6	-5.5	-4.4
Balance on goods and services	-7.7	-3.1	-1.6	-1.6	0.8	-7.1	-6.6	-3.9	-2.5	-0.6	1.2	2.9
Goods balance	-13.1	-3.6	-3.1	-3.1	-2.9	-13.0	-12.3	-10.9	-10.3	-9.2	-8.1	-7.2
Services balance	5.4	0.5	1.5	1.5	3.6	5.8	5.8	7.1	7.8	8.6	9.4	10.1
Income balance	-3.8	-0.8	-1.1	-1.1	-1.3	-4.0	-4.0	-4.8	-4.9	-6.4	-7.1	-7.6
Current transfers	0.6	-0.3	0.8	0.8	0.1	0.3	0.1	0.5	0.4	0.3	0.3	0.3
Capital and financial account balance	11.2	4.1	-6.6	-2.3	1.5	-5.3	-3.2	-12.4	-3.4	3.3	5.5	4.4
Capital account balance	0.9	0.1	0.3	0.3	0.2	1.2	0.9	1.3	1.2	1.1	1.1	1.0
Financial account	10.4	4.0	1.8	-2.5	0.1	-6.5	-4.1	-13.6	-4.6	2.1	4.4	3.4
Direct investment	0.1	0.3	0.0	-0.1	0.2	0.4	0.3	0.6	0.8	1.0	1.1	1.1
Portfolio investment	11.9	2.1	-4.3	-5.8	-1.1	-4.4	-9.1	-9.8	0.2	4.1	-3.6	-6.5
of which: government	12.4	0.7	-10.1	-1.4	0.6	-5.5	-10.2	-10.8	-1.5	2.2	-5.7	-8.6
Other investment	-1.5	1.6	0.4	3.3	-1.3	-2.5	4.6	-4.4	-5.6	-2.9	6.9	8.8
Reserve assets (increase = -)	0.0	0.1	0.0	-0.3	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Net errors and omissions	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Program financing	…	…	8.8	3.8	1.1	16.1	13.7	20.5	10.4	3.4	…	…
Memorandum items:												
Program financing (billions of euro)	…	…	20.2	8.8	2.5	38.0	31.5	46.5	24.0	8.0	…	…
EU	…	…	13.5	7.6	0.0	27.6	21.1	36.6	17.5	5.8	…	…
IMF	…	…	6.7	1.2	2.5	10.4	10.4	9.9	6.5	2.2	…	…
External debt	173.5	180.0	187.5	187.8	183.1	183.5	190.6	198.5	207.7	215.2	219.9	221.1
Public sector	114.3	119.4	133.8	117.1	132.8	132.6	138.5	151.2	147.8	139.1	117.5	94.6
Private sector	59.3	60.6	53.7	70.7	50.3	50.9	52.1	47.3	59.9	76.1	102.4	126.5

Sources: Bank of Greece; and IMF staff estimates.

Table 10. Greece: Policy Priorities for Fiscal Consolidation Targets, 2012–14

Reform area	**Targeted areas**	**Timetable**	**2011 Expenditure**	**Authorities' target**
State enterprise restructuring	• Review tariff policy to improve cost recovery. • Prioritize investment. • Cut operational expenditure. • Tighten hiring freeze, downsize, further limit allowances, and align wages with the private sector. • Limit subsidies to public service obligations. • Sell nonstrategic assets and increase dividends.	End-June 2011 for those in general government; all others by end-2011.	…	1-1.5 percent of GDP
Eliminate unnecessary public entities	• Eliminate entities with no function. • Pass functions to the appropriate line ministry where functions overlap. • Merge entities performing similar functions and eliminate duplication. • Align operational costs with private sector comparators.	Implementation during 2011 and 2012.	0.8 percent of GDP	…
Simplify the tax system	• Corporate tax--broaden base (e.g. decrease depreciation rates, eliminate exemptions, tighten transfer pricing regulations). • Rationalize the system of taxation of capital income. • Streamline the number of tax exemptions and incentives.	End-June 2011.	Tax expenditure estimated at at least 3 percenf of GDP	2-4 percent of GDP
Reform public administration	• Streamline public sector organizations and activities, pending findings of the functional review.	2012 budget.	…	…
Social spending reform	• Reduce benefits to households above the poverty line (improve targeting). • Eliminate duplication of benefits.	2012 budget.	18 percent of GDP	1-2 percent of GDP
Contain the wage bill	• Tighten hiring freeze, limit the number of contracts, and downsize across general government. • Increase working hours from 7 to 8 (in line with private sector) and reduce overtime. • Simplify the remuneration schemes, e.g. limit the ratio of allowances to the base wage. • Limit wage drift and promotions.	End-June 2011.	10 percent of GDP	2 percent of GDP
Contain military spending, particularly procurement	• Reduce military spending towards EU average, i.e. by prioritizing procurements and improving the cost-efficiency of operational spending.	…	3.6 percent of GDP (2009)	1 percent of GDP
Prioritize domestic investment	• Better prioritize investment based on concessionality of funding and impact on growth.	End-June 2011.	2.5 percent of GDP (excluding EU grants)	…
Health reform	• Introduce a general physician system; shift informal into formal co-payments	…	6 percent of GDP	1 percent of GDP

Source: IMF staff estimates.

Table 11. Greece: Revenue Collection Process—Issues and Actions

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

Source: IMF staff

Table 12. Greece: Spending Process—Issues and Actions

Stages of the Spending Process and Issues	Actions Taken and Next Steps
1. Budgeting	
Develop a medium term budget framework • A medium-term strategy for the general government does not exist.	**Actions taken** • New Fiscal Responsibility and Management Act (FRMA) approved, establishing medium term fiscal strategy covering general government (*August 2010*). **Next steps**: • Present a full MTFS for the period 2012-15 for the GG to Parliament. The MTEF will set: (i) the deficits of the GG and its subsectors; (ii) estimates of revenue and expenditure for each subsector, including transfers; and (iii) an expenditure ceiling for the ordinary and investment budgets of the state (*April-November 2011*).
Establish annual budget with spending ceilings for each budget item • Budgets prepared in a bottom-up fashion with no hard budget constraints. • Fiscal planning largely confined to the state budget with the MOF only responsible for administration and management. • Budget preparation processes for other general government entities disjointed. Responsibility for social security fragmented with no effective preparation, management and monitoring of social security budget. • Parliamentary budget oversight weak and no intra-year supplementary budgets required.	**Actions taken** • The FRMA establishes: MOF's responsibilities for setting and controlling budget policies for all GG entities; top-down budget procedures and expenditure ceilings; alignment of budget preparation processes across the general government entities; separate social budget, and supplementary budgets; a Parliamentary Budget Office. • 2011 budget published, with abridged MTFS for GG, alongside the state budget, and consolidated social and local government budgets (*December 2010*). **Next steps** • Present a full MTFS and 2012 budget to Parliament, including State budget, Social budget, and consolidated LG budgets (*November 2011*). • Start issuing regulations to fully implement the FRMA, including assessment of policy initiatives initiated during the year that have a potential bearing on the budget (*2011*).
2. Control	
Release budget appropriations to spending units, and units make expenditure commitments • Line ministries do not check or control expenditure commitments; no central control on incurred commitments. Execution of budget releases focused on verifying payments.	**Action taken** • Commitment registers established. A presidential decree issued establishing commitment registers in all line ministries and GG entities (*November 2011*) and implementing circular issued (*January 2011*). **Next Steps** • Commitment registers to be made operational in all line ministries and major GG entities (*early 2011*). • Accounting officers to be appointed in all line ministries and major GG entities. The officers have the responsibility and authority to ensure sound financial controls and that expenditure commitments do not exceed appropriations **(***March 2011* **).**
Pay invoices after accounting and audit controls • Cumbersome checking procedures to make payments, with several institutions involved (e.g. the department of financial services of the spending unit, the Fiscal Audit Office (FAO) and the Court of Audit locally stationed). Controls are mainly compliance-oriented.	**Next Steps** • Role of Financial Audit Office (FAO) in spending units to be clarified, following the appointment of accounting officers. Procedures for audit clearance and payment orders to be streamlined, including the scaling down of preventive audits (*June 2011*).
3. Reporting	
Collect and analyze information on payments, pending bills and arrears • No real-time monitoring of arrears and other pending bills. Collection of payment information at non-central government level difficult.	**Actions taken** • Data on arrears published, using surveys while waiting for commitment registers to be established (*September 2010*); **Next steps** • Commitment registers in use in most of GG entities and used to publish arrears data (March 2011). • Accounting officers (to be appointed in most of general government agencies) have the responsibility, among others, to improve monitoring at spending unit level (*March 2011*). • Work to begin to review the FMIS. Overall functionalities of the Financial Management Information System (FMIS) to be reviewed to use the new system to control fiscal operations and report fiscal data for the GG (*June 2011*). • FMIS to be operational, (*late 2011*).
Monitoring and reporting of fiscal developments for general government • Monitor and reporting focused on state budget. No timely in-year monitoring or reporting for general government published. Budget deviations not detected on time.	**Actions taken** • Aggregate monthly fiscal reports for GG published, using banking data for non-central government entities (*September 2010*); **Next steps** • Detailed monthly fiscal reports for GG to be published, monitoring aggregate revenue, expenditure and transfers for all non central government entities (*March 2011*), and showing the composition of revenue and expenditure by sub-sector and major economic category (*June 2011*); • Arrears data based on commitment registers to be published (March 2011); • FMIS to be operational, to allow for automated detailed monthly fiscal reporting and financial controls (*late 2011*).
Parliamentary oversight and general auditing • The Court of Audit does not carry out performance audits on a systematic base. Audits are mainly ex-ante and focused on the legality of spending. The court does not audit spending from some entities (e.g. public law entities, secret defense and foreign affairs procurement). • The mandate of the Public Finance Committee in Congress is limited to review information provided by the ministry of finance and reports submitted by the Court of Audit.	**Next steps** **•** Establish a Parliamentary Budget Office (*early 2011*).

Source: IMF staff

Table 13. Greece: General Government Financing Requirements and Resources

(Billions of euro, unless otherwise stated)

	2009	2010	2010	2011	2012	2013	2014	2015
		Program			Projections			
Gross borrowing need	**70.3**	**55.1**	**60.0**	**58.7**	**66.6**	**60.9**	**78.4**	**85.0**
Overall balance	36.1	22.3	22.0	17.0	14.9	11.4	6.4	5.4
Amortization	29.7	26.0	31.2	37.5	45.5	48.3	74.6	78.5
M&LT	20.3	19.5	19.5	28.1	35.2	29.3	33.0	26.6
ST	9.4	6.5	11.7	9.4	10.3	12.9	13.0	13.0
Domestic	3.9	3.5	3.5	6.2	10.5	13.1	13.1	13.1
BOP	5.5	3.0	8.2	3.2	-0.2	-0.2	-0.1	-0.1
Exceptional creditors	…	…	…	…	…	6.1	28.6	38.9
EU	…	…	…	…	…	4.5	20.8	28.3
IMF	…	…	…	…	…	1.7	7.8	10.6
Other 1/	4.5	6.8	6.8	4.2	6.2	1.2	-2.6	1.2
Gross financing sources	**70.3**	**23.6**	**28.5**	**12.2**	**42.6**	**52.9**	**78.4**	**85.0**
Privatization receipts	0.9	0.0	0.0	2.5	3.0	3.0	2.0	2.0
Other	3.8	5.3	12.3	-1.3	-0.7	-1.6	-4.4	-0.6
Market access	65.6	18.3	16.2	11.0	40.3	51.5	80.8	83.6
M&LT 2/	59.2	9.3	6.8	0.0	26.7	37.9	67.2	70.0
ST	6.5	9.0	9.4	11.0	13.6	13.6	13.6	13.6
Domestic	3.5	6.0	6.2	10.5	13.1	13.1	13.1	13.1
BOP	3.0	3.0	3.2	0.5	0.5	0.5	0.5	0.5
Financing gap	…	31.5	31.5	46.5	24.0	8.0	0.0	0.0
EU (8/11 of the gap)	…	21.1	21.1	35.6	17.4	5.8	0.0	0.0
IMF (3/11 of the gap)	…	10.4	10.4	10.9	6.6	2.2	0.0	0.0
Net market access	35.9	-7.7	-15.0	-26.5	-5.2	3.2	6.2	5.1
Domestic	17.6	8.9	8.9	-2.0	-2.4	-2.6	-2.7	-2.6
M&LT	18.1	6.4	6.2	-6.3	-5.0	-2.6	-2.7	-2.6
ST (net increase)	-0.4	2.5	2.7	4.3	2.6	0.0	0.0	0.0
BOP	18.3	-16.6	-23.9	-24.5	-2.9	5.8	8.9	7.8
M&LT	31.2	-16.6	-18.9	-21.1	-3.6	5.2	8.3	7.2
ST (net increase)	-12.9	0.0	-5.0	-3.4	0.7	0.7	0.6	0.6
Rollover rates of existing M&LT debt, percent	…	47.7	34.9	0.0	75.7	129.6	203.8	263.3
Total Maastrict debt in billions of euros 3/	298.0	327.2	326.9	345.6	363.7	373.2	375.0	379.6
Exceptional creditors	…	31.5	31.5	78.0	102.0	103.8	75.2	36.3
EU	…	21.1	21.1	56.7	74.1	75.4	54.6	26.3
IMF	…	10.4	10.4	21.3	27.9	28.4	20.6	10.0
percent of quota	…	1113	1113	2280	2987	3044	2207	1073
Private sector	298.0	295.7	295.4	267.6	261.7	269.4	299.9	343.3
Total Maastrict debt (percent GDP) 3/	126.8	142.2	142.5	152.9	158.5	158.1	153.7	150.6
Exceptional creditors	…	13.7	13.7	34.5	44.5	44.0	30.8	14.4
EU	…	9.2	9.2	25.1	32.3	31.9	22.4	10.4
IMF	…	4.5	4.5	9.4	12.2	12.0	8.4	4.0

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

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

2/ It includes stock-flow adjustments.

3/ Net of central government deposit build-up.

Table 14. Greece: Structural Reforms Ahead

Measures	EC MoU deadline	Description	Macroeconomic implications
Sectoral deregulation			
Legislation on passenger road transportation	Q1-2011	The law will remove restrictions on the provision of services for occasional passenger transport by buses, coaches and limousines. Any operator meeting clearly specified criteria related to professional capacity will be granted unlimited access to the market. The cost for granting and renewing of licenses shall not exceed the administrative costs related to the licensing procedure and shall be levied in proportion to the number of vehicles licensed. The method for calculating the fees must be transparent and objective and shall not lead to over recovery of costs occurred.	Facilitate the entry of new competitors, thereby reducing the costs and improving the quality of transportation for passangers.
Concession agreement for regional airports	Q1-2011	Government adopts a new regulatory framework to facilitate the conclusion of concession agreements for regional airports. The new regulatory framework should remove anticompetitive practices and foresee appropriate oversight of the allocation and operation of concessions, in full respect of state aid rules.	Contribute to the development of the tourism sector.
Liberalization of the electricity sector	Q1-2011	The liberalization affects all segments of activity of the incumbent monopoly PPC. In electricity generation, the incumbent has commenced the implementation of the plan ensuring access to low-cost lignite-fired generation to competitors and the management of hydro reserves will soon be awarded to an independent body. The unbundling of transmission and distribution from generation has begun with the identification of the assets and personnel associated with these two systems. The gradual process of tariffs deregulation also started in Q1-2011.	Improve the quality of the service and attract new investments.
Retail and Tourism liberalization	Q1-2011	Proposals under further development include: • Retail sector: (i) increase competition (greater flexibility in sales and promotions periods, opening hours and number of selling points per product); (ii) enhance companies' productivity (taking full advantage of recent labor market reform and the fast-track mechanism for new investments); (iii) address structural inefficiencies. • Tourism sector: (i) improve product and marketing strategy; (ii) improve country's accessibility (increase direct flight connectivity and facilitate foreigners' entry requirements, reviewing pricing against demand elasticity); (iii) accelerate revision of zoning restrictions to enable targeted development of integrated resorts.	Foster employment, growth, and disinflation.
Business environment			
Legislation on public procurement	Q1-2011	Legislation should establish a Single Public Procurement Authority (SPPA) . The SPPA will be mandated to issue opinions on any new legislation affecting public procurement, draft standardized tender documents of a binding nature and be vested with the power to perform effective control functions.	Reduce costs and improve the quality in provision of goods and services to the Public Administration.
Strengthening the role of the Labor Inspectorate	Q2-2011	Government ensures that Labor Inspectorate is adequately resourced with qualified staff. Quantitative targets are set on the number of controls to be executed. Government adapts to require the registration of new employees before they start working.	Tackle undeclared work, enhance the labor tax base and ensure a more equitable distribution of the tax burden.
Law simplifying export procedures	Q3-2011	Government takes decisions to simplify the process to clear customs for exports and imports and give larger companies or industrial areas the possibility to be certified to clear cargo for the customs themselves. Government abolishes the requirement of registration with the exporter's registry of the chamber of commerce for obtaining a certificate of origin.	Stimulate exports.

Table 15. Greece: External Financing Requirements and Sources

(Billions of euro)

	2009	2010 Prog.	2010 Proj.	2011 Proj.	2012 Proj.	2013 Proj.	2014 Proj.	2015 Proj.
GROSS FINANCING REQUIREMENTS	**166.3**	**176.1**	**180.5**	**201.8**	**193.3**	**197.1**	**236.8**	**291.1**
Current account deficit	25.8	25.6	24.0	18.5	16.2	15.7	13.4	11.1
Medium- and long-term debt amortization	28.2	22.8	22.8	32.2	38.0	35.6	53.9	62.1
Public sector	15.8	15.6	15.6	21.1	28.7	28.9	50.9	59.8
of which: EC/IMF						6.1	28.6	38.9
Banks	11.3	6.8	6.8	8.7	9.1	4.8	2.5	0.5
Corporates	1.1	0.3	0.3	2.3	0.2	1.9	0.6	1.9
Short-term debt amortization	112.2	127.8	133.7	151.1	139.0	145.7	169.4	217.9
Public sector & BoG	40.8	50.9	57.2	93.7	93.1	70.2	52.5	31.0
BoG 1/	35.3	49.0	49.0	90.5	93.3	70.3	52.6	31.1
Public sector 2/	5.5	1.9	8.2	3.2	-0.2	-0.2	-0.1	-0.1
Banks	70.2	75.8	75.8	56.9	45.5	75.1	116.4	186.2
Corporates	1.3	1.0	0.6	0.5	0.4	0.5	0.6	0.7
SOURCES OF FINANCING	**166.3**	**138.1**	**174.3**	**155.3**	**169.3**	**189.1**	**236.8**	**291.1**
Capital account (net)	2.0	2.8	2.1	2.9	2.8	2.7	2.6	2.5
Foreign direct investment (net)	0.3	1.0	0.7	1.4	1.9	2.3	2.7	2.9
Inward	1.8	2.3	1.7	3.0	3.5	4.0	4.5	4.7
Equities (net)	-0.2	-0.5	-2.4	-0.8	0.8	1.3	1.8	2.2
by nonresidents	0.5	0.2	-1.2	-0.1	1.5	2.0	2.5	3.0
Assets drawdown (- increase)	-26.1	-7.2	19.7	2.8	-17.2	-22.2	-22.2	-17.2
New borrowing and debt rollover	191.8	142.0	154.3	149.0	181.1	205.0	251.9	300.6
Medium and long-term borrowing	58.1	8.1	3.2	9.9	35.3	35.6	34.0	30.6
Public sector	**39.8**	**1.6**	**-3.3**	**0.0**	**25.1**	**27.9**	**30.5**	**28.1**
Banks	7.9	6.1	6.1	7.9	10.0	5.8	3.0	0.6
Corporates	10.3	0.3	0.3	2.1	0.2	1.9	0.6	1.9
Short-term borrowing	133.7	134.0	151.1	139.0	145.7	169.4	217.9	270.1
Public sector & BoG	57.2	76.3	93.7	93.1	70.2	52.5	31.0	14.2
BoG 1/	49.0	73.3	90.5	93.3	70.3	52.6	31.1	14.3
Public sector 2/	8.2	*3.0*	*3.2*	*-0.2*	*-0.2*	-0.1	-0.1	-0.1
Banks	75.8	56.9	56.9	45.5	75.1	116.4	186.2	255.1
Corporates	0.6	0.8	0.5	0.4	0.5	0.6	0.7	0.8
Other	-1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PROGRAM FINANCING	…	**38.0**	**31.5**	**46.5**	**24.0**	**8.0**	**0.0**	**0.0**
European Union	…	27.6	21.1	35.6	17.5	5.8	0.0	0.0
IMF	…	10.4	10.4	10.9	6.5	2.2	0.0	0.0
in percent of quota	…	*1,110*	*1,110*	*1,168*	*701*	*234*	*0*	*0*
Memorandum item:								
Greece IMF quota (SDR millions)	823.0	823.0	823.0	823.0	823.0	823.0	823.0	823.0
Greece IMF quota (Euro millions)	934.1	1,095.8	934.1	934.1	934.1	934.1	934.1	934.1

Sources: Bank of Greece; Bloomberg; and IMF staff estimates and projections.
1/ Includes liabilities to Eurosystem related to TARGET.
2/ Includes market instruments and trade credits.

Table 16. Greece: Indicators of Fund Credit

(Millions of SDRs, unless otherwise specified)

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Disbursements	9,131	9,612	5,767	1,922	…	…	…	…	…
(in percent of quota)	1,109.5	1,167.9	700.8	233.6	…	…	…	…	…
(Projected Debt Service to the Fund based on Existing and Prospective Drawings)									
Total	48	369	693	2,413	7,834	9,950	6,273	2,438	303
Interest	48	369	693	942	955	608	236	35	3
Amortization	0	0	0	1,472	6,879	9,342	6,038	2,403	300
Total debt service, in percent of									
Exports of goods and services	0.1	0.8	1.5	4.8	14.4	17.0	10.0	3.6	0.4
GDP	0.0	0.2	0.3	1.2	3.7	4.5	2.7	1.0	0.1
(Projected Level of Credit Outstanding based on Existing and Prospective Drawings)									
Outstanding stock	9,131	18,743	24,511	24,961	18,083	8,741	2,703	300	…
(in percent of quota)	1,110	2,277	2,978	3,033	2,197	1,062	328	36	…
(in percent of GDP)	4.6	9.5	12.3	12.1	8.5	4.0	1.2	0.1	…
Memorandum items:									
Exports of goods and services (in billion of euros)	45.6	50.1	54.0	58.1	62.5	67.2	72.2	77.1	82.4
GDP (in billions of Euros)	229	226	229	236	244	252	263	274	286
Euro/SDR rate (of Feburary 11, 2011)	1.149								
Quota	823								

Source: IMF staff projections.

Table 17. Greece: Access and Phasing under the Stand-By Arrangement

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

Source: IMF staff projections.

Table 18. Greece: Aggregated Balance Sheet of Monetary Financial Institutions (MFIs, Excluding the Bank of Greece)

	2005	2006	2007	2008	2009	2010	2011 proj.	2012 proj.	2013 proj.	2014 proj.	2015 proj.	2016 proj.
	(in billions of euro)											
Assets	286.0	321.0	391.3	464.5	491.9	514.1	466.7	444.9	461.0	487.8	522.2	562.4
Cash	2.2	2.6	2.7	2.7	2.5	2.1	2.0	2.0	2.1	2.2	2.2	2.3
Claims on Bank of Greece	4.4	4.6	7.2	7.9	8.2	10.6	7.1	7.1	7.3	7.6	7.8	8.1
Claims on other MFIs	38.8	43.6	66.3	88.5	112.2	87.6	67.2	55.7	52.6	57.8	67.0	78.3
Claims (Loans) on non MFIs	147.8	167.4	199.3	220.6	214.0	279.8	263.8	252.0	266.3	286.1	308.7	334.3
General Government	6.5	6.0	7.8	8.0	8.2	18.1	16.6	15.9	15.4	14.9	14.5	14.2
Private sector 1/	136.7	156.6	183.4	200.0	192.8	255.1	241.0	229.8	244.4	264.4	287.2	312.8
Other countries	4.5	4.8	8.2	12.6	13.0	6.5	6.3	6.3	6.5	6.7	7.0	7.2
Securities 2/	54.1	60.1	65.4	80.5	95.3	76.0	71.9	74.5	79.7	81.4	83.6	86.1
General Government	31.4	29.7	23.7	23.7	33.6	44.8	46.5	50.5	55.5	57.3	59.3	61.6
Private sector	9.8	14.1	18.9	21.3	18.9	1.1	1.1	1.1	1.1	1.2	1.2	1.2
Other countries	12.9	16.4	22.8	35.5	42.7	30.2	24.3	23.0	23.0	23.0	23.1	23.3
Shares and other equity	9.9	13.9	17.3	16.5	19.2	19.6	18.9	19.2	19.8	20.4	21.1	21.9
Fixed assets	4.6	4.9	4.4	4.4	4.6	4.3	4.2	4.2	4.3	4.4	4.6	4.8
Financial Derivatives	11.8	11.7	12.3	14.6	6.9	2.7	3.7	3.7	3.8	4.0	4.1	4.3
Other assets	12.5	12.3	16.4	28.8	28.9	31.4	28.0	26.3	25.0	23.9	23.0	22.2
Liabilities	286.0	321.0	391.3	464.5	491.9	514.1	466.7	444.9	461.0	487.8	522.2	562.4
Liabilities to BoG	2.4	4.9	8.8	40.6	49.7	97.8	92.6	69.3	51.4	30.1	15.6	5.7
Liabilities to other MFIs	37.5	45.1	69.1	77.8	91.5	66.9	50.3	51.5	54.3	61.3	69.3	78.5
Deposits and repos of non MFIs	187.6	211.1	248.5	280.2	278.8	278.3	254.3	251.6	279.3	316.5	353.0	388.9
Central Government	3.7	3.7	4.0	4.2	3.1	9.0	6.7	5.7	6.0	6.2	6.4	6.7
Other sectors	161.8	177.2	201.0	231.6	242.4	213.2	202.7	206.9	231.3	265.5	298.6	330.8
Other countries 3/	22.1	30.1	43.6	44.3	33.4	56.2	44.9	39.0	42.0	44.8	47.9	51.5
Debt securities issued	0.5	0.8	1.1	3.0	2.4	3.4	4.0	4.0	4.2	4.3	4.4	4.6
Capital and reserves	22.6	24.8	28.9	28.0	39.3	44.0	42.9	45.0	47.0	49.3	52.0	54.9
Financial Derivatives	6.6	6.6	6.9	9.9	7.5	4.3	3.6	3.6	3.7	3.8	3.9	4.1
Other assets	28.8	27.9	28.0	25.0	22.6	19.4	19.0	19.9	21.1	22.4	23.9	25.6
	(in percent of GDP)											
Assets	146.8	146.7	166.9	193.1	201.6	220.7	206.0	193.6	195.1	200.1	206.8	214.4
Claims on non MFIs	75.8	76.5	85.0	91.7	87.7	120.1	116.5	109.7	112.7	117.4	122.2	127.4
General government	3.3	2.7	3.3	3.3	3.4	7.8	7.3	6.9	6.5	6.1	5.8	5.4
Private sector 1/	70.2	71.6	78.2	83.2	79.0	109.5	106.4	100.0	103.4	108.5	113.7	119.3
Other countries	2.3	2.2	3.5	5.2	5.3	2.8	2.8	2.8	2.8	2.8	2.8	2.8
Securities	27.8	27.5	27.9	33.5	39.0	32.6	31.7	32.4	33.7	33.4	33.1	32.8
General government	16.1	13.6	10.1	9.8	13.8	19.2	20.5	22.0	23.5	23.5	23.5	23.5
Private sector	5.0	6.4	8.1	8.8	7.8	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Other countries	6.6	7.5	9.7	14.8	17.5	12.9	10.7	10.0	9.7	9.4	9.1	8.9
Deposits and repos of non MFIs	96.3	96.4	106.0	116.5	114.3	119.4	112.2	109.5	118.2	129.8	139.8	148.3
Central Government	1.9	1.7	1.7	1.8	1.3	3.8	3.0	2.5	2.6	2.6	2.6	2.6
Other sectors	83.1	81.0	85.7	96.3	99.3	91.5	89.5	90.0	97.9	108.9	118.3	126.1
Other countries 3/	11.3	13.8	18.6	18.4	13.7	24.1	19.8	17.0	17.8	18.4	19.0	19.6
Memorandum items												
(Loans+ debt securities) / deposit	107.6	107.8	106.5	107.5	110.9	127.9	132.0	129.8	123.9	116.1	111.1	108.1
Capital / asset ratio	7.9	7.7	7.4	6.0	8.0	8.5	9.2	10.1	10.2	10.1	10.0	9.8
Provisions / total loans	3.5	3.1	3.0	2.9	3.7	5.1	5.4	5.4	5.4	5.5	5.5	5.5
Liabilities to BoG / total liabilities	0.8	1.5	2.2	8.7	10.1	19.0	19.8	15.6	11.2	6.2	3.0	1.0

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

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

2/ Holdings of securities other than shares and derivatives.

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

Appendix I. Debt Sustainability Analysis
Fiscal

1. **One assumption underlying the fiscal DSA has changed:**

- Privatization receipts have been modestly increased. Pending completion of the privatization plan, they are kept at already identified amounts for 2011 (€2½ billion, and at the amounts defined in the existing plan for 2012-13 (€3 billion in each year).

2. **Baseline and sensitivity analysis remain largely unchanged from the 2nd review (Figure A1 and Table A1).**

- **Baseline**. Under the baseline, debt peaks at 159 percent of GDP in 2012, and declines to 130 percent of GDP by 2020. Large rollover needs in the medium term remain a feature of Greece's debt.

- **Sensitivity analysis**. Shocks emanating from key identified program risks would leave debt at very high levels, and Greece highly vulnerable to second round effects:

  - **Weaker growth**. A slower recovery—a one percentage point reduction in the GDP growth rate each year due for instance to poor traction with structural reforms—would result in debt rising to around 173 percent of GDP by 2020. On the other hand, faster growth by one percentage point would bring the debt down to 92 percent of GDP by 2020.

  - **Recognition of implicit or contingent liabilities**: If the government were forced to absorb all of the state-guarantees, including those to the financial system (amounting to a projected €85 billion after the latest liquidity support tranche), this would leave the debt at 199 percent of GDP by 2020 (190 percent under a 20 percent asset recovery rate).

  - **Weaker fiscal adjustment**: A slower fiscal adjustment—1 percent of GDP less per year due to political constraints—would imply a more gradual decline of the debt ratio to about 142 percent of GDP by 2020.

  - **Higher interest rate**: An interest rate increase of 200bps (reflecting, for instance, an earlier Euro-wide tightening of monetary policies) would increase public debt to 141 percent of GDP by 2020.

  - **Full realization of privatization plans**: Privatization receipts of €50 billion over 2011-15 would reduce the debt to 134 percent of GDP by 2015 (compared with 151 percent of GDP under the baseline scenario), and result in a debt ratio of 112 percent of GDP by end-2020.

- **Combined tailored shock**. This shock considers a notably less favorable scenario, involving: two additional years to bring fiscal policy on target and to restore growth (due to delayed reforms); absorption of €10 billion in contingent banking liabilities; delays in privatization receipts; and higher interest rate spreads (200 bps). Under this scenario, debt-to-GDP would peak a few years later at 181 percent of GDP in 2015, and decline to 175 percent of GDP by 2020, and then remain on a declining path.

Table A1. Greece: Public Sector Debt Sustainability Framework

(In percent of GDP, unless otherwise indicated)

	Actual			Projections											
	2008	2009		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Debt-stabilizing primary balance 10/
Baseline: Public sector debt 1/	110	127		**143**	**153**	**159**	**158**	**154**	**151**	**147**	**143**	**139**	**134**	**130**	**1.2**
Change in public sector debt	5.3	16.5		15.7	10.4	5.6	-0.5	-4.3	-3.1	-3.9	-3.8	-4.2	-4.3	-4.8	
Identified debt-creating flows (4+7+12)	6.1	17.8		15.7	10.4	5.6	-0.5	-4.3	-3.1	-3.9	-3.7	-4.1	-4.2	-4.7	
Primary deficit	4.5	10.1		3.2	0.9	-1.0	-3.5	-6.0	-6.3	-6.0	-6.0	-6.0	-5.9	-5.9	
Revenue and grants	39.7	37.8		40.4	43.1	42.8	42.0	39.3	38.5	38.1	37.7	37.3	36.9	36.5	
Primary (noninterest) expenditure	44.2	47.9		43.5	44.0	41.7	38.5	33.2	32.2	32.0	31.7	31.3	30.9	30.5	
Automatic debt dynamics 2/	0.6	6.2		9.5	8.8	5.3	3.8	3.6	3.6	2.1	2.2	1.8	1.6	1.2	
Contribution from interest rate/growth differential 3/	0.6	6.2		9.5	8.8	5.3	3.8	3.6	3.6	2.1	2.2	1.8	1.6	1.2	
Of which contribution from real interest rate	1.9	3.6		4.1	4.4	6.9	7.0	6.8	7.6	6.3	6.1	5.8	5.6	5.1	
Of which contribution from real GDP growth	-1.2	2.5		5.4	4.4	-1.6	-3.2	-3.3	-4.0	-4.2	-3.9	-4.0	-3.9	-3.9	
Contribution from exchange rate depreciation 4/	0.0	0.0		...	...	...	...	...	...	...	...	...	...	...	
Denominator = 1+g+p+gp	1.0	1.0		1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	
Other identified debt-creating flows	1.0	1.5		3.0	0.8	1.4	-0.8	-1.9	-0.3	0.1	0.1	0.1	0.1	0.1	
Privatization receipts (negative)	0.0	-0.4		0.0	-1.1	-1.3	-1.3	-0.8	-0.8	-0.4	-0.4	-0.3	-0.3	-0.3	
Recognition of implicit or contingent liabilities	1.0	0.3		3.0	1.9	2.7	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.4	
Other (specify, e.g. bank recapitalization) 5/	0.0	1.6		0.0	0.0	0.0	0.0	-1.6	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes (2-3) 6/	-0.9	-1.3		0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1	-0.1	-0.1	
Public sector debt-to-revenue ratio 1/	278.0	335.5		353.0	354.8	370.9	376.2	391.7	391.0	385.5	379.2	372.4	364.4	355.4	
Gross financing need 7/	9.5	15.4		20.9	23.9	26.5	25.6	32.1	31.0	25.6	27.6	22.3	26.8	17.0	
in billions of U.S. dollars	33.2	50.3	10-Year	62.8	69.5	77.5	76.7	99.1	98.3	84.7	95.1	80.3	101.2	67.4	
Scenario with key variables at their historical averages 8/				**143**	**143**	**145**	**144**	**142**	**142**	**142**	**142**	**142**	**142**	**142**	**-1.7**
Scenario with no policy change (constant primary balance) in 2010-2020			Historical	**143**	**155**	**165**	**171**	**177**	**184**	**189**	**195**	**201**	**206**	**211**	**3.9**
Key Macroeconomic and Fiscal Assumptions Underlying Baseline			Average												
Real GDP growth (in percent)	1.2	-2.3	3.3	-4.2	-3.0	1.1	2.1	2.1	2.7	2.9	2.8	2.9	3.0	3.0	
Average nominal interest rate on public debt (in percent) 9/	5.0	4.8	5.5	4.9	4.6	5.0	5.4	5.7	5.7	5.7	5.8	5.9	6.0	5.9	
Average interest rate on new market debt				7.4	7.1	5.6	6.2	6.2	6.3	6.2	6.3	6.4	6.3	6.3	
Average interest rate on all new debt (includes EU bilateral and IMF debts)				4.5	5.0	5.6	6.3	6.5	6.7	6.4	6.4	6.4	6.3	6.3	
Spreads above German bund (10-year)				550	525	350	300	300	300	300	300	300	275	250	
German bund rate				225	275	350	350	350	350	350	350	350	350	350	
Average real interest rate (nominal rate minus change in GDP deflator, in p	1.9	3.2	2.2	3.1	3.0	4.6	4.6	4.5	5.1	4.4	4.4	4.3	4.3	4.0	
Nominal appreciation (increase in US dollar value of local currency, in perc	-6.6	7.2	5.6	...	...	...	...	...	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	3.1	1.5	3.3	1.9	1.6	0.4	0.8	1.2	0.6	1.2	1.4	1.6	1.8	1.8	
Growth of real primary spending (deflated by GDP deflator, in percent)	7.2	5.8	6.2	-12.8	-2.0	-4.2	-5.6	-12.0	-0.5	2.5	1.7	1.6	1.8	1.6	
Primary deficit	4.5	10.1	1.5	3.2	0.9	-1.0	-3.5	-6.0	-6.3	-6.0	-6.0	-6.0	-5.9	-5.9	

1/ General government.

2/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; α = share of foreign-currency denominated debt; and ε = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

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

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

5/ Includes repayment of bank equity injection of Euro 3.8 billion in 2014.

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

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

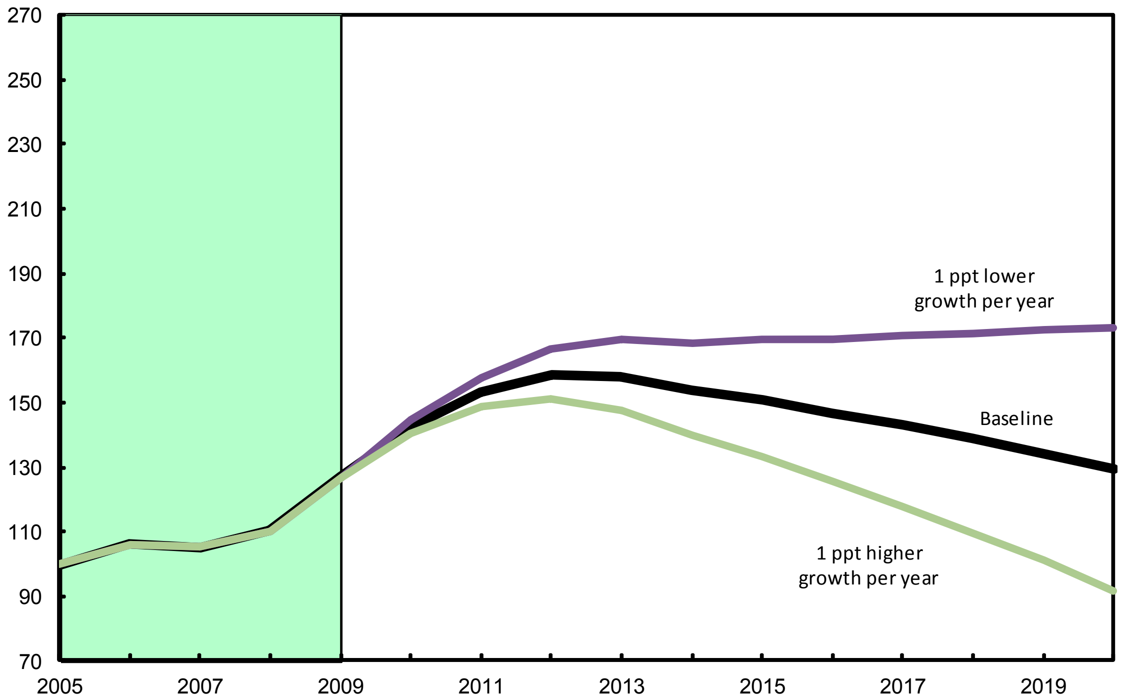
8/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.

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

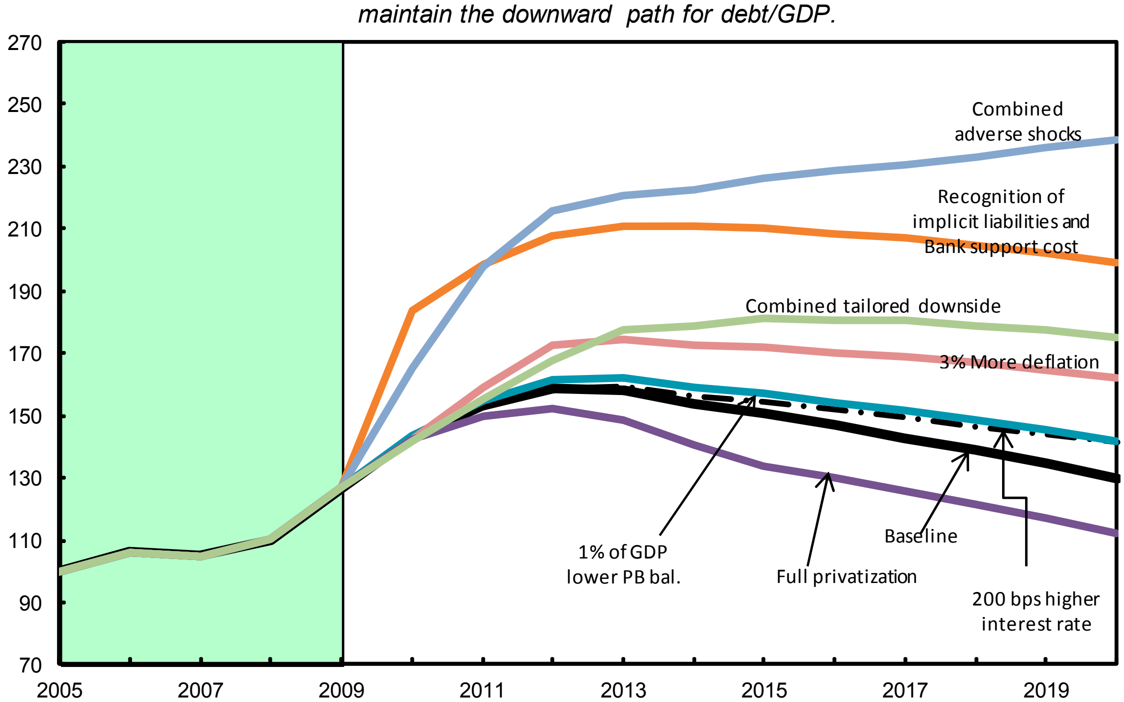
10/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

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

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



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



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

External

3. **Several assumptions underlying the external DSA have been changed:**

- Interest rates on external debt. These have been adjusted to reflect more adverse market conditions, while ensuring consistency with public DSA assumptions.

- Higher oil prices. Oil prices for 2011 is projected at around $95 per barrel, compared to $78, and prices are also assumed to be on average 16 percent higher for 2012-2015.

4. **The revised baseline projections and sensitivity analysis show worse debt outcomes, but debt dynamics remain largely unchanged (Figure A2 and Table A2)**.

- **Baseline**. Under the baseline, the adjustment of external imbalances is more gradual, due to higher commodity prices and higher interest rate assumptions. As a result, the net debt-to-GDP ratio is projected to continue rising and peak at 110 percent of GDP in 2013 (about 6 percentage points higher from previous baseline), and then decline slowly afterwards, to 107 percent of GDP in 2015 (about 9 percent of GDP higher than in the previous baseline).

- **Sensitivity analysis:**

    - **Weaker real GDP growth.** A slower recovery—a one percentage point reduction in the GDP growth rate each year—would result in an increase in the net debt ratio by about 6½ percentage points of GDP by 2015 relative to the baseline.

    - **Higher interest rate.** A higher average interest rate—by 200 basis points reflecting even more adverse market conditions, would increase the debt ratio by about 12½ percentage points of GDP by 2015 relative to the baseline.

    - **Higher current account deficit.** This could arise through long-lasting commodity price shocks or slower-than-anticipated improvements in external competitiveness. With the current account deficit 1½ percent of GDP higher than in the baseline, the debt ratio would be about 10 percent of GDP higher in 2015.

- **Combined (tailored) shock**. Under a tailored downside scenario featuring lower growth, higher interest rates, and weaker fiscal adjustment (as explained in the fiscal DSA), the current account would adjust more slowly. Hence, external debt would peak in 2014, but fall after that. This is closely in line with the pattern for public sector debt, which peaks later, and starts to fall in the second half of the 2010s.

Table A2. Greece: External Debt Sustainability Framework

(In percent of GDP, unless otherwise indicated)

	Actual					Projections						
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Debt-stabilizing non-interest current account 7/
Baseline: External debt	58.2	61.7	67.5	74.4	85.8	**97.3**	**105.4**	**108.6**	**109.6**	**108.8**	**106.8**	**0.2**
Change in external debt	4.6	3.5	5.8	7.0	11.3	11.5	8.2	3.2	1.0	-0.8	-2.0	
Identified external debt-creating flows (4+8+9)	2.2	3.9	4.7	10.5	11.1	11.7	8.8	4.0	1.9	0.3	-0.9	
Current account deficit, excluding interest payments	5.7	9.0	11.7	11.5	8.4	7.9	5.0	3.7	2.2	0.5	-1.1	
Deficit in balance of goods and services	6.2	9.4	11.0	11.4	7.7	6.6	3.9	2.5	0.6	-1.2	-2.9	
Exports	21.3	21.1	21.5	22.7	18.0	19.9	22.1	23.5	24.6	25.5	26.6	
Imports	27.5	30.5	32.5	34.1	25.7	26.4	26.0	26.0	25.2	24.3	23.7	
Net non-debt creating capital inflows (negative)	-2.8	-3.2	-5.3	-1.4	-0.8	0.1	-0.9	-1.6	-1.7	-1.8	-1.9	
Automatic debt dynamics 1/	-0.8	-2.0	-1.7	0.3	3.5	3.7	4.7	1.9	1.4	1.6	2.2	
Contribution from nominal interest rate	1.8	2.2	2.6	3.1	2.6	2.6	3.2	3.5	4.5	5.1	5.6	
Contribution from real GDP growth	-1.1	-2.4	-2.6	-0.5	1.7	3.6	3.0	-1.1	-2.2	-2.3	-2.8	
Contribution from price and exchange rate changes 2/	-1.5	-1.7	-1.8	-2.3	-0.9	-2.5	-1.5	-0.5	-0.9	-1.3	-0.6	
Residual, incl. change in gross foreign assets (2-3) 3/	2.4	-0.4	1.0	-3.5	0.3	-0.2	-0.6	-0.8	-1.0	-1.1	-1.1	
External debt-to-exports ratio (in percent)	273.4	292.9	314.2	327.3	476.5	489.9	476.9	462.6	446.4	425.9	401.4	
Gross external financing need (in billions of euros) 4/	49.8	68.8	90.4	106.8	165.3	180.8	195.2	171.1	149.7	178.2	246.2	
in percent of GDP	25.6	32.6	39.8	45.1	70.3	78.0	86.2	74.4	63.3	72.8	97.4	
Scenario with key variables at their historical averages 5/						**97.3**	**99.8**	**102.1**	**104.2**	**106.3**	**108.3**	**-3.6**
Key Macroeconomic Assumptions Underlying Baseline												
Real GDP growth (in percent)	2.2	4.5	4.5	0.8	-2.3	-4.2	-3.0	1.1	2.1	2.1	2.7	
GDP deflator in US dollars (change in percent)	2.8	3.1	3.0	3.5	1.2	3.0	1.6	0.4	0.8	1.2	0.6	
Nominal external interest rate (in percent) 6/	3.6	4.1	4.6	4.9	3.5	3.0	3.3	3.4	4.3	4.8	5.4	
Growth of exports (euro terms, in percent)	5.2	7.4	9.6	10.4	-21.5	7.7	10.0	7.8	7.6	7.5	7.6	
Growth of imports (euro terms, in percent)	8.6	20.2	14.3	9.6	-25.2	0.3	-3.9	1.5	-0.3	-0.2	0.6	
Current account balance	-7.6	-11.2	-14.4	-14.7	-11.0	-10.5	-8.2	-7.2	-6.7	-5.6	-4.5	
Net non-debt creating capital inflows	2.8	3.2	5.3	1.4	0.8	-0.1	0.9	1.6	1.7	1.8	1.9	

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g=real GDP growth , e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

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

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

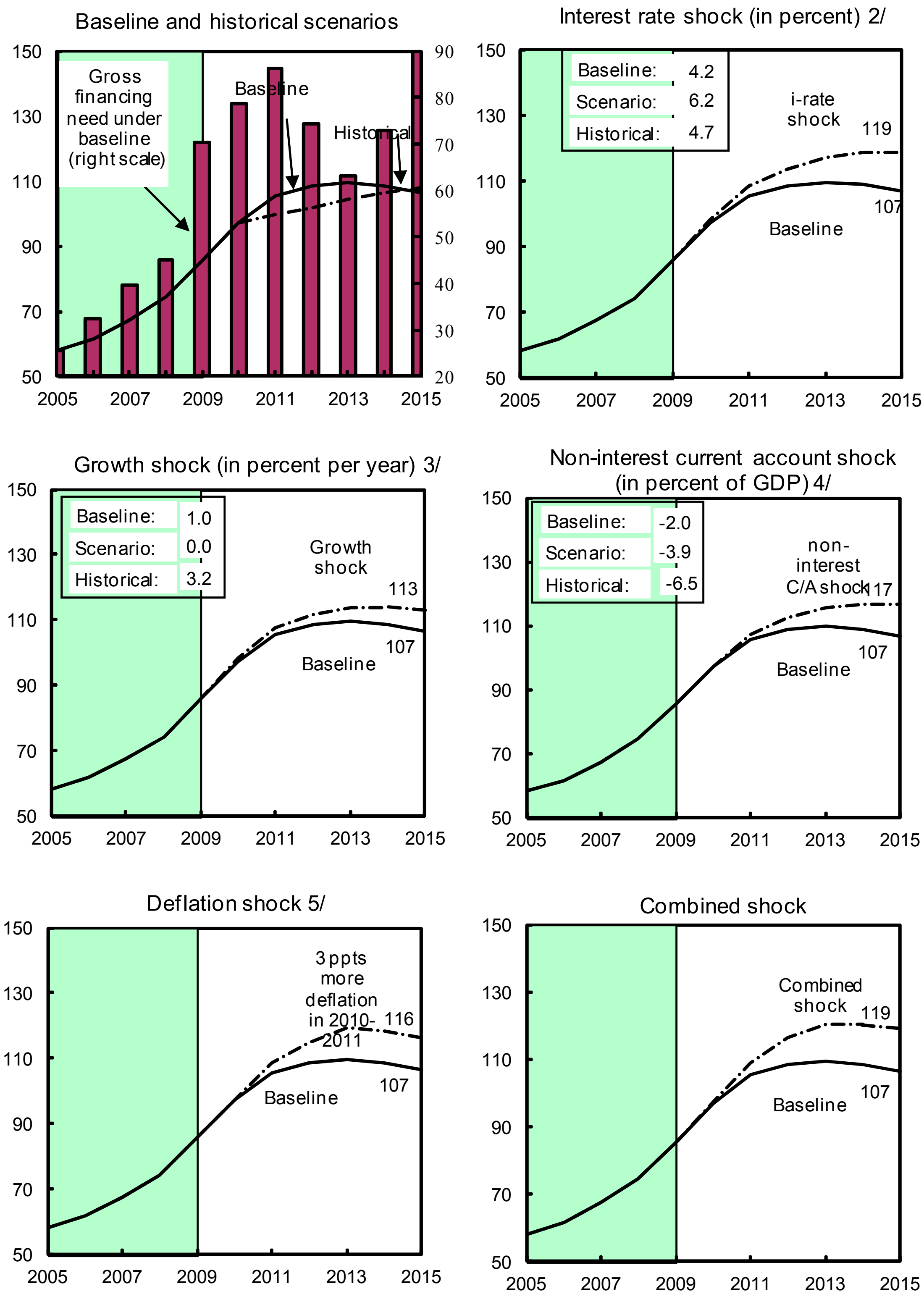
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

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

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

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

Figure A2. Greece: Net External Debt Sustainability: Bound Tests 1/
(External debt in percent of GDP)



Sources: Greek authorites, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ Interest rates are increased by 200bps for the projection period.
3/ Growth rates lower by 1 percentage point.
4/ Current account deficit higher by a 1/4 of standard deviation.
5/ Inflation lower by 3 percentage points in 2010 and 2011.

Appendix II. Fund Relations

(As of January 31, 2011)

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

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

III. **General Resources Account**:	**SDR Million**	**Percent Quota**
Quota	823.00	100.00
Fund holdings of currency	9,783.45	1,188.75
Reserve position in Fund	170.95	20.77

IV. **SDR Department**:	**SDR Million**	**Percent Allocation**
Net cumulative allocation	782.36	100.00
Holdings	609.06	77.85

V. **Outstanding Purchases and Loans**:	**SDR Million**	**Percent Quota**
Stand-by Arrangements	9,131.30	1,109.51

VI. **Latest Financial Arrangements**:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By	May 09, 2010	May 08, 2013	26,432.90	9,131.30

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

	Forthcoming				
	2011	2012	2013	2014	2015
Principal			1,471.81	4,565.65	3,093.84
Charges/Interest	252.28	263.77	289.21	202.84	34.88
Total	252.28	263.77	1,761.02	4,768.49	3,128.72

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

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

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

XI. The Third Review. This took place from January 26 to February11 with the Minister of Finance, Governor of the Bank of Greece, and other Cabinet Ministers; and staff in these and other ministries. The mission also met private banks, think tanks, employer associations. The staff team comprised P. Thomsen (head), M. Flanagan, G. Everaert, H. Floerkemeier, E. Perez Ruiz (all EUR); G. Palomba (FAD); Y. Sun (SPR); and O. Frecaut, G. Mitchell Casselle and A. Buffa di Perrero (MCM). B. Traa, S. Eble, and G. Gatopoulos (IMF resident representative office) assisted the mission.

XII. **Technical Assistance**:

Department	Purpose	Date
MCM	Banking supervision	March 2010
FAD	Public Financial Management: initial analysis and priority reforms	April 2010
FAD	Revenue Administration: Initial analysis and priority reforms	April 2010
STA	Data quality and misreporting (K-1 Report)	April 2010
FAD	Expenditure Policy	June 2010
FAD	Public financial management: Follow up on priority reforms	June 2010
MCM	Implementation of financial sector components of the SBA program	June 2010
FAD	Revenue Administration: Design and implementation of the anti-evasion plan	July 2010
MCM	Implementation of financial sector components of the SBA program	September 2010
FAD*	Revenue administration: Implementation status of the anti-evasion plan	September 2010
FAD	Public Financial Management: Implementation status of priority reforms	September 2010
FAD	Revenue Administration: Progress on the anti-evasion plan and the medium term reform agenda	October 2010
STA	Monitoring of fiscal data for the program	September 2010

* With participation from LEG.

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

ATTACHMENT I. GREECE: LETTER OF INTENT

Athens, February 28, 2011

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

Dear Mr. Strauss-Kahn:

In the attached update to the Memoranda of Economic and Financial Policies from May 3, August 6, and December 8 2010 (MEFPs), we describe progress and policy steps towards meeting the objectives of the economic program of the Greek government which is being supported by a Stand By Arrangement.

We continue to make progress with our economic program:

- The quarterly quantitative performance criteria for end-December have all been met, as well as the continuous performance criterion on external arrears. The ESA95 accrual deficit was above target, but at the level projected at the time of the last review, and the overall reduction in the headline deficit in 2010 is estimated to have amounted to a higher-than-initially targeted 6 percentage points of GDP. However, while we managed to reduce the stock of general government arrears at the very end of 2010, it was not enough to prevent us from missing the indicative target.

- Fiscal-structural reforms have been moving forward. A structural benchmark covering an actuarial study of the main pension funds was met. A benchmark on removing barriers to effective tax administration is expected to be met in mid-March (with tabling the legislation in parliament a prior action for the review). A benchmark covering a study of the structure, level and dynamics of public employment and compensation was partially met, and will be completed in the context of the medium-term fiscal strategy. Similarly, a benchmark on improving statistical reporting to Elstat was also partially met, with good progress on signing MOUs with data-providing entities, and the finalization of regulations that now need to be formally approved by Elstat. The attached Memorandum of Economic and Financial Policies lays out an ambitious schedule of next stage actions to support our medium-term fiscal consolidation program, along with reforms to revenue administration and public financial management designed to strengthen budget implementation.

- The financial system remains stable. Private banks have had notable success in raising capital, and state bank restructuring has started. Exceptional ECB liquidity support has helped bridge the system to a point where banks can begin implementing medium-term plans to adjust their funding (as discussed in the memorandum below). The Financial Stability Fund is well-financed relative to projected needs.

- Progress continues with structural reforms. A structural benchmark covering a 2011-13 privatization plan was met, while a benchmark covering collective bargaining reform was partially met (and time will be needed to assess effective implementation). The opening of restricted professions has moved forward with legislation passed by parliament in February. Legislation concerning restructuring of public enterprises has been approved. The attached memorandum lays out next steps, including an expanded privatization and real estate development plan.

On this basis, we request completion of the third review under the Stand-By Arrangement, and the fourth purchase under this arrangement in the amount of SDR 3,604.5 million. As set out in Table 1, we request that existing indicative targets under the arrangement, constituting ceilings and floors for the primary cash balance, state budget primary spending, stock of central government debt, new central government guarantees, and external debt, for September 30 and December 31, 2011, be converted to quantitative performance criteria. As detailed below, we also propose new structural benchmarks: in the fiscal area, to support revision of the personnel framework for the public sector, the completion of a tax administration reform plan, and stronger expenditure and arrears monitoring; in the financial sector area, to support the design of medium-term funding plans for banks; and in the asset and liability management area, to support articulation of an expanded privatization plan (Table 2).

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

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

/s/	/s/
George Papaconstantinou	George Provopoulos
Minister of Finance	Governor of the Bank of Greece

ATTACHMENT II. GREECE: MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

The Outlook

1. **The economy remains on track to stabilize in late 2011**. Industrial production, retail trade, and construction activity point to a continued contraction of output during the first half of 2011. Nevertheless, the recent improvements in some leading indicators (new industrial orders; and industrial turnover for the foreign market; and economic sentiment in manufacturing), alongside a positive contribution of net exports to GDP growth, support program projections of a stabilization in the second half of 2011. For the full year we continue to expect GDP to contract by about 3 percent.

2. **Inflation remains on course to decline to an average of about 2½ percent in 2011.** December headline inflation surprised on the upside on account of rising oil import prices, but inflation at constant taxes is close to zero. With continuing weak domestic demand and continued slack in the economy, the aggregate impact of commodity price pressures and hikes in administered prices and indirect taxes should be contained.

3. **Competitiveness is improving, and the current account deficit should narrow as projected in 2011**. Growth in unit labor costs has turned negative in the second half of 2010, contributing to improved competitiveness of the Greek economy. Combined with weak domestic demand, this should help offset the impact of significantly higher import prices (for oil and other imported commodities), and reduce the current account deficit to around 8 percent of GDP in 2011 (from an estimated 11 percent in 2010).

4. **There remain a number of challenges to overcome to secure the recovery.** Greece has achieved considerable progress in fiscal adjustment to date, but more needs to be done to secure a lower deficit and debt, and to put the adjustment on a more sustainable footing. Similarly, the program has successfully maintained financial stability to date, but banks are still relying heavily on Eurosystem liquidity and face challenges towards ensuring more sustainable funding models. Finally, favorable business environment and supply-side conditions need to be put more firmly into place to support an export and investment led recovery. The rest of the memorandum explains how the program's policy framework will be implemented to address these continuing challenges.

Fiscal Policies

5. **The government's present fiscal priority is to put the ongoing fiscal adjustment on a clearly sustainable path**. While 2010 delivered a large reduction in the ESA95 general government deficit, from 15½ to about 9½ percent of GDP, weaknesses in revenue collection and expenditure control persisted (and some problems with arrears persisted). To sustainably reduce the deficit below 3 percent of GDP by 2014 we will need to keep the 2011 budget on

track, define remaining needed structural adjustment measures, and accelerate our work to strengthen fiscal institutions and processes.

6. **The government remains committed to achieve a €17 billion (7½ percent of GDP general government deficit) in 2011, measured on an ESA 95 basis**. Downside risks to achieve this target exist. Current trends point to a fiscal gap of ¾ percent of GDP for the year as a whole (due to lower projections for revenues and a revised estimate for the yield of our measures). We will specify structural measures to address this gap once we finalize our detailed fiscal structural reform plans in March (below). In the interim, to ensure we continue to meet fiscal targets, we will under execute our budget.

7. **A medium-term budget strategy paper is under preparation.** The strategy paper will set annual spending ceilings for individual line ministries and fiscal balance targets for all general government entities through 2014. It will also define measures to be taken in support of these targets. We estimate that some 8 percent of GDP in permanent measures will be needed, some of which have already been identified in our May 2010 program. The medium-term budget strategy paper will be published for consultation in end-March, approved by the Council of Ministers before mid-April (a **structural benchmark**), and to be voted by Parliament by mid-May. It will be the basis for preparation of the 2012 budget.

8. **The measures supporting the medium-term strategy will be articulated in plans covering several sectors and areas of government spending.** The measures will be designed with the aim to preserve the social safety net, and limit the impact of fiscal adjustment on growth. Each sectoral plan will set a target for budgetary gains to be realized through 2014, with the total amounting to 8 percent of GDP (and additional contingent measures defined as well). Each plan will be available in draft form by end-March (in some cases, more detailed plans may subsequently be produced). Each sectoral plan will be incorporated into the medium-term budget strategy paper.

- **State enterprises**. The plan will be managed by the Secretariat of State Owned Enterprises in the Ministry of Finance, in coordination with line ministries. It will aim to bring the efficiency of the state enterprises into line with well-run private companies and European peers. This will ensure better service to the public at lower cost to the budget. The plan will lay out, by enterprise: tariff increases, operating cost reductions, investment prioritizations, and wage, benefit, and employment adjustments to improve financial results. It will define needed changes in dividend payments and subsidy reductions to accrue savings to the budget. The plan will establish criteria to determine which of these enterprises are to remain in state hands, and anticipate revised state enterprise governance legislation to provide a stronger oversight framework for them. State enterprises defined under general government will be instructed to finalize their own detailed implementation plans by end-June; all other state enterprises will be instructed to finalize their plans by end-year. In both cases they will be instructed to use the overall plan as guidance.

- **Extrabudgetary funds** (other legal entities of the public sector and earmarked accounts)**.** The plan for extrabudgetary funds will be designed and implemented by a dedicated working group operating under the Ministry of Finance, coordinating with the Office of the Deputy Prime Minister. The plan will aim to simplify the structure of the public sector and improve the flexibility of the budget. It will identify entities with overlapping mandates that can be merged, accounts that can be integrated into the budget, and other entities that can be privatized or closed (for outliving their mandate). It will also identify instances where operational costs are out of line with private sector comparators, and define restructuring plans. The plan will specify a two-year implementation timeline including entities and/or accounts to be closed or merged before end-2011, and those to be closed or merged before end-2012.

- **Tax policy reforms.** The tax plan will be managed by a working group established in the Ministry of Finance. It will aim to simplify the tax system, raise revenue in a progressive manner, and facilitate more effective tax administration, while supporting growth and investment. The government expects the business tax code, corporate taxation, tax exemptions, tax incentives, and capital income taxation to be among the principal areas of focus. A more detailed version of the plan will be articulated by end-May, to allow time to consult with tax experts. The plan will indicate the timeline for the stages of the reform. Implementing legislation for the first stage of the reform will be tabled in parliament by end-September.

- **The public wage bill.** The plan will be managed by a joint working group of the Ministries of Interior and Finance. A preliminary report on public compensation and employment, to be published by end-February, unveiled a complex system of wages and benefits, overall levels of compensation above private sector comparators, and significant misallocation of human resources. To reduce excess employment in the public sector, the plan will focus, among other things, attrition, tighter policies for contract workers, and vacant job post cancelations. The plan will identify ways to simplify the wage grid, including allowances. While reducing the wage bill, the plan will aim for some decompression of wages across grades and specialized career streams. The necessary legislative changes to enact the plan will be adopted by end-June 2011 (proposed as a program **structural benchmark.**

- **Public administration.** The plan in this area will be managed by a joint working group of the Ministries of Interior and Finance. The plan will aim to identify services and programs which can be rationalized (either due to private sector alternatives, or outmoded mandate); and to streamline public organizations to eliminate overlapping responsibilities. A more detailed version of the plan will be prepared by end-July (allowing time to take into full account the findings of the ongoing functional reviews of the central administration). This detailed version will set out an implementation timeline, including actions to be taken in the context of approval of the 2012 budgets

- **Social spending reform.** The plan in this area will be managed by a joint working group of the Ministries of Interior, Labor, Health and Finance. The plan will identify ways to streamline social programs to eliminate duplication and make them better targeted. A more detailed version of the plan will be prepared by end-July (allowing time to take into full account the findings of the ongoing functional review of social programs). This detailed version will set out an implementation timeline, including actions to be taken in the context of approval of the 2012 budget.

- **Public investment.** The plan will be managed by a joint working group of the Ministries of Regional Development, Infrastructure, and Finance. The plan will prioritize projects, and estimate in each instance possible savings to the budget from rescheduling projects. On this basis the plan will identify projects which can be removed from the roster, with a view to rationalize overall spending while speeding execution of remaining projects to support growth. The plan will set out by end-June an implementation timeline, including actions to be taken in the context of approval of the 2012 budget.

- **Military spending.** The plan will be prepared by the Ministries of Defense and Finance (under the Government's Committee for Foreign and Defense Policy). It will cover military procurement and military operations spending, (with a view to durably contribute to fiscal consolidation while preserving national defense capabilities. The plan will set out an implementation timeline, including actions to be taken in the context of approval of the 2012 budget, and the medium term plan for military expenditures.

9. **The government is preparing for a next phase of social security reforms, during the latter half of 2011:**

- **Pensions**. Confirming the ambition of the first phase of the reform, the National Actuarial Authority's projections suggest that the July 2010 pension reform has gone a long way towards stabilizing spending of the main pension funds at the 2009 level (in relation to GDP). However, problems remain in the supplementary and welfare funds, and with pensions for arduous professions. The National Actuarial Authority is on track to complete an assessment of the main supplementary funds by end-March 2011 (**structural benchmark**). We will reform supplementary and welfare funds to eliminate imbalances in those funds with deficits; introduce a strict link between benefits and contributions to guarantee the sustainability of all funds, and reduce the number of existing funds. The government will also revise the list of heavy and arduous professions to reduce it to less than 10 percent of employees (current and future). To limit pension spending increases to less than 2½ percent of GDP by 2060, we remain prepared, if needed, to adjust further the parameters of the main pension funds. Reforms will be adopted by end-September 2011 and implemented beginning January 1, 2012, with the principal focus on the supplementary funds.

- **Health**. We are broadly on track with implementation of the measures underpinning the 2011 budget (e.g. cost-reducing reforms in hospitals, co-payments, and applying the extended negative list of non-reimbursable pharmaceutical products). Steps have also been taken towards the full computerization of the public hospitals. To help overcome delays in extending e-prescribing systems, we will launch a tender by end-April to implement a comprehensive and uniform health care e-prescribing system. Meanwhile, an independent task force has been appointed to map out an overall reform of the health system. It will produce an interim report by end-March, and a final report by end-May 2011 defining policies and quantitative targets in specific areas, including service provision, pharmaceutical spending, financing and governance of the health system, and accounting and assessment systems. Using this report, the government will adopt a time-bound action plan by end-June 2011.

10. **The Ministry of Finance is moving forward with the implementation of comprehensive fiscal institutional reforms**:

- Concerning **revenue administration** reforms**:**

  - *The anti-tax evasion action plans are being implemented*. The five task forces started implementing these plans in January. The Ministry of Finance will publish and announce the anti-evasion plans in March, and subsequently publish monthly reports on the performance of these task forces, including a set of pre-defined progress indicators, beginning at end-March.

  - *Barriers to effective administration are being removed*. Legislation will be tabled in parliament (**prior action**) to: streamline the judicial appeal process and create an independent arbitration process; to create a new disciplinary body to accelerate investigations of misconduct in the revenue administration; strengthen the administrative tax dispute process and to remove a number of barriers to efficient tax collection (e.g. simplifying debt recovery and allowing installment payments, subject to strict controls on abuse, for taxpayers experiencing financial hardship).

  - To institutionalize and consolidate the results of the anti-evasion plan, we remain committed to articulate a strategic plan of medium-term reforms, and anticipate this will be done by end-June (proposed as a program **structural benchmark**). The plan will introduce a risk management framework and a large tax payer unit, and cover the re-building of the tax audit function.

- Regarding **public financial management** reforms:

  - *Initiatives to strengthen spending controls are progressing*. Commitment registers are in the process of being established in line ministries and in the main general government entities, and will provide consistent commitment and arrears data starting in March, with limited coverage gaps. We are providing training and technical assistance to various general government entities with the aim to complete the establishment process during the first quarter for all social security funds, and major local authorities. We remain committed to appointing, by end-March, accounting officers in all line ministries and main general government entities (with responsibility to ensure sound financial controls and proper reporting). A presidential decree will be issued specifying the qualifications and responsibilities of these officers, as well as the appointment procedures.

- *Fiscal reporting is being improved.* ELSTAT has now concluded Memoranda of Understanding with 9 ministries and entities, with the aim to improve the compilation of ESA95 general government fiscal statistics. Concerning arrears reporting, we intend to finalize the December report by end-March, to allow extra time to ensure full coverage of both recurrent and investment spending, and across all line ministries, social security funds, public hospitals, extra budgetary funds, and the largest local governments. Beginning with end-March, we will publish monthly consolidated general government reports with revenue, expenditures and intra-governmental transfers for each sub-sector of the general government. Publishing three consecutive months of consistent arrears and consolidated general government fiscal reports (excluding small general government entities) is proposed as a **structural benchmark** for end-June. To help ensure timely reports, we will adapt the incentives of agencies and ministries; in particular we will introduce automatic administrative and/or financial sanction mechanisms on institutions and/or responsible officers for delays in reporting.

- *Gaps in our budget framework will be addressed*. We will amend Law 2469/1997, by end-June 2011, to strengthen the existing legal framework requiring that legislative proposals carrying budget burdens be accompanied by an assessment by the Ministry of Finance. This assessment will provide an estimate of the budgetary cost, and either certify that costs are already covered in the budget, or in the event that costs go beyond budgeted amounts, that resources have been identified to pay these costs.

Asset and liability management

11. **The government remains focused on securing stronger market confidence and reducing the spreads on its debt.** The program remains fully financed. The disbursements by the euro-area Member States and the IMF are expected to almost fully cover Greece’s gross financing needs during 2011, (amortization of medium and long-term debt, the cash deficit and full arrears clearance) and contribute significantly to financing needs in 2012. While timely and comprehensive implementation of the program remains key, we intend to scale up our privatization program to help reduce public debt, facilitate a more gradual return to bond markets, and provide an additional impetus to lower spreads.

12. **The government plans to notably scale up the privatization and real estate development program.** Besides the contribution to debt reduction, this will help to support higher investment and growth:

- A **comprehensive plan** through 2013 will be finalized, taking as a starting point the existing privatization plan for 2011-13 (covering, inter alia, the railroad sector, airports, post office, water companies, ports, and gaming companies); as well as the state enterprise restructuring plans (which will identify entities to be sold, as discussed above). As a key additional building block, we will complete by end-June a first inventory of commercially-viable public real estate, including an estimate in each instance of valuation. By end year we will extend this to other real estate that has commercial potential. The plan will target proceeds of about €15 billion until the end of the program, and we expect the pace of privatization and real estate development to pick up in the following years. It will provide a quarterly and semiannual schedule for transactions scheduled one-year and two years ahead respectively. An initial draft of the plan will be prepared by end-March and a final plan will be adopted by the Council of Ministers by end-July (proposed as a **structural benchmark**). We will consult with the European Commission, ECB, and IMF staff on any new legislative initiatives regarding privatization.

- **Development and management of the government's real estate assets will be strengthened**. Building on the end-June inventory, the government will create a first portfolio of major real estate assets. A second will be created after the end-2011 inventory. These will become available for investment during the plan period. The government will appoint, by end-March external and financial advisors for the formation of these portfolios, and the structuring of the associated privatization transactions. Furthermore, the government will establish a General Secretariat of Real Estate Development under the Ministry of Finance as well as appropriate special investment vehicles, in order to improve coordination and accelerate the privatization and asset management program.

13. **We have mapped out the near-term contours of our debt issuance program**. The public debt management authority (PDMA) will concentrate on treasury bill issuance, where we have seen good demand. We will expand issuance to maturities of up to a year as demand permits. We also intend in 2011 to introduce a diaspora bond issuance program targeted at the Greek expatriate community.

Financial sector policies

14. **The financial system has remained stable, and the priority is to support banks' efforts to restructure in an orderly manner.** The banking system remains solvent. The challenge for the government and Bank of Greece will be to facilitate reduced dependency on

Eurosystem liquidity over time while laying the basis for sustainable growth, and to ensure an effective capital safety net.

15. **Initiatives underway should help preserve sufficient system liquidity**. As a temporary measure, the government will put forward for legislative adoption a new tranche of government guarantees for uncovered bank bonds (proposed as a **structural benchmark** for end-March). The tranche will be in an amount of €30 billion, and the guarantee scheme will be subject to approval by decision of the European Commission. This additional liquidity should provide an adequate buffer to address liquidity issues potentially arising from continued market volatility. The tranche will be made available, on a bank-by-bank basis, conditioned on the adoption and implementation of medium-term funding plans by banks.

16. **The Bank of Greece has asked banks to devise and implement medium-term funding plans**. The plans will aim at reducing banks' reliance on Eurosystem refinancing operations and state guarantees over a medium-term horizon, at a pace consistent with the program's macroeconomic and fiscal framework. The plans will consist of institution-specific measures, pertaining, for instance, to the size and composition of balance sheets, capital structure, and operational efficiency. Preliminary drafts will be completed by mid-April. The Bank of Greece and the ECB, in close cooperation with the EC and IMF will assess the adequacy of these plans, which will be consistent with the EU/IMF Program (and with the restructuring/viability plans submitted by individual banks to the EC for separate approval under the competition rules). Submission of these plans to the ECB and the Bank of Greece is proposed as a program **structural benchmark** for end-May 2011.

17. **The restructuring of state banks is moving forward.** For ATE, due diligence of the loan portfolio, performed by a reputable international accounting firm, has confirmed a capital need in the order of €300 to 400 million. The exact size of the capital increase will be finalized by end-February 2011, also based on a review by the BoG, and we will then proceed with all other necessary steps, including approval by the EC. We intend to meet the bulk of ATE's capital needs by relying on the surplus reserves of the HCLF, and are on track to unbundle the HCLF's commercial activities by end-March. We are also taking steps towards removing barriers to state bank restructuring, and by end-March 2011 expect to table legislative changes that will place all registered bank employees under the same private sector status, regardless of the bank ownership type. We are committed to consider the sale of our state bank holdings, as market conditions permit.

18. **We will continue to encourage private banks to raise capital and restructure as needed**. Through the sale of non-core assets, rights issues, and capital injections from foreign parents, private banks have generally been able to keep their capital ratios well above the regulatory minimum. Going forward we will continue to require banks to actively raise capital on their own as needs arise, and in this context will encourage them to explore strategic alliances with domestic and foreign banks. We will also support their efforts to

restructure operations, including by taking steps to limit bonuses and eliminate the so called "balance sheet premium," or equivalent measures. For viable banks (as assessed through their business plans), the FSF will remain available as a capital backstop.

19. **The FSF is operating, and has sufficient funds for capital support**. The Board is in place, along with arrangements to second staff from the Bank of Greece and to retain external consultants. Hiring of an appropriate level of full time staff should be complete by end-June 2011. In terms of funding, beyond the €1½ billion available in its account at the Bank of Greece, another €1 billion will be made available in a separate dedicated government account to be set up by end-February 2011. The remainder of the €10 billion foreseen for the FSF will be deposited into the dedicated government account, beginning with a deposit of €1 billion during the second quarter of 2011. Amounts will be released to the FSF consistent with the need for bank capital determined by program reviews.

20. **Strong and effective supervision is of key importance**. In this context, the strengthening of banking supervision in terms of resources has not been commensurate with the rising needs, but we are intensifying our efforts to address this situation. In particular, the difficulty of hiring appropriately qualified staff has not yet been addressed, but we now expect the ongoing hiring program to be complete by end-June 2011. The Bank of Greece will continue to ensure prudential bank supervision and will continue to focus on and take actions aimed at preserving financial stability in Greece.

21. **Steps are being taken to strengthen the insurance sector.** The Bank of Greece took over insurance supervision as of December 2010, and has requested technical assistance from the IMF to strengthen this function. We will undertake a diagnostic assessment of insurance firms (including stress tests), and review the adequacy of existing policyholder protection schemes. This diagnostic work, to be completed by end-June, will inform a strategy to secure the sector, and in a manner that protects the government from financial commitments.

Structural reform policies

22. **The government remains committed to achieving enough progress with structural reforms to spark an investment and export led economic revival in 2011**. The scope of the work necessarily remains broad, covering labor market reforms, product and service market liberalization, and reforms to the business environment (to reduce the red tape holding up investment).

23. **Implementation of labor market reforms is underway**. Legislation covering arbitration and collective bargaining was passed in December. Concerning collective bargaining, in order to encourage greater wage flexibility, the government allowed for special firm-level collective agreements. These were subject to some conditions, including the non-binding evaluation by the Labor Inspectorate (gathering representatives of the government, social partners, and local authorities), and consent by sectoral unions in small firms. The

government will closely monitor the implementation of this reform and underscore the right of social partners at the firm level to utilize special firm level agreements, as well as reaffirm the nonbinding nature of the Labor Inspectorate assessments. The government is prepared to amend the legislation by end-July if it proves necessary to support greater firm-level wage flexibility.

24. **Restricted professions are on track to be liberalized in 2011**:

- A framework law will be passed by end-February (a **prior action** for the review):

  - The law will remove various restrictions to competition in regulated professions. These restrictions will include those related to quantity, geography, scale, incorporation, prices, number of licenses, and prior conditions for licenses. Following the passage of the legislation a 4 month period will be provided to define exceptions to this general liberalization. These will abide by the principles of non-discrimination, necessity and proportionality, and will be subject to approval by the Council of State and an assessment of economic rationale. The Ministry of Finance will produce a report evaluating implementation by end-September 2011.

  - The law will also address specific closed professions (lawyers, notaries, engineers, architects, and auditors). Key changes will include: (i) for notaries, a substantial reduction of fees (through a regressive scale) and free negotiation of prices for high-value transactions; (ii) for lawyers, elimination of minimum prices (except for justified cases such as legal aid); (iii) for engineers and architects, elimination of minimum fees; and (iv) for auditors, a two-year sunset clause for the regulation of working hours (minimum-per-audit and maximum-per-year working hours).

- A separate law, also to be legislated by end-February, will address the closed pharmacist profession. It will permit incorporation, increase operating hours, reduce fixed profit margins, and reduce the minimum population criterion for opening new pharmacies.

- To minimize any ambiguity in this reform, the Ministry of Finance will address a circular to competent ministries in order to list the professions subject to liberalization principles and requesting that Ministries take all necessary administrative steps to implement the law within 4 months.

25. **We will also undertake some industry-specific liberalization during 2011.** Reports analyzing reforms in the tourism and retail trade sectors and their potential contribution to employment, growth and disinflation, remain under preparation. The diagnostic work has been completed, and we anticipate that recommendations and time-bound action plans will be available by end-April. Beyond these key industries another important focus will be the liberalization of the energy sector, including: (i) competitive access to lignite fired generation capacity; (ii) the gradual deregulation of tariffs; (iii) the unbundling of transmission and

distribution from generation; and (iv) a plan awarding hydro management to an independent body.

26. **Key business environment reforms recently legislated are being implemented, while we prepare new initiatives for later in the year**:

- **Parliament will in March approve a new law for the competition authority, and new licensing laws**. The competition law will aim to increase the efficiency and effectiveness of the competition authority; strengthen the independence and continuity of its Board; maintain its financial capacity, and reinforce its governance and accountability. The licensing law will set a deadline for issuing necessary opinions (with a non-response to provide for tacit agreement) and a deadline for granting licenses. The companion law covering environmental permits will set a deadline for issuing necessary opinions (with a non-response to provide for tacit agreement, without prejudice to other environmental legislation); and a deadline for granting permits. It will also provide for a reclassification of environmental impact categories in line with EU average practices, and for coordination of licensing procedures by electronic means.

- **We are working to implement these and earlier laws**. To operationalize the licensing law, we will issue the necessary presidential decrees (by end-June). To complete the preparations for one-stop shops, we will complete the data migration from the Chambers to the General Commercial Registry, and issue all Ministerial decisions required by the law by end-March. To set in motion the framework for approvals of large investment projects, we will issue the necessary ministerial decisions and transfer experts in the evaluation of projects from other public entities by end-June. We intend to issue a report by end-June covering the status of implementation of all business environment reforms.

  A number of additional reforms should be finalized during 2011. We will amend legislation to remove administrative burdens on exports by end-September; accelerate progress towards a well-functioning land registry; and minimize legal and administrative impediments to the implementation of public works and investment projects. We will also adopt legislation by end-March to establish a Single Public Procurement Authority with the mandate to issue opinions on new legislation affecting public procurement; draft standardized tender documents of a binding nature; and perform effective control functions.

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

	2010			2011				Medium Term 5/	
	Dec-10			Mar-11	Jun-11	Sep-11	Dec-11	Dec-12	Dec-13
	Progr. 1/	Adjusted Progr. 1/ 7/	Act.	Progr. 2/	Progr. 2/	Progr. 2/	Progr. 2/	Progr. 3/	Progr. 4/
Performance Criteria (unless otherwise indicated)									
1. Floor on the modified general government primary cash balance	-5.7	-5.7	-5.5	-2.0	-4.3	-4.0	-3.2	2.4	7.4
2. Ceiling on State Budget primary spending	67	67	61	15	30	45	63	68	69
3. Ceiling on the overall stock of central government debt	342	366	340	394	394	394	394	..	..
4. Ceiling on the new guarantees granted by the central government	2.0	2.0	1.3	1.0	1.0	1.0	1.0	0.0	0.0
5. Ceiling on the accumulation of new external payments arrears on external debt contracted or guaranteed by general government 6/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indicative Targets									
6. Ceiling on the accumulation of new domestic arrears by the general government	0.0	0.0	3.0	0.0	0.0	0.0	0.0	0.0	0.0

1/ Cumulatively from January 1, 2010 (unless otherwise indicated).
2/ Cumulatively from January 1, 2011 (unless otherwise indicated).
3/ Cumulatively from January 1, 2012 (unless otherwise indicated).
4/ Cumulatively from January 1, 2013 (unless otherwise indicated).
5/ Indicative targets.
6/ Applies on a continuous basis from January 1, 2010 onward.
7/ Adjustor for upward revision to end-2009 stock of central government debt.

Table 2 Greece: Structural Conditionality

Measures	Macrocritical relevance	Status
End-December structural benchmarks		
1. Publish a detailed report by the ministry of finance in cooperation with the single payment authority on the structure and levels of compensation and the volume and dynamics of employment in the general government.	Reduces wage escalation. Improves transparency of public sector employment.	Partially observed (with delay). A report was completed in Januar and published in February, that covered part of the general government.
2. Adopt new Regulation of Statistical Obligations for the agencies participating in the Greek Statistical System.	Enhance confidence in fiscal reporting and support the formulation of fiscal policy.	Partially observed (with delay). MoUs between key data-providing institutions and ELSTAT have been drafted and have been signe The regulation now must be apporved by ELSTAT
3. Prepare a privatization plan for the divestment of state assets and enterprises with the aim to raise at least €1 billion a year during the period 2011-2013.	Reduces state intervention in the real economy; improves market efficiency; and cuts fiscal contingencies.	Observed
4. The National Actuarial Authority to produce a report to assess whether the parameters of the new system significantly strengthen long-term actuarial balance.	Reduces budgetary costs of ageing and improves long-term fiscal sustainability. Increases labor force participation.	Observed
Prior actions:		
1. Table legislation to: (i) streamline the administrative tax dispute and judicial appeal processes; (ii) remove impediments to the exercise of core tax administration functions (e.g. centralized filing enforcement and debt collection, indirect audit methods, and tax returns processing); and (iii) introduce a more flexible human resource management system (including the acceleration of procedures for dismissals and of prosecution of cases of breach of duty). (Structural becnhamrk for end-February)	Removes legal and administrative impediments to tax collection.	Observed
2. Pass a framework law removing restrictions to competition in regulated professions (as defined in the EU Services Directive), addressing specific closed professions (lawyers, notaries, engineers, architects, and auditors)	Liberalizes services sector with the aim to strengthen competition and improve efficiency.	Observed
End-March structural benchmarks		
2. Appointment of financial accounting officers in all line ministries and major general government entities (with the responsibility to ensure sound financial controls).	Improves control and transparency of budget expenditures.	
3. Pass legislation to separate the core consignment activity from the commercial activities of the HCLF.	Fosters banking sector stability.	
4. The National Actuarial Authority to produce a report for the main supplementary funds to assess whether the parameters of the new system significantly strengthen long-term actuarial balance.	Reduces budgetary costs of ageing and improves long-term fiscal sustainability. Increases labor force participation.	
End-April structural benchmarks		
5. Publish the medium-term budget strategy paper, laying out time-bound plans to address: (i) restructuring plans for large and/or loss making state enterprises; (ii) the closure of unnecessary public entities; (iii) tax reform; (iv) reforms ot public administration; (v) the public wage bill; and (vi) military spending.	Supports fiscal consolidation.	
Proposed new structural conditionality		
6. Government to put forward for legislative adoption a new tranche of government guarantees for uncovered bank bonds (end-March 2011).	Assures sufficient banking system liquidity.	
7. Commercial banks to submit medium-term funding plans to the ECB and the Bank of Greece (end-May 2011)	Aims at reducing banks' reliance on Eurosystem refinancing operations and state guarantees over the medium term.	
8. Articulate a strategic plan of medium-term revenue administration reforms to fight tax evasion (end-June 2011).	Institutionalizes and consolidates the results of the anti-evasion plan.	
9. Publish three consecutive months of consistent arrears and consolidated general government fiscal reports (excluding small local governments) (end-June 2011).	Supports measures to reduce arrears across general government.	
10. Adopt the necessary changes to enact the plan to reform the general government personnel system (end-June 2011)	Supports the medium term fiscal adjustment plan.	
11. The Council of Ministers to adopt a comprehensive privatization plan through 2015 (end-July, 2011).	Upscaled privatization program to contribute to debt reduction and to support higher investment and growth.	

ATTACHMENT III. GREECE: TECHNICAL MEMORANDUM OF UNDERSTANDING

February 28, 2011

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

2. For program purposes, all foreign currency-related assets, liabilities, and flows will be evaluated at "program exchange rates" as defined below, with the exception of the items affecting government fiscal balances, which will be measured at current exchange rates. The program exchange rates are those that prevailed on April 30, 2010. In particular, the exchange rates for the purposes of the program are set €1 = 1.3315 U.S. dollar, €1 = 125.81 Japanese yen, €1.135 = 1 SDR.

General Government

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

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

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

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

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

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

- This definition of general (central) government also includes any new funds, or other special budgetary and extra budgetary programs that may be created during the program period to carry out operations of a fiscal nature. The government will inform IMF, European Commission and ECB staff of the creation of any such new funds, programs, or entities immediately. The general (central) government, as measured for purposes of the program monitoring in 2010, shall not include entities that are re-classified from outside general (central) government into general (central) government during the course of 2010. During the course of 2011, such reclassified entities will be included, as specified below. Entities that are reclassified during the course of 2011 from outside general (central) government into general (central) government will be excluded for the 2011 program monitoring.

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

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

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

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

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

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

- **The change in the stock of arrears from line ministries.** The change in stock will be measured on a cumulative basis, from January 1, 2011 onwards as the stock of arrears prevailing at the time of measurement of the PC minus the stock of arrears prevailing at end-December 2010. The stock of arrears will reflect all arrears outstanding, irrespective of the time period in which the unpaid commitments were entered into. The stock of arrears of line ministries or other spending bodies with a vote in the budget (including the Secretariat General of Information/Secretariat General of Communication, Secretariat General of Prefectures, Presidency of the Hellenic Democracy, and the Hellenic Parliament) will include any arrears (as defined under subsection C) related to the activities of the ordinary and investment budgets. Data will be in line with the monthly publications of state budget arrears, published on the Ministry of Finance website, and are expected to be based on the data from the commitment registers.

- **The change in net financial assets of local governments** is defined on a transactions basis, as the change in the total of financial assets minus financial liabilities of local authorities adjusted for valuation changes by the Bank of Greece.
    - Financial assets include (but are not limited to) deposits of local governments in the Bank of Greece and deposits of local governments in domestic credit institutions. Deposits will be measured at face value excluding accrued interest in line with recording for monetary survey data.
    - Financial liabilities include (but are not limited to) short and long term loans from domestic credit institutions to local governments, measured at face value, consistent with recording for monetary survey data.
- **The change in net financial assets of social security funds** is defined on a transactions basis, as the change in the total of financial assets minus financial liabilities of social security funds, adjusted for valuation changes by the Bank of Greece; minus the change in the stock of arrears of public hospitals (NHS hospitals) to entities outside of the general government.
    - Financial assets include
        - Deposits of social security funds in the Bank of Greece and deposits of social security funds in the domestic credit institutions and deposits held either directly or indirectly through the IKA mutual fund. Deposits are measured at face value excluding accrued interest, consistent with reporting requirements for monetary survey data.
        - Holdings of shares quoted on the Athens Stock Exchange held by social security funds either directly or indirectly through the IKA mutual fund).
        - Direct or indirect holdings of Mutual Fund units issued by Greek management companies (other than the IKA mutual fund).

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

- Bank bonds issued abroad.

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

- The change in the stock of arrears of public hospitals (NHS hospitals) to entities outside of the general government. Data on arrears of hospitals should be available within four weeks of the end of each month. The change in stock of arrears will be measured on a cumulative basis, from January 1, 2011 onwards as the stock of arrears prevailing at the time of measurement of the PC minus the stock of arrears prevailing at end-December 2010. The stock of arrears will reflect all arrears outstanding, irrespective of the time period in which the unpaid commitments were entered into, but will exclude the 5.34 billion hospital arrears to pharmaceutical companies which were incurred by end-2009 to the extent these are still outstanding. The stock of arrears of public hospitals will include any arrears (as defined under subsection C) related to the activities of the 135 NHS hospitals. Data will be in line with the monthly publications of hospital arrears, published on the Ministry of Finance website, and are expected to be based on data from the commitment registers.

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

  - Financial assets include

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

    - Holdings of shares, held by ETERPS, quoted on the Athens stock exchange.

    - Holdings of Mutual Fund units issued by Greek management companies.

    - Holdings of central government bonds.

        - Other bonds issued abroad.

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

- **The change in net financial assets of reclassified public enterprises (RPEs)** is defined on a transactions basis, as the change in the total of financial assets minus financial liabilities of RPEs, adjusted for valuation, minus the amount of guarantees called from entities which are consolidated within the general government.

    - Financial assets include

        - Deposits of RPEs in the Bank of Greece and deposits of RPEs in the credit institutions (domestic and foreign). Deposits will be measured at face value excluding accrued interest.

        - Holdings of shares, held by RPEs quoted on the Athens Stock Exchange.

        - Holdings of Mutual Fund units issued by Greek management companies.

        - Holdings of central government bonds.

        - Other bonds issued abroad.

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

6. **Other provisions.**

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

- For 2010, the change in the net financial assets of social security funds will be increased by the change in net financial assets of AKAGE (on a cumulative basis from January 1, 2010 onward, adjusted for valuation changes) in case these are not yet included in the net financial assets of social security funds.

- For 2010, the following items will be excluded from calculations:

  - Capital transfers to social security funds or other entities by bonds;

  - Settlement of past debt;

  - Called guarantees;

  - Changes in the stock of arrears of public hospitals (NHS hospitals) to entities outside of the general government;

  - Change in net financial assets of ETERPS; and

  - Changes in the stock of arrears to line ministries.

- The change in net financial assets of RPEs will be excluded during 2010, as well as for the end-March and end-June PCs in 2011. However, for the measurement of the end-September and end-December 2011 PCs, the change in net financial assets of RPEs will be included, measured on a cumulative basis from January 1, 2011 onward.

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

7. **Supporting material**.

- Data on cash balances of the ordinary and state budgets will be provided to the European Commission, ECB and IMF by the General Accounting Office in the Ministry of Finance within three weeks after the end of each month. Data will include detailed information on revenue and expenditure items, in line with monthly reports that are published since January 2010 on the official website of the Ministry of Finance. Data will also include data on capital transfers to social security funds or other entities in bonds, and called guarantees.

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

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

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

9. **Other provisions**. Capital transfers to social security funds by bonds and called guarantees from outside the general government will be excluded from primary spending during 2010. The change in the stock of arrears of line ministries will also be excluded during 2010 for the monitoring of the PC. However, for 2011 onward, such exclusion will no longer apply.

10. **Supporting material**. The General Accounting Office of the Ministry of Finance will provide monthly expenditure data of the ordinary and investment state budget, as defined above. The ministry of Finance will further provide monthly data on the stock of arrears of line ministries.

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

11. **Definition**. For the purpose of the program, domestic arrears are defined as the unpaid invoices that have past the due date by 90 days. In case no due date is specified on the supplier contract, an unpaid commitment is considered to be in arrears 90 days after the initiation of the invoice. Data will be provided within four weeks after the end of each month. The continuous non-accumulation of domestic arrears is defined as no accumulation of arrears at the end of every month during which quarter the indicative target is being monitored. This does not include the arrears which are being accumulated by the Civil Servants' Welfare Fund.

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

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

13. **Definition**. The overall stock of central government debt will refer to ESA95 central government debt, which includes the state debt, debts of extrabudgetary funds and public enterprises that are consolidated into the central government, and other ESA 95 adjustments. It will be defined for the purposes of the program as total outstanding gross debt liabilities. It will include, but not be limited to, liabilities in the form of securities and loans. It will exclude accounts payable. Debt will be measured at nominal value. The program exchange rate will apply to all non-euro denominated debt. Inflation indexation will apply to inflation indexed debt, using the relevant index as specified in the debt instrument. For the purposes of the program, the ceiling on the stock of central government debt will exclude debt arising from payments for bank restructuring, when carried out under the program's banking sector restructuring strategy (this does not cover the debt related to the Financial Stability Fund). This includes loans to financial institutions and investments in equity of financial institutions (requited recapitalization); unrequited recapitalization; and purchase of troubled assets. However, any financial operation by the central government to support banks, including the issuance of guarantees or provision of liquidity, with the exception of Hellenic Republic intermediation in repos between foreign and domestic financial institutions will be immediately reported to IMF, European Commission and ECB staff.

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

15. **Adjusters**. For 2010, the ceiling on the overall stock of central government debt will be adjusted upward (downward) by the amount of any upward (downward) revision to the stock of end-December 2009 central government debt of 298.9 billion. For 2011, the ceiling on the overall stock of ESA95 central government debt will be adjusted upward (downward) by the amount of any upward (downward) revision to the stock of end-December 2009 ESA95 central government debt of 322.9 billion.

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

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

17. **Definition**. The ceiling on the new central government guarantees shall include new guarantees granted by the state, as well as new guarantees granted by any other entity that is classified under ESA95 under central government, but exclude guarantees to entities whose debt is covered under the ceiling on the stock of central government debt as defined in paragraph 13 and 14. The ceiling shall exclude guarantees to support banks and exclude guarantees related to EIB financed loans. New guarantees are guarantees extended during the current fiscal year. The latter shall include also guarantees for which the maturity is being extended beyond the initial contractual provisions.

18. **Other provisions**. For the end-December 2010 PC on new central government guarantees, these factors shall be included on a cumulative basis starting October 1, 2010.

19. **Supporting material**. All new central government guarantees will be reported in detail, identifying amounts and beneficiaries. The General Accounting Office will provide the data on a monthly basis within three weeks after the end of each month. Non-state entities classified under the central government shall report the new guarantees they extended to the General Accounting Office on a monthly basis within three weeks after the end of each month.

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

20. **Definition**. For the purposes of the program, an external debt payment arrear will be defined as a payment on debt to non-residents contracted or guaranteed by the general government, which has not been made within seven days after falling due. The performance criterion will apply on a continuous basis throughout the program period.

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

G. Overall Monitoring and Reporting Requirements

22. Performance under the program will be monitored from data supplied to the EC, ECB and IMF by the Ministry of Finance, the General Accounting Office, and Bank of Greece. The authorities will transmit to the IMF, EC and ECB staff any data revisions in a timely manner.

III. Monitoring of Structural Benchmarks

23. **Pension reform**. Parliament adopted separate laws reforming pensions for the public and private sector in mid-July, ahead of the end-September deadline under the

program. An actuarial evaluation of this law is currently underway. The National Actuarial Authority will complete an assessment of the effects of the reform on the main pension funds by the end of December 2010, which will be expanded to include the largest auxiliary pension funds (including ETEAM, TEADY, MTPY) by end of March 2011. This actuarial assessment will determine whether further adjustments to the pension system would be needed to contain the increase in pension spending 2010-2060 at 2.5 percentage points of GDP. Any needed adjustments to the parameters of the main pensions and the reform of the auxiliary and welfare funds will be completed by end of June 2011 in consultation with the EC/IMF/ECB; and enacted by end of December 2011.

24. **Public financial management reforms**. The authorities will publish (i) monthly reports on arrears of the general government using data from commitment registers; and (ii) monthly consolidated general government reports with revenue, expenditures and intra-governmental transfers for each sub-sector of the general government. For the purposes of the benchmark, the reports will begin with end March 2011 data. The reports will include both ordinary and investment budget arrears across all line ministries, public hospitals, and the largest social security funds, extra-budgetary funds and local governments, with the latter defined as follows.

The "largest" social security funds will cover at least the top 50 funds in terms of spending as from ELSTAT reporting.

The "largest" extra-budgetary funds will cover 80 percent of existing extra budgetary funds, including at least all public enterprises classified under the general government, ETERPS, and the top 100 entities in terms of expenses as from ELSTAT reporting.

The largest local governments will be defined to include at least the 100 largest local authorities in terms of population out of the 324 authorities as defined under the "kallikrates" law.

To meet the benchmark, 3 consecutive months of reports will need to be published.

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ATTACHMENT IV. GREECE: LETTER OF INTENT

Athens, 23 February 2011

Mr. Jean-Claude Juncker
President
Eurogroup
Brussels

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

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

Dear Messers. Juncker, Rehn and Trichet,

In the attached update to the Memorandum of Economic and Financial Policies (MEFP) and Memorandum of Understanding on Specific Economic Policy Conditionality (MoU) from 3 May, 6 August and 22 November 2010, we describe progress and policy steps towards meeting the objectives of the economic programme of the Greek government which is being supported by financial assistance provided by the euro-area Member States in the context of the loan facility agreement.

We continue to make progress with our economic program:

- The quarterly quantitative performance criteria for end-December have all been met. The ESA95 accrual deficit was above target, but at the level projected at the time of the last review, and the overall reduction in the headline deficit in 2010 is estimated to have amounted to a higher-than-initially targeted 6 percentage points of GDP. However, while we managed to reduce the stock of general government arrears at the very end of 2010, it was not enough to prevent us from missing the indicative target.

- Fiscal-structural reforms have been moving forward. A structural benchmark covering an actuarial study of the main pension funds was met. A benchmark on removing barriers to effective tax administration is expected to be met in mid-March (with tabling the legislation in parliament a prior action for the review). A benchmark covering a study of the structure, level and dynamics of public employment and compensation was partially met, and will be completed in the context of the medium-term fiscal strategy. Similarly, a benchmark on improving statistical reporting to

Elstat was also partially met, with good progress on signing MOUs with data-providing entities, and the finalization of regulations that now need to be formally approved by Elstat. The attached Memorandum of Economic and Financial Policies lays out an ambitious schedule of next stage actions to support our medium-term fiscal consolidation program, along with reforms to revenue administration and public financial management designed to strengthen budget implementation.

- The financial system remains stable. Private banks have had notable success in raising capital, and state bank restructuring has started. Exceptional ECB liquidity support has helped bridge the system to a point where banks can begin implementing medium-term plans to adjust their funding (as discussed in the memorandum below). The Financial Stability Fund is well-financed relative to projected needs.

- Progress continues with structural reforms. A structural benchmark covering a 2011-13 privatization plan was met, while a benchmark covering collective bargaining reform was partially met (and time will be needed to assess effective implementation). The opening of restricted professions has moved forward with legislation passed by parliament in February. Legislation concerning restructuring of public enterprises has been approved. The attached memorandum lays out next steps, including an expanded privatization plan and real estate development plan.

On this basis, we request the disbursement of the fourth installment of financial assistance by the euro-area Member States, pooled by the European Commission, in the amount of EUR 10 900 million.

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

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

/s/	/s/
George Papaconstantinou	George Provopoulos
Minister of Finance	Governor of the Bank of Greece

ATTACHMENT V. GREECE

Memorandum of Understanding on Specific Economic Policy Conditionality

(third update)

23 February 2011

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

Annex 1 on data provision is part of the Memorandum and how well it has been respected will be considered in the assessment of compliance.

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

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

i. Fiscal consolidation

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

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

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

Government clears payment arrears accumulated in 2010 and reduces those of previous years.

Medium-term budgetary planning

Government prepares a medium-term budgetary strategy paper which identifies permanent fiscal consolidation measures of at least 8 percent of GDP, (some of which have already been identified in May 2010), plus a contingency reserve that will ensure the achievement of deficit targets up to 2014, and that the debt-to-GDP ratio is put on a sustainable downward path.

The strategy paper will be published for public consultation before end-March, adopted by the Council of Ministers by mid-April and voted by Parliament by mid-May. It will be the basis for preparing the 2012 budget.

The medium-term strategy paper includes, in particular:

– prudent macroeconomic forecasts;
– baseline revenue and expenditure projections for the state and for the other government entities;
– a description of permanent fiscal measures, their timing and quantification;
– annual spending ceilings for each ministry and fiscal targets for other government entities through 2014;
– post-measures fiscal projections for general government in line with the deficit and debt targets;
– longer-term debt projections based on prudent macroeconomic projections, stable primary surpluses from 2014 on, and privatisation plans.

The medium-term strategy will be articulated with the ongoing healthcare and pension reforms and with specific sectoral plans. The sectoral plans (draft plans to be available by end-March), will cover in particular:

– state-owned enterprises;

- extrabudgetary funds (legal entities of the public sector and earmarked accounts);
- tax policy reforms;
- public wage bill;
- public administration;
- social spending;
- public investment and
- military spending.

Each sectoral plan will be managed by interministerial taskforces to be appointed by end February.

ii. Structural fiscal reforms

Revenue administration reforms

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

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

Government starts publishing monthly reports of the five anti-tax evasion taskforces, including a set of progress indicators.

Public financial management reforms

To strengthen expenditure control, Government

- adopts an act specifying the qualification and responsibilities of accounting officers to be appointed in all line ministries and major government entities with the responsibility to ensure sound financial controls;
- appoints financial accounting officers;
- accelerates the process of establishing commitment registries. It will make operational registries covering the whole general government (except the smallest entities).

Public sector wages and human resource management

Government presents a detailed action plan with a timeline to complete and implement the simplified remuneration system. This plan will be based on the results of the report published by the Ministry of Finance and the Single Payment Authority.

Government prepares a medium-term human resource plan for the period up to 2014 in line with the rule of 1 recruitment for 5 exits.[2] The plan will include tighter rules for temporary staff, cancellation of vacant job post and reallocation of qualified staff to priority areas.

Government starts publishing monthly data on staff movements (entries, exits, transfers among entities) of the several government departments.

To complete the pension reform

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

Asset management

Government starts compiling the inventory of state-owned assets, including stakes in quoted and non-quoted enterprises, and commercially viable real estate and land. Government provides an interim report – including a first list of assets – and describes steps taken to ensure that the first part of the inventory will be ready by June 2011.

Government appoints financial advisors for the formation of real estate and land portfolios, and the structuring of the associated privatisation transactions.

Proceeds from privatisation are to be used to redeem debt and do not substitute fiscal consolidation efforts.

Fighting waste in public enterprises

With the aim of fighting waste and mismanagement in state-owned companies, Government adopted an act by end 2010 that:

- Cuts primary remuneration in public enterprises by at least 10 percent at company level (applicable from January 2011 on);
- Limits secondary remuneration to 10 percent of primary remuneration at company level (applicable from January 2011 on);
- Establishes a ceiling for gross earnings of EUR 4 000 per month (12 payments per year) (applicable from January 2011 on);
- Increases urban transport tariffs by at least 30 percent;
- Establishes actions that reduce operating expenditure in public companies between 15 to 25 percent, according to the specific needs of enterprises.

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[2] This rule is without sectoral exceptions; it also applies to staff transferred from public enterprises to other government entities.

These measures should be immediately effective and yield annual fiscal savings of at least EUR 800 million compared to 2010.

Government publishes an action plan for restructuring state-owned enterprises and other public entities leading to the closure of non-viable enterprises and extra-budgetary funds that have outlived their original purpose.

In particular, Government adopts and starts implementing a legal act and a business plan for the restructuring of the Athens transport network (OASA). The objective is to make the company economically viable. Subsidies shall not exceed 40 percent of operational cost in conformity with EU practices. The plan includes cuts in operational expenditure of the company and tariff increases. It includes a fiscal impact analysis and sensitivity analysis and includes monitoring and enforcement mechanisms (including performance indicators and predefining correcting mechanisms in case of deviation from the plan). The required legal act is adopted by end February 2011, while restructuring starts to be effective by end March 2011.

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

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

When restructuring state-owned enterprises, or preparing them for privatisation, specific attention will be given to timely clear state aid issues.

Local administration

Government monitors the implementation of the recently adopted acts on the restructuring of local government, the no-deficit rule (at least until 2014) and the transfers paid to local government. It continues the implementation of legislation reforming public administration and reorganising local government with the aim of reducing costs and increasing revenue by at least EUR 1 500 million in 2013, of which at least EUR 500 million in 2011 and additional EUR 500 million in 2012.

To modernise the health care system

Building on important reforms already undertaken over the recent months, in particular the move towards the integration of the primary healthcare, changes in the supplies system and progress in hospital computerisation, Government continues to implement the comprehensive reform of the health care system started in 2010 with the objective of keeping public health expenditure at or below 6 percent of GDP, while maintaining universal access and improving the quality of care delivery.

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

More specifically, the following measures are implemented by end March 2011:

Governance

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

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

Comprehensive E-prescribing

Government takes all necessary measures in order to extend in a cost-effective way the e-prescribing of medicines, diagnostics and doctors' referrals to all social security funds, health centres and hospitals. To this extent, in compliance with EU procurement rules, Government speeds up and finalises the necessary tendering procedures to implement a comprehensive and uniform health care information system (e-health system).

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

Hospital computerisation and monitoring system

Government (Ministry of Health) completes the programme of hospital computerisation. In particular, building on the web-based platform esy.net, it finalises the process of centralisation of information. The Ministry of Health creates a dedicated service/unit to collect and scrutinise data and produce monthly and annual reports. A copy of these reports is transmitted to the competent authority in the Ministry of Finance. Government takes measures to ensure the integration and consolidation of hospitals' IT systems.

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

- finalising the introduction of double-entry accrual accounting systems in all hospitals;

- the use of the uniform coding system and a common registry for medical supplies developed by the Health Procurement Commission (EPY) and the National Centre for Medical Technology (EKEVYL) for the purpose of procuring medical supplies;
- the calculation of stocks and flows of medical supplies in all the hospitals using the uniform coding system for medical supplies;
- the timely invoicing of treatment costs (no later than 2 months) to Greek social security funds, other EU Member States and private health insurers for the treatment of non-nationals/ non-residents;
- the use of e-prescribing for all medical acts (medicines, referrals, diagnostics, surgery) in all NHS facilities.

Increasing use of generic medicines

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

Pricing of medicines

Government

- moves the responsibility of pricing medicines to EOF and all other aspects of pharmaceutical policy to the Ministry of Health, to rationalise licensing, pricing and reimbursement systems for medicines;
- under the new law, reduced the profit margin of pharmacies on retail prices directly to 15-20 percent, or indirectly by establishing a system of rebates for pharmacies with sales above a designated threshold.
- reduces the profit margin of wholesale companies distributing pharmaceuticals by at least one third.
- updates and publishes the complete price list for the medicines in the market, using the new pricing mechanism. Continue to regularly update it on a quarterly basis;
- lifts the caps to the price reductions used when the price list was first introduced.

Prescribing and monitoring

Government

- publishes the prescription guidelines for physicians defined by EOF on the basis of international prescription guidelines;
- publishes the new positive list of reimbursed medicines using the new reference price system developed by EOF.

Accounting and control

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

Task force

The independent task force of health policy experts created at the end of 2010 produces, in cooperation with the European Commission, the ECB and the IMF, an interim policy report with initial indications on the necessary revisions to the policies implemented recently and the improvements for the years to come. To accomplish this, the taskforce has access to all necessary information on health-related issues from the relevant ministries and government agencies and health funds upon request and through dedicated fact-finding meetings. It receives adequate administrative support.

iii. Financial sector regulation and supervision

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

Government puts forward for parliamentary adoption a new tranche of government guarantees for uncovered bank bonds. This tranche will amount to EUR 30 billion. The guarantee tranche is subject to approval by the European Commission.

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

FSF is adequately staffed.

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

To support banks in their effort to restructure operations, Government takes steps to limit bonuses and to eliminate the so called 'balance-sheet premium,' or other equivalent measures.

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

iv. Structural reforms

To strengthen labour market institutions

Government reforms legislation on fixed-term contracts and on working-time management.

Government simplifies the procedure for the creation of firm-level trade unions.

To reform and modernise public administration

Public procurement

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

Government launches the development of an e-procurement IT platform and sets intermediate milestones in line with the Action Plan. This includes: testing a pilot version, availability of all functionalities for all contracts and phasing-in of the mandatory use of e-procurement system for supplies, services and works contracts.

Better Regulation

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

To improve the business environment and enhance competition in open markets

Restricted professions

Government adopts legislation to remove unjustified or disproportionate restrictions to competition, business and trade in restricted professions including:

- the legal profession, to remove unnecessary restrictions on fixed minimum tariffs, the effective ban on advertising, territorial restrictions on where lawyers can practice;
- the notary profession, to reduce fixed tariffs and increase the number of notaries;
- the pharmacy profession, to permit incorporation, increase operating hours and reduce the minimum population criterion for opening new pharmacies; (voted in February);
- architects and engineers, covering fixed minimum tariffs;
- auditing services, covering fixed tariffs, minimum hours per case and maximum annual working hours.[3]

It publishes the opinion of the Hellenic Competition Commission on this legislation.

Government screens the statutes of the professional chambers to identify rules on access to, and exercise of, the profession, and on pricing, that are against the new law on restricted professions and EU law. The necessary changes to these statutes are adopted by June.

Government takes measures ensuring that providers of services are not subject to requirements which oblige them to exercise a given specific activity exclusively, or which restrict the exercise jointly or in partnership of different activities, except in the circumstances and under the conditions set in the Services Directive.

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

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[3] Government establishes a two-year sunset clause for minimum and maximum working hours.

Recognition of professional qualifications

Government continues to take all necessary measures to ensure the effective implementation of EU rules on recognition of professional qualifications, including compliance with ECJ rulings (*inter alia*, related to franchised diplomas). It updates information on the number of pending applications for recognition of professional qualifications, and sends it to the Commission.[4]

Sectoral growth drivers

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

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

Competition policy

Government finalises the adoption of a law modifying the existing institutional framework of the Hellenic Competition Commission (HCC). It ensures the HCC's independence, effectiveness and accountability, and warrants continuity in the operation of the HCC board. The new law abolishes the notification system for all agreements falling within the scope of Article 1 of Law 703/1977, grants the HCC the power to reject complaints and to prioritize cases effectively and establishes reasonable deadlines for the investigation and issuance of decisions.

Investment and licensing laws

Government adopts all presidential decrees and ministerial decisions necessary for the implementation of the law on aid for private investment to promote economic growth, entrepreneurship and regional cohesion, and ensures accordance with the fiscal consolidation requirements

Government ensures the acceleration of the environmental licensing by committing the authorising authority to proceed with the approval procedure after a specified time period.

Commercial and land registry

Government makes General Commercial Registry (GEMI) and one-stop shops for business start-ups operational.

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[4] This information specifies since when applications are pending, number of applications per profession, nature of diploma (franchised or not) and a timetable for dealing with pending applications, and includes decisions on the recognition of franchised diplomas.

Government provides sufficient resources for accelerating the completion of the land registry, with a view to tendering cadastral projects for additional 4 million rights by December 2011, completing the works for the large urban centres by 2015 and completing the overall project by 2020.

Business-friendly Greece

Government starts implementing the measures identified by the action plan for a business-friendly Greece according to the timetable for the removal of the 30 most important remaining restrictions to business activity, investment and innovation.

Export and R&D promotion

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

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

Government presents an action plan with a view to abolishing the requirement of registration with the exporter's registry of the chamber of commerce for obtaining a certificate of origin by September 2011.

Services directive

Government ensures that the point of single contact (PSC) distinguishes between procedures applicable to service providers established in Greece and those applicable to cross-border providers (in particular for the regulated professions).[5]

Government:

- ensures adequate links between the PSC and other relevant authorities (including professional associations);
- allows the online completion of procedures covering at least, the procedures in the distribution services, tourism, education and construction sectors as well as in food and beverage services, services of the regulated professions – including the

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

recognition of professional qualifications –, real estate services, and business services.

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

- facilitate establishment by:
  - abolishing or amending requirements which are prohibited by the Services Directive; and
  - significantly reducing requirements, including those relating to quantitative and territorial restrictions, legal form requirements, shareholding requirements, fixed minimum and/or maximum tariffs and restrictions to multidisciplinary activities.
- facilitate the provision of cross-border services, so that providers of cross-border services are required to comply with specific requirements of the Greek Law only in exceptional cases (when admitted by Articles 16 or 17 of the Services Directive).
- provide legal certainty for providers of cross-border services by setting out in the respective (sectoral) legislation which requirements can, and which requirements cannot, be applied to cross-border services.

Energy

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

Government presents detailed plans for ensuring a maximum market opening as regards the non-interconnected system.

Government commences implementation of its commitment to award the hydro reserves management to an independent body.

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

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

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

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

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

Transport

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

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

To upgrade the education system

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

To raise the absorption rates of structural and cohesion funds

Government adopts legislation to shorten deadlines and simplify procedures on contract award and land expropriations (including the deadlines needed for the relevant legal proceedings).

Government carries out an evaluation the time-saving effects of the legislation

- on contract awards and land expropriation,
- on permits by the Central Archaeological Council in Athens,
- on environmental licensing (see below 'business environment').

Government submits a timetable for the preparation, selection and implementation of different types of projects (including scenarios of legal proceedings), derived from the above legislation. The timetable will serve as a benchmark for monitoring of projects.

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

i. Fiscal consolidation

Government rigorously implements the budget for 2011 in line with this Memorandum, and the fiscal consolidation measures in the budget.

Government stands ready to define and enact additional measures if needed to reach the budgetary targets.

The Council of Ministers adopts the medium-term budgetary strategy paper by end April, to be voted by Parliament by mid-May.

ii. Structural fiscal reforms

To complete the pension reform

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

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

This reform contributes to achieve the overarching target of reducing the overall (basic, contributory, supplementary and any other related scheme, including lump sums at retirement) increase of public sector pension spending, over the period 2009-60, to under 2.5 percentage points of GDP.

The reform of the secondary (supplementary) schemes is designed in close consultation with European Commission, IMF and ECB staff, and its estimated impact on long-term sustainability is validated by the EU Economic Policy Committee. The parameters of the new secondary notional defined-contribution system ensure long-term actuarial balance, as assessed by the National Actuarial Authority.

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

Government substantially revises the list of heavy and arduous professions, and reduces its coverage to no more than 10 percent of employment. The new list of Difficult and

Hazardous Occupations (Law 3863/2010) shall apply with effect from 1 July 2011 to all current and future workers.

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

Military spending

The new National Medium-Term Military Procurement Programme, 2011-25, which is expected to be adopted by May 2011, plans a reduction in military expenditure that durably contributes to fiscal consolidation, without prejudice to national defence capability.

Asset management

Government publishes an inventory of state-owned assets, including stakes in listed and non-listed enterprises and commercially viable real estate and land. It also provides estimated values of these assets. The inventory will continue to be updated until end-year to ensure it is comprehensive.

Government establishes a General Secretariat of Real Estate Development in order to improve coordination and accelerate the privatisation and asset management program and takes appropriate steps to the creation of special investment vehicles,

On the basis of this inventory, privatisation plans are revised and accelerated targeting total proceeds of at least EUR 15 billion during the programme period. The pace of privatisation and real estate development is expected to pick up further in the following years.

Government privatises its stake in Casino Mont Parnes and extends the concession of the Athens International Airport.

To modernise the health care system

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

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

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

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

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

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

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

– Health system governance in order to reduce the fragmentation of the system;
– Financing: pooling, collection and distribution of funds;
– Harmonization of health packages across funds;
– Service provision and incentives for providers including:
  - integration between private and public provision;
  - primary care vis-à-vis specialist and hospital care;
  - efficiency in the provision of hospital services;
  - pharmaceutical consumption;
  - human resources;
– Public health priorities, health promotion and disease prevention;
– Data collection, health technology assessment and assessment of performance;
– Expenditure control mechanisms.

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

Accounting and control

Internal controllers are assigned to all major hospitals.

Government ensures that the programme of hospital computerisation allows for a measurement of hospital and health centres activity. To that end, the Government defines a core set of activity and expenditure indicators in line with Eurostat, OECD and WHO health databases. ELSTAT starts providing data in line with the System of Health National (joint questionnaire collection exercise).

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

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

Wages and human resource management in the health care sector

The Ministry of Health and the Ministry of Labour, in cooperation with the Ministry of Finance prepare a regular annual report (the first one to be published by end-May 2011), on the structure and levels of remuneration (including fees provisions to consultants and doctors) and the volume and dynamics of employment in the hospitals, health centres, and health funds. The report will present plans for the allocation of human resources for the period up to 2013. It specifies any plan to reallocate qualified and support staff within the NHS and health funds.

iii. Financial sector regulation and supervision

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

The capital increase of ATE is completed.

FSF is fully staffed.

Bank of Greece hires qualified staff to be able to strengthening banking supervision.

Bank of Greece undertakes a diagnostic assessment of insurance firms.

iv. Structural reforms

To modernise public administration

Functional reviews

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

Public sector wages and human resource management

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

Public procurement

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

Government undertakes a review identifying areas to increase the efficiency of the public procurement system on all outside the Single Public Procurement Authority, as specified in the Action Plan. The review includes conclusions and actions in agreement with the European Commission.

Restricted professions

Government takes measures on commercial communications by the regulated professions and on multidisciplinary activities, in accordance with the Services Directive.

Government adopts all presidential decrees necessary for the implementation of the law on fast-track licensing procedure for technical professions, manufacturing activities and business parks.

Recognition of professional qualifications

Government removes prohibitions to ensure that holders of franchised diplomas from other Member States have the right to work in Greece under the same conditions as holders of Greek degrees.

To upgrade the education system

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

To strengthen labour market institutions

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

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

To improve the business environment and enhance competition in open markets

Services Directive

Government adopts legislation on the services sectors of agriculture, transport, employment, technical services, sanitary facilities, welfare, wholesale and other priority identified in the Q4-2010 progress report. Government specifies, for any remaining sectors, a timetable for adopting sectoral legislation by end-2011 that ensures full compliance with the requirements of the Services Directive.

Sectoral growth drivers

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

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

Business environment

Government adopts legislation to simplify and shorten procedures to complete studies on environmental impact and to get the approval of environmental terms with a view to reducing the number of projects subject to environmental licensing and the duration of approval procedures to EU average levels.

Government implements an action plan to abolish the requirement of registration with the exporter's registry of the chamber of commerce for obtaining a certificate of origin.

Government reviews and codifies the legislative framework of exports (i.e., Law 936/70 and Law Order 3999/59), simplifies the process to clear customs for exports and imports and gives larger companies or industrial areas the possibility to be certified to clear cargo for the customs themselves.

To raise the absorption rates of structural and cohesion funds

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

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

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

	2010	**2011**	**2012**	**2013**
European Regional Fund and Cohesion Fund	*target:* 2 330.0 *outcome:* 2 372.4	2 600	2 850	3 000
European Social Fund	*target:* 420.0 *outcome:* 447.6	750	880	890
Target of first half of the year	-	1 105	1 231	1 284
Target of second half of the year	-	2 245	2 499	2 606
Total annual target	*target:* **2 750** *outcome* **2 820**	**3 350**	**3 730**	**3 890**

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

i. Fiscal consolidation

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

Government adopts an act to equalise the taxation of heating oil – to be applicable from 15 October 2011 on – with the aim of fighting fraud and yielding at least EUR 400 million in 2011, with a carry-over of EUR 320 million in 2012, net of specific measure to protect the less prosperous population strata.

Government adopts a draft budget for 2012 aiming at a further reduction of the general government deficit in line with the programme and including the detailed presentation of consolidation measures amounting to at least 2.2 percent of GDP, including the following measures (these measures and their yield will be revisited during the fourth review taking into account the medium-term fiscal strategy):

- Reduce public employment on top of the rule of 1 recruitment for each 5 exits in the public sector;[6] the reduction in public employment on top of the 1-to-5 rule should allow savings of at least EUR 600 million;
- Establish excises for non alcoholic beverages, for a total amount of at least EUR 300 million;
- Continue the expansion of the base of the real estate tax by updating asset values to yield at least EUR 200 million additional revenue;
- Continue the reorganisation of local government, contributing by at least EUR 500 million in savings to the reduction of the general government deficit;
- Nominal freeze in pensions yielding savings of at least EUR 250 million;
- Continue to increase the effectiveness of the presumptive taxation of professionals, with the aim of collecting at least additional EUR 100 million;
- Reduction of current and capital transfers to public enterprises by at least EUR 800 million following their restructuring;
- Make unemployment benefits means-tested (aiming at savings of EUR 500 million);
- Collect further revenue from the licensing of gaming of at least EUR 225 million in one-off sales of licences and increase the annual yield from royalties by an addition EUR 400 million;
- Further broadening of VAT base with the aim of collecting at least additional EUR 300 million;
- Fully implement the green tax and increase its annual yield by least EUR 150 million;
- Increase the collection of a special tax on unauthorised establishments by an additional EUR 100 million;
- Reduction in domestically-financed spending in investment by at least EUR 500 million compared to the actual 2011 level, while increasing revenue by giving priority to investment projects financed by EU structural and cohesion funds.

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[6] The rule also applies to staff transferred from public enterprises under restructuring to government entities.

ii. Fiscal structural reforms

Tax reform

Government tables legislation to simplify the tax system, raise revenue in a progressive manner and facilitate more effective tax administration.

Asset management

Building on the inventory of commercial state-owned real-estate assets (to be published by June) Government elaborates a medium-term plan to divest state assets, revises the privatisation receipts planned for 2011-13 and extends the plan through 2015.

Government privatises Hellenic Defense Systems and the State Lottery Tickets.

To modernise the health care system

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

iii. Structural reforms

To strengthen labour market institutions

Government promotes, monitors and assesses the implementation of the new special firm-level collective agreements. It ensures that there is no formal or effective impediment to these agreements and that they contribute to align wage developments with productivity developments at firm level, thereby promoting competitiveness and creating and preserving jobs. It provides a report on its assessment. Any necessary amendment to the law on sectoral collective bargaining is adopted before end-July 2011.

To modernise public administration

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

Public procurement

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

To improve the business environment and strengthen competition in open markets

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

Business environment

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

Government abolishes the requirement of registration with the exporter's registry of the chamber of commerce for obtaining a certificate of origin.

Restricted professions

In the implementation of the new law on the opening of restricted professions, Government promptly adopts the necessary decrees, administrative orders or circulars. Restrictions to be reinstated should consider public interest, the need to promote competition and takes into account international best practice. Government consults widely before the adoption of these restrictions.

Government publishes a report on the implementation of the legislation on regulated professions with a view to assessing whether further measures are needed.

Services Directive

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

To upgrade the education system

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

To raise the absorption rates of structural and cohesion funds

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

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

i. Fiscal consolidation

Government achieves the target for the 2011 general government deficit of not more than EUR 17 065 million and other quantitative performance criteria.

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

ii. Fiscal structural reforms

Asset management
Government publishes the second part of the state's assets inventory.

Government privatises DEPA, LARKO, TRAINOSE (at least 49 percent, including shares management with the new shareholders), and sells concession SPVs in relation to the Egnatia motorway and accelerates the divestment of |public real estate.

To modernise the health care system

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

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

iii. Structural reforms

To modernise public administration

Functional reviews

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

Public procurement

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

To improve the business environment and strengthen competition in open markets

Energy

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

To upgrade the education system

Government starts publishing a bi-annual progress report on the implementation of the law on quality assurance in primary, secondary and higher education.

To raise the absorption rates of Structural and Cohesion Funds

Government meets targets for payment claims in the absorption of EU structural and cohesion funds set down in Table 1. Compliance with the targets shall be measured by certified data. In addition, Government submits 5 additional major project applications to the Commission, in view of achieving an annual target of submitting 10 major projects. In meeting absorption rate targets, recourse to non-targeted *de minimis* state aid measures should be gradually reduced. Government provides data on expenditure for non-targeted de minimis state aid measures co-financed by the structural funds.

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

Government ensures that the managerial capacity of all managing authorities and intermediate bodies of operational programmes under the framework of the National Strategy Reference Framework 2007-13 has been certified according to the standard ISO 9001:2008 (quality management).

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

Government provides an impact assessment of legislative measures since 2010 to accelerate the absorption of structural and cohesion funds adopted since May, and indicates any further measures.

5. Actions for the eight review (actions to be completed by end Q1-2012)

i. Fiscal consolidation

Government rigorously implements the budget for 2012 in line with this Memorandum, and Council Decision 2010/320/EU.

ii. Structural fiscal reforms

To complete the pension reform

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

To modernise the health care system

Pricing of medicines

Starting from 2012, pharmacies profit margins should be calculated as a flat amount or flat fee combined with a small profit margin with the aim of reducing the overall profit margin to no more than 15 percent.

Accounting and control

Social security funds start publishing an annual report on medicine prescription. Individual prescription reports are regularly (at least annually) fed back to each physician. The annual report and the individual prescription reports look at prescription behaviour with particular reference to the most costly and most used medicines.

Annex 1. Provision of data

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

To be provided by the Ministry of Finance

Preliminary monthly data on the state budget execution (including breakdown by main categories of revenue and expenditure and by line ministry). *(Data compiled by the Ministry of Finance)*	Monthly, 15 days after the end of each month; these data should also be included in subsequent transmissions in case of revision.
Updated monthly plans for the state budget execution for the remainder of the year, including breakdown by main categories of revenue and expenditure and by line ministry. *(Data compiled by the Ministry of Finance)*	Monthly, 30 days after the end of each month.
Preliminary monthly cash data on general government entities other than the state. *(Data compiled by the Ministry of Finance)*	Monthly, 30 days after the end of each month, these data should also be included in subsequent transmissions in case of revision.
Monthly data on the public wage bill (of general government, including a breakdown in nominal wage and allowances paid to government employees per line ministry and public entity), number of employees (including a breakdown per ministry and public entities outside the central government) and average wage (including the relative shares of the base wage, allowances and bonuses). *(Data compiled by the Ministries of Interior and Finance)*	Monthly, 30 days after the end of each month (starting in June 2010).
Monthly data on staff: number of employees, entries, exits, transfers among government entities; per ministry.	Monthly, 30 days after the end of each month (starting in March 2011).

Weekly information on the Government's cash position with indication of sources and uses as well of number of days covered. *(Data compiled by the Ministry of Finance)*	Weekly on Friday, reporting on the previous Thursday.
Data on below-the-line financing for the general government. *(Data compiled by the Ministry of Finance)*	Monthly, no later than 15 days after the end of each month; these data should also be included in subsequent transmissions in case of revision.
Data on expenditure pending payment (including arrears) of the general government, including the State, local government, social security, hospitals and legal entities. *(Data compiled by the Ministry of Finance on the basis of basic data from the several line ministries)*	Quarterly, within 55 days after the end of each quarter.
Data on public debt and new guarantees issued by the general government to public enterprises and the private sector. Data on maturing debt (planned redemptions per month, split between short- and long-term debt. Data on planned monthly interest outflows. *(Data compiled by the Ministry of Finance)*	Monthly, within one month.
Data on public enterprises: revenue, costs, payroll, number of employees and liabilities (including maturities of public enterprises' debts) *(Data compiled by the Ministry of Finance)*	Monthly, within three weeks of the end of each month for the ten largest enterprises. Quarterly within three weeks of the end of each quarter for the other enterprises. Quarterly for the maturities of public enterprises' liabilities.
Monthly statement of the transactions through off-budget accounts. *(Data compiled by the Ministries of Finance and Education)*	Monthly, at the end of each month.

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

To be provided by the Bank of Greece

Assets and liabilities of the Bank of Greece.	Weekly, next working day.
Assets and liabilities of the Greek banking system - aggregate monetary balance sheet of credit institutions.	Monthly, 30 days after the end of each month.
Evolution of the external funding provided by Greek banks to their subsidiaries abroad.[7]	Monthly, 15 days after the end of each month.
External funding flows for the banking, corporate and government sector, including also expected developments in the 12 months ahead.	Monthly, 30 days after the end of each month.
Report on banking sector liquidity situation.	Weekly, next working day.
Report on the evolution of financial stability indicators.	Quarterly, 15 days after the end of each quarter depending on data availability.
Report on results from the regular quarterly solvency assessment exercise.	Quarterly, 15 days after the end of each quarter depending on data availability.
Detailed report on the balance sheet of the Financial Stability Fund with indication and explanation of changes in the accounts.	Weekly, next working day.

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

INTERNATIONAL MONETARY FUND EXTERNAL RELATIONS DEPARTMENT

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International Monetary Fund
Washington, D.C. 20431 USA

IMF Completes Third Review Under Stand-By Arrangement for Greece and Approves €4.1 Billion Disbursement Greece

The Executive Board of the International Monetary Fund (IMF) today completed the third review of Greece's economic performance under a program supported by a three-year Stand-By Arrangement (SBA) for Greece. The completion of the review enables the immediate disbursement of an amount equivalent to SDR 3.6 billion (about €4.1 billion), bringing total Fund disbursements under the SBA to an amount equivalent to SDR 12.725 billion (about €14.6 billion).

The SBA, which was approved on May 9, 2010 (see Press Release No. 10/187), is part of a cooperative package of financing with Euro area member states amounting to €110 billion over three years. It entails exceptional access to IMF resources, amounting to more than 3,200 percent of Greece's quota.

Greece's economic program has made further progress toward its key objectives of putting the economy on a path of sustainable growth by boosting competitiveness, strengthening financial sector stability, and securing sustainable public finances. The underlying fiscal and broader reforms necessary to deliver the program's medium-term objectives are gradually being put in place, although some major reforms still need to be designed and implemented to build a critical mass necessary to underpin fiscal sustainability and economic recovery.

Following the Executive Board's discussion, Mr. John Lipsky, First Deputy Managing Director and Acting Chair, said:

"Further progress has been made toward the economic program's objectives. Output remains close to the targeted path, underlying inflation remains low, unit labor costs are falling, and significant fiscal adjustment is under way. Overall, a measure of stabilization has been achieved.

"Greater emphasis on underlying reforms will be needed during the period ahead. While the 2010 fiscal target was met, the strategy of under-executing the state budget to offset revenue shortfalls and overspending at subnational levels cannot be sustained.

“To help put the fiscal adjustment on a firmer foundation, it will be important to complete by May a medium-term budget strategy. Ensuring a fair distribution of the adjustment burden remains paramount, and the dialogue with social partners in this process is welcome. Implementation should begin during 2011 to address a projected budget gap. In parallel, the government should redouble efforts to combat tax evasion and control spending, especially at the local government level.

“To support the recovery, structural reforms need to be deepened. Legislation to liberalize regulated professions needs to be fully implemented, as do reforms pertaining to collective bargaining and the pension system. Important next steps include reducing administrative barriers to exports and formulating a strategy to unlock potential in the tourism sector.

“The government’s commitment to scale up its privatization and real estate development program is timely. More efficient use of state assets will support the fiscal adjustment efforts, promote growth and employment, and help Greece retire maturing debt.

“The financial system remains stable, and time will be provided to allow banks to deleverage and restructure in an orderly fashion. Capital support through the FSF remains available to viable banks if necessary.

“The authorities are to be commended for their commitment to this ambitious program, which will help Greece return to growth and prosperity,” Mr. Lipsky said.

Statement by the Staff Representative on Greece
March 14, 2011

There have been some new developments and data releases since the issuance of the Staff Report. These do not affect the thrust of the appraisal.

Greece has been downgraded by Moody's, widening spreads, and pressuring banks:

- The March 7th action lowered Greece's rating by three notches. A negative outlook was maintained. While acknowledging progress under the program, Moody's lists revenue weakness, implementation risk, and the lack of clarity about the EC's approach to resolving the euro-area crisis as key drivers for the decision.

- The combination of the Moody's decision and diminished expectations about the outcome of the end-March European Summit has widened Greek bond spreads. They now sit above 900 bps on 10 year bonds, close to post-crisis highs. However, on March 8th, the sovereign was able to successfully auction 6-month Treasury bills, raising €1.6 billion at interest rates comparable to those prevailing in recent auctions.

- The Moody's decision has a manageable impact on the banking system. Share prices have dropped, but the impact on bank liquidity is expected to be limited. The revised program already builds in a margin for downgrades by ratings agencies during 2011, and the planned €30 billion tranche of new government guarantees for uncovered bank bonds should thus preserve a sufficient margin of liquidity.

New information is available concerning the end-2010 fiscal outturn. There has been a small revision to the performance criterion on the primary cash balance of the general government. Compliance with the PC is not affected, although the margin of over performance drops from an estimated €177 million to €46 million. The reason for the revision was a misclassification by one bank concerning its transactions with a social security fund.

Statement by Mr. Panagiotis Roumeliotis, Alternate Executive Director for Greece March 14, 2011

We thank staff for the excellent report and for providing valuable technical assistance, which is crucial for the implementation and the success of the program.

Albeit with some delays, Greece continues to advance the fiscal and structural reforms necessary to deliver the program's medium-term objectives. All end-December 2010 quantitative performance criteria have been met. Prior actions for the current review have also been completed. Although arrears have been significantly reduced, the indicative target on arrears accumulation was missed. Reducing the arrears accumulated before 2010 remains a challenge, however in January 2011 almost euro 3.5 billion of arrears were settled.

Taking into account new revised data, the 2010 deficit declined to 9.5 percent of GDP from 15.4 percent a year earlier, on account of revenue increases accompanied by significant under-execution of the expenditure budget. Crucial fiscal structural reforms aimed at broadening the tax base and rationalizing spending have moved forward.

Although the financial system remains under stress, private banks were able to raise capital levels. At the same time, a state bank (ATE) has recently started its restructuring process. In this context, exceptional ECB liquidity support has helped fund the banking system.

Landmark reforms, including bills on restructuring public transportation and on opening up closed-shop professions, were ratified by the Greek Parliament in February 2011.

Going forward, the Greek authorities are committed to keeping the program on track, while recognizing that more emphasis on structural reforms implementation will be crucial to fully gain the pay off of all the efforts put in place so far. To this end, they aim to implement a far-reaching set of measures, including: the revision of the personnel framework for the public sector, the completion of the tax administration reform plan, the enhancement of expenditure and arrears monitoring, the improvement of the asset and liability management, and the implementation of an expanded privatization plan. Actions to sustain an investment and export-driven growth strategy will also be put in place. 2

Economic Outlook

GDP declined by 4.5 percent in 2010, slightly more than expected by the authorities, and it is estimated to further contract by 3 percent in 2011. Against this background, leading indicators marked some improvement. In particular, according to the Bank of Greece (BoG) figures, industrial turnover and industrial new orders rose y-o-y by 5.6 percent and 3.9 percent respectively in 2010. When limited to the foreign market, such leading indicators rose impressively in December 2010. In particular, industrial turnover and new orders increased y-o-y by 28.7 percent and 12.8 percent respectively.

HIPC inflation in 2010 has been somewhat higher than projected, reflecting increases in indirect taxation and higher-than-expected oil prices. However, it has started easing in recent months. Going forward, HIPC dynamics is expected to further slow down to 2.4 percent during the course of 2011 as a result of both domestic demand retrenchment and positive effects of supply-side reforms.

The current account deficit narrowed to 10.5 percent of GDP in 2010 on the heels of an improved non-oil trade balance and increased shipping activities that outpaced weaknesses in tourism receipts. A further reduction is envisaged for 2011 as a consequence of continued weak internal demand and improvement in competitiveness, which already started in the second half of 2010, as testified by the 2.6 percent reduction on economy-wide unit labor costs in 2010.

As expected, unemployment increased in 2010, reaching an average rate of almost 12.5 percent. Against this background, key labor market reforms in the areas of employment protection and arbitration and collective bargaining have been approved, and are expected to pay off in the medium term and reverse the current trend in unemployment rates.

Fiscal Policy

The authorities' strategy aims to reduce the fiscal deficit to below 3 percent of GDP by 2014, putting the current fiscal adjustment on a sounder footing. To this end, the parliament approved last December a tight central government budget that targets a deficit-to-GDP ratio of 7.5 percent for 2011. Data available for January 2011 show a central government surplus of euro 165 million.

To further reinforce such a strategy, the Greek authorities will present this month a medium-term public sector adjustment plan. It is expected that this will be approved by the Parliament in May, after consultations with political parties and social partners. The plan will contain measures amounting to 8 percent of GDP. In addition, the authorities are also ready to define additional contingency actions, should the targets be missed.

The measures included aim to curb inefficient public spending, limit their impact on growth, and at the same time protect the most vulnerable. The plan will cover several sectors and 3 areas of government spending by setting both annual spending ceilings for line ministries and fiscal balance targets for the 2012-14 period.

In particular, the plan envisages an increase of state enterprise tariffs; a reduction of operating costs, including the wage bill; and a prioritization of investment. In parallel, a public wage bill will simplify the wage grid, including allowances, and reducing excess employment in the public sector. Measures on the revenue side will enhance efforts to facilitate more effective tax administration, simplify the tax system, and raise revenues. Social spending reform will identify ways to streamline social programs, to eliminate duplications, and to better target social spending. Finally, on public investment, the authorities will prioritize projects and estimate savings to the budget. In addition, the authorities are implementing far-reaching anti-evasion measures, while legislative steps are in the process of removing existing barriers to tax collection and streamlining the judicial appeals process. In parallel, public financial management is being improved.

The key reforms of the pension and health systems have entered into their second phases. The July 2010 pension reform has gone a long way toward stabilizing spending of the main pension funds at the 2009 level (in percent of GDP). The completion of an assessment of the main supplementary pension funds is expected by end-March 2011 and the authorities are ready to adjust further the parameters of the main pension funds, if needed. The health plan is broadly on track (e.g. cost-reducing reforms in hospitals, co-payments, and extended negative lists for non-reimbursable pharmaceutical products). Going forward, the government is faced with the complex issue of strengthening spending controls and reducing pharmaceutical expenditures. To cope with such issues, an independent task force to map out an overall reform of the health system has been established and will deliver its final report by the end of May. A time-bound action plan built on the outcomes of this final report is due by the end of June.

Concerning public real estate, the authorities will establish a comprehensive inventory of the government's assets by the end of the year. Taking such inventories into account, the government aims to implement an enhanced privatization program through 2013, which aims to raise euro 15 billion in the years 2011-13. The program is scheduled to be adopted by the Council of Ministers by the end of July. In addition, by the end of March, the Greek parliament is expected to approve a new law creating a single public procurement authority.

Financial Sector Policies

The banking sector remains under pressure. As expected, credit and liquidity conditions remain tight, while asset quality and profitability are decreasing. However, the banking system as a whole remains resilient, and private banks have had some success in raising capital in the markets. Additionally, during the second half of the year, there was a substantial slowdown in the decline of total deposits, while the Tier 1 ratio remains above 10 percent with a total Capital Adequacy Ratio (CAR) of 11.4 percent.

Greek banks have been requested by the BoG to prepare medium-term plans to adjust their funding. In this respect, the authorities are committed to activating, in cooperation with the ECB, a supplementary tranche of euro 30 billion to guarantee bank bonds. At the same time, the BoG will continue monitoring the liquidity situation of the banking system, allowing banks to gradually move toward a sustainable medium-term funding system. To this end, the authorities will provide all banks with the flexibility needed for unavoidable reductions in their cost base.

The Financial Stability Fund (FSF) will soon be boosted by an additional euro 1 billion. A further 1 billion deposit on a dedicated account for the FSF will be made in the second quarter of 2011. Further amounts of up to euro 6.5 billion will be released consistently with the need for bank capital, according to the program reviews.

Structural Policies and Competitiveness

The authorities have made substantial progress in advancing their far-reaching structural reform agenda. While the pace of reform is uneven among different areas, overall it is progressing expeditiously. In recent months, the reform efforts focused mainly on the labor market; the liberalization of closed professions; licensing; services directives; the liberalization of the energy market; competition; and market entry. While the study of public pay and employment has been delayed, new statistical regulations have been specified and will be approved shortly by the National Statistical Agency (ELSTA).

The authorities remain committed to advancing the structural reform agenda in order to guarantee an investment- and export-led recovery. In particular, the government is moving ahead with the liberalization of closed professions, with a report evaluating the recently approved reform expected to be issued by the Ministry of Finance by end-September. To enhance competition, a new law for the competition authority, which increases its competencies and strengthens its independence, is expected to be passed by the Parliament by the end of this month. In addition, a recently approved one-stop-shop law will be made fully operational by April 1st, while decrees implementing the framework for large investment projects will be issued by the end of June.