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Greece: Third Review Under the Extended Arrangement Under the Extended Fund Facility—Staff Report; Staff Statement; Press Release; and Statement by the Executive Director for Greece

In the context of the third review under the extended arrangement under the extended fund facility, the following documents have been released and are included in this package:

- The staff report for the third review under the Extended Arrangement under the Extended Fund Facility, prepared by a staff team of the IMF, following discussions that ended on April 15, 2013, with the officials of Greece on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on May 20, 2013. 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 staff statement of May 31, 2013 updating information on recent developments.
- A Press Release summarizing the views of the Executive Board as expressed during its May 31, 2013 discussion of the staff report that completed the request and/or review.
- A statement by the Executive Director for Greece.

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

Letter of Intent sent to the IMF by the authorities of Greece*
Memorandum of Economic and Financial Policies by the authorities of Greece*
Technical Memorandum of Understanding*
Letter of Intent to the European Commission and the European Central Bank*
Memorandum of Understanding on Specific Economic Policy Conditionality*

*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 EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY

May 20, 2013

EXECUTIVE SUMMARY

Extended Arrangement. On March 15, 2012, the Executive Board approved a four-year Extended Arrangement under the Extended Fund Facility in the amount of SDR 23.79 billion (2,159 percent of quota; €28 billion). Purchases totaling SDR 4.2 billion (about €4.9 billion) have been made so far, and a purchase in the amount equivalent to SDR 1.5 billion (about €1.8 billion) is proposed to be released on the completion of the third review. As of end-April, euro area countries have released €120 billion since the program approval (of €144.6 billion committed), of which €48.2 billion for bank recapitalization.

Recent Economic Developments. Macroeconomic developments are broadly as expected. The economy is rebalancing apace: the current account deficit is now shrinking fast, by 6½ percent of GDP in 2012; the competitiveness gap has been reduced by about half as last year's labor market reforms are facilitating significant wage adjustment; and deflation is finally setting in. The rebalancing, however, is still happening mainly through recessionary channels: the economy continued to contract during the last quarter of 2012 and unemployment increased, in line with program projections. Nevertheless, various sentiment indicators have improved notably since completion of the last review, as perceived euro exit risks have receded and liquidity conditions have improved.

Policy Implementation and the Third Program Review. With economic developments in line with program assumptions, no changes were made to the program's macroeconomic framework. There are also no substantive changes to the outlook for financing or to the DSA compared to the last review. As to fiscal policy, with some over-performance relative to end-2012 and first quarter 2013 targets, the authorities believed they had fiscal space to ease some of the adjustment measures, such as the property tax and social solidarity contributions. Staff was concerned, however, that the over-performance reflected some one-off factors and that the envisioned easing could open a fiscal gap. Moreover, tax and public administrative reforms remain subject to serious implementation problems, and failure to take strong corrective actions would lead to substantial fiscal gaps in 2014 and beyond. Much of the discussion focused on actions to address these implementation problems, and it was agreed that any easing of measures should await confirmation of fiscal space and evidence that such actions are bearing fruit. As to structural reforms outside the public sector, efforts to reinvigorate severely delayed plans for privatization and liberalization of product and services markets are largely on track, although more ambitious tests of

performance will only arrive in the coming reviews. Finally, in the financial sector, the bank recapitalization process is nearing completion after prolonged delays, and the authorities are taking steps as agreed under the program to strengthen banking oversight and governance frameworks.

Discussions. See the Fund Relations Appendix

Approved By
Reza Moghadam and Hugh Bredenkamp

Discussions for the third review under the Extended Arrangement were held February 26–March 14 and April 3–15. The mission met with the Prime Minister, Minister of Finance, Governor of the Bank of Greece, and other Cabinet Ministers; and staff in these and other ministries. The mission also met private banks, think tanks, and employer associations. The staff team comprised P. Thomsen (head), M. Flanagan, W. McGrew, G. Gottlieb, N. Hobdari, W. Maliszewski, and M. Shamloo (EUR); I. Petrova (FAD); S. Lanau and B. Rayner (SPR); O. Frecaut, M. Oliva, and D. Monaghan (MCM); and G. Esposito (LEG). B. Traa, S. Eble, M. Athanasopoulou, G. Gatopoulos, and M. Kalimeri (IMF resident representative office) assisted the mission. J. Manning and C. Piatakovas (EUR) assisted from headquarters.

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BACKGROUND

1. **The political situation has stabilized, but remains fragile.** The governing coalition has remained united behind the reform effort, with no further party defections, and its public approval ratings have stabilized. Nonetheless, political and social tensions remain high due to the long and deep recession and very high levels of unemployment, especially among youth.

2. **All of the six end-March 2013 quantitative performance criteria were met, but performance against structural benchmarks fell short** (MEFP Tables 1 and 2). As noted in the staff supplement for the first and second reviews, several end-2012 structural benchmarks were missed, as were two end-February benchmarks (on establishing staffing plans and targets for mandatory exits, and legislating semi-autonomy for the revenue administration), and one end-April benchmark (on completing the recapitalization of core banks). The missed benchmarks have either been re-phased or targeted as prior actions for this review (MEFP Tables 2-4). The end-March 2013 indicative target on arrears was also missed.

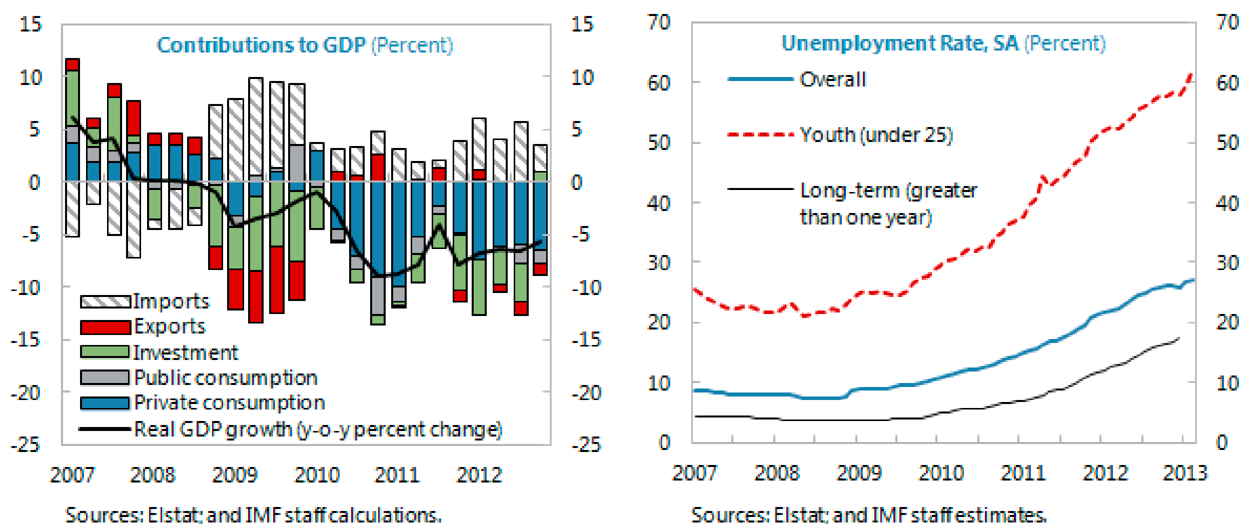
3. **This third program review was conducted in conjunction with the 2013 Article IV consultation.** An accompanying Article IV report discusses Greece's progress in addressing its large pre-crisis fiscal and external imbalances, assesses the remaining adjustment strategy, and outlines the structural reform agenda needed to support the recovery and boost productivity over the medium term.

RECENT DEVELOPMENTS

4. **The latest economic developments are broadly consistent with the macroeconomic framework set out in the staff report for the combined first and second reviews** (Tables 1–6):[1]

- **The economy has continued to contract and unemployment has increased.** The 2012 contraction was close to expected (-6.4 vs. -6 percent projected), with a larger-than-expected retrenchment of domestic demand offset by net exports. Domestically-oriented services and construction were hit the hardest, while manufacturing performed better, supported by broadly stable exports (Figure 1). The unemployment rate has continued to increase (albeit at a slower rate), reaching 27 percent in February (the highest rate in the EU), with youth unemployment at 64 percent.

[1] For the staff report on the first and second reviews see IMF Country Report No. 13/20.



Sources: Elstat; and IMF staff calculations.

Sources: Elstat; and IMF staff estimates.

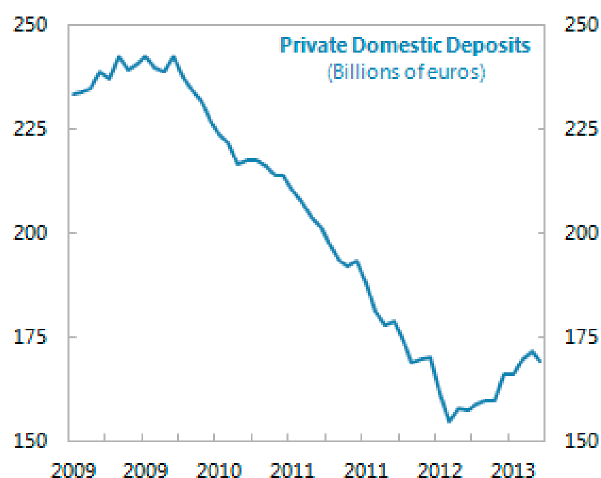
- **Competitiveness gains and internal devaluation are gaining pace.** Falling output combined with a much more flexible labor market following the comprehensive reforms taken under the program have accelerated wage adjustment notably: compensation per employee fell by about 4¼ percent in nominal terms and 5 percent in real terms in 2012 (Figure 2). And in response to Greece's now high output gap, headline HIPC inflation fell to 0.3 percent at end-2012 (from over 2 percent at end-2011) and turned negative in March (-0.2 percent) and April (-0.6 percent). Core inflation (excluding energy and unprocessed food), which has been negative for some time, fell further to -1¼ percent in March (Figure 3). The GDP deflator also turned negative in 2012 (-¾ percent).

- **External adjustment is proceeding at a fast pace.** The sharp contraction in imports continued during 2012 (12 percent), reflecting the fall in domestic demand, whereas exports have remained basically flat (½ percent growth), constrained by the slowdown in Europe and availability of trade financing. The March 2012 PSI improved the income account significantly by reducing interest payments. As a result of these developments, the current account deficit dropped to 3.4 percent of GDP in 2012, about a third of the 2011 outcome (Figure 4). The underlying external position, however, is less favorable: the structural current account deficit is estimated at around 5½ percent of GDP in 2012, suggesting that further competitiveness gains are needed to ensure external sustainability.

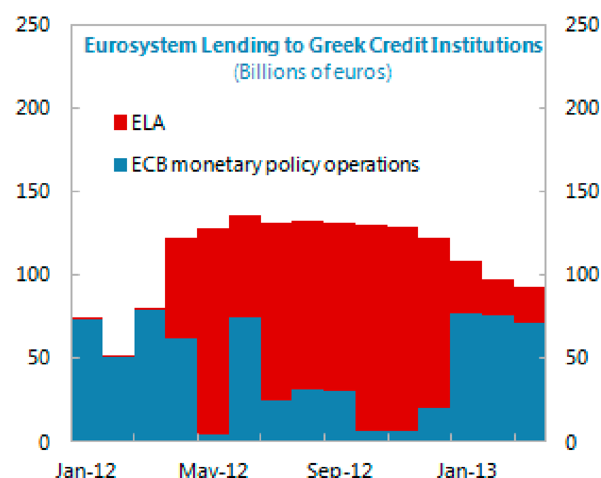
5. Resumed program disbursements and improved sentiment have eased liquidity conditions, but credit continues to contract:

- **Improved sentiment is visible in lower bond spreads.** As of mid-May, spreads on 10-year Greek government bonds have fallen to below 700 basis points, down from over 3,000 in mid 2012 (Figure 5). Following the debt buy-back last December, S&P upgraded Greece's sovereign credit rating from Selective Default to B-, its highest rating since mid-2011. Fitch followed with an upgrade to B- in May.

- **Liquidity conditions in the banking sector have eased.** As of end-April, private sector bank deposits have risen by about €17 billion since their mid-2012 trough on improved sentiment, despite a temporary period of renewed outflows following the bail-in of uninsured depositors in Cyprus. Moreover, following capital injections upon completion of the second review last December, banks have been able to make a significant shift out of the ECB's ELA and into its Main Refinancing Operation, reducing ELA to a fraction of outstanding liquidity support. This has a significant impact on bank funding costs, given the higher cost of ELA.

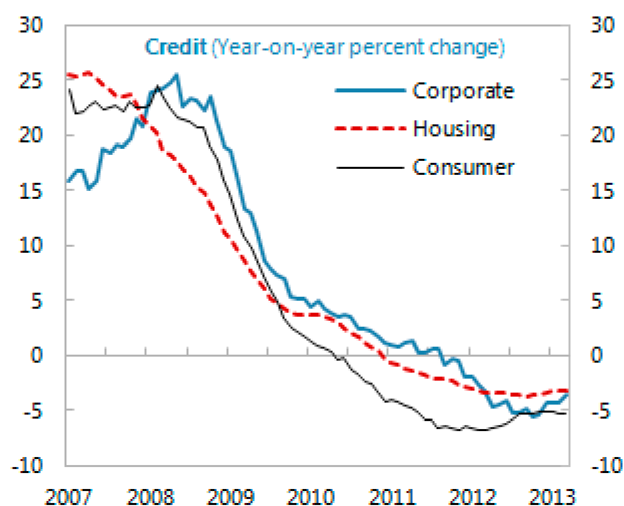


Source: Bank of Greece.



Source: Bank of Greece.

- **However, banks have used the improvement in their funding to reduce exposure to the ECB and credit to the economy has continued to contract** (Figure 6, and Tables 7–9). As of end-April, banks have repaid about €40 billion of central bank financing since mid-2012, while reducing credit to the economy (credit fell €8½ billion or 3½ percent y/y in March 2013). Credit growth has been depressed by the high and rising level of NPLs, which is putting pressure on bank profitability at the same time that banks are seeking to strengthen capital ratios, as well as by elevated credit risk in the recessionary environment. The continued contraction in credit to the economy also reflects the decision by the Euro Group last December not to provide additional resources to cover the increased public sector financing need relative to what had been projected when the program was agreed, which forced the authorities to finance a larger share of the public sector deficit through T-bills issuance.



Source: Bank of Greece.

Non-performing Loans

	2012	Change (percent)
Non-performing loans		
Total (billions of euros)	66.6	29.9
Share of total loans (percent)	29.5	39.5
Of which: restructured loans		
Total (billions of euros)	12.0	6.7
Share of total loans (percent)	5.3	14.6
Accounting provisions to NPLs		
(Excluding restructured loans in percent)	48.1	-23.4

Source: Bank of Greece

6. **Budget execution remains on track.** The 2012 cash fiscal targets were met, as the authorities restrained expenditures in response to delayed program disbursements (Table 2). The cash under-execution more than offset arrears buildup (approximately €1 billion in 2012), with the ESA-95 primary deficit falling to 1.3 percent of GDP compared to a program target of 1.5 percent (Table 3). The available cash data for 2013 through March indicate that fiscal performance is running slightly ahead of program targets. Revenues in aggregate remain in line with projections, with weaker than expected consumption-based taxes offset by lower tax refund payments (possibly reflecting heightened auditing of tax refund claims) and higher than expected disbursement of EU structural funds. However, arrears clearance has lagged program goals: the authorities managed to clear only €1.2 billion in net terms in the fourth quarter of 2012 and the first quarter of 2013, as compared to program goals totaling €3.5 billion during this period due to delays in program disbursements and institutional shortcomings.

7. **But key fiscal institutional and fiscal structural reforms are still not gaining traction** (Tables 10–11):

- **Tax administration reforms remain highly unsatisfactory.** Key performance indicators for end-December were missed by very large margins, notably in collection of tax debt and number of audits (MEFP Table 2). The end-February structural benchmark to establish a semi-autonomous tax agency, the shift of debt collection work to the largest local tax offices, and the planned upgrade of tax auditors were all delayed. Political interference in tax administration remains a problem.

- **Public administration reforms are also running well behind schedule**. The preparation of staffing plans and quarterly targets for mandatory exits was not completed by end-February 2013. Further, there were no additional entrants into the labor mobility scheme through end-April (notwithstanding the program target of 12,500 by end-June 2013). All employees who were transferred into the mobility scheme in December (about 2,000) were promised new positions in

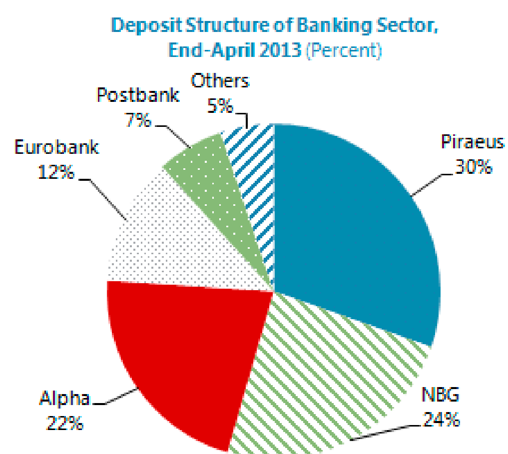
the government, contrary to expectations that a sizeable portion would be subject to redundancy.

- **That said, public financial management (PFM) reforms are making some progress.** The end-2012 key performance indicators (KPIs) on PFM were missed by less than anticipated at the time of the last review, reflecting a strong December performance (MEFP Table 2). About 95 percent of general government entities—including some 65 percent of newly registered ones—now report arrears from their commitment registers. In addition, in the recently revised 2013–16 Medium Term Fiscal Strategy (MTFS), the authorities introduced rolling 3-year expenditure ceilings for line ministries and the health sector, consistent with the program. However, there were delays in establishing the General Directorates of Financial Services (GDFS) in some line ministries, and in developing a social budget monitoring framework.

8. The bank recapitalization and resolution program is on track, nearing its final stage. Following significant consolidation, four core banks are set to emerge. The public sector will be a significant shareholder in all four.

- **The four core banks are continuing to absorb smaller banks.** Piraeus bank completed in April the acquisition of Millennium (the Greek subsidiary of the Portuguese Millennium Bank Group), and has acquired the Greek branches of the Bank of Cyprus, the Cyprus Popular Bank, and the Hellenic Bank, involving a payment of €524 million to the Cypriot parent banks (with the HFSF injecting the extra capital needed into Piraeus). Following the earlier absorption of Geniki and the healthy side of ATE Bank, Piraeus has now become the largest bank by deposits in Greece. With the acquisition of Emporiki (the former Greek subsidiary of the French Crédit Agricole) by Alpha Bank in February, the four core banks now account for nearly 90 percent of banking sector deposits.

Deposit Structure of Banking Sector, End-April 2013 (Percent)



Sources: Bank of Greece; and IMF staff calculations.
1/ Includes acquisition by Piraeus bank of ATE, Geniki, Millenium, and Cypriot branches in Greece, and acquisition by Alpha bank of Emporiki.

- **A merger between two core banks—NBG and Eurobank—was suspended.** The prospect of a new mega-bank with a combined share of total assets of over 45 percent raised a number of potential public policy issues, among them the concern that the merger would severely constrain options for absorption of the remaining unviable banks at a time when the two other core banks had already absorbed several such banks. Therefore, when it became clear that the NBG/Eurobank combination would fail to raise sufficient private capital to meet the 10 percent threshold, the government decided to suspend the merger. Instead, it would proceed with their separate recapitalization by the HFSF, pending a further review of synergies, the implications for the merger for system concentration, the resolution strategy for smaller banks, and the bank privatization strategy.

- **The recapitalization of the four core banks is nearing completion.** Alpha and Piraeus have informed the authorities that they have secured the minimum 10 percent of new equity capital set by the BOG as a condition for maintaining private management control, with the actual subscription expected by end-May. NBG is seeking to raise the required 10 percent, with the outcome still not clear. The private shareholders of Eurobank have decided not to participate in the new equity capital subscription. As a result, it will be fully recapitalized by the HFSF, which will exercise management in accordance with the applicable bank governance framework.

- **The mechanisms to strengthen bank governance are being put into place.** With all four core banks now having majority public sector ownership, it remains a key objective to balance concerns about safeguarding public funds with the need to avoid undue political interference in the management of these banks. The placement of monitoring trustees in the four core banks was completed in January. The first draft report by the trustees was produced in April, identifying several areas for improvement (including credit policies, internal control, monitoring of connected borrowers, and risk management). However, the completion of relationship frameworks between the HFSF and the banks (targeted for end-March 2013 under the program) has been delayed and is now expected in June. In addition, recent events raise concerns about HFSF governance: on March 19, an extraordinary General Council (GC) meeting of the HFSF was called on exceptionally short notice to consider a key strategic issue, effectively precluding participation of one of the three independent GC members.

9. Progress on broader structural reforms has been uneven (Table 12). Regarding privatization, the regulatory frameworks for airports and water have been finalized, 250 real estate plots were transferred to the Fund as agreed, and the PPC restructuring plan was adopted. Meanwhile, an important milestone was passed with the sale of the government's stake in the betting company OPAP for €712 million (finalization of the deal is subject to regulatory approvals), while the tender for a second large firm is expected to be completed by late May. Still, preparation of the other assets for privatization is behind schedule and the authorities might struggle to reach targets for 2013. Moreover, regarding liberalization of regulated professions, the end-2012 structural benchmark was not met, and a number of important judicial reforms were delayed due to strikes by the judiciary. In the latter area, the authorities have more recently stepped up their efforts, including by reducing the administrative case backlog at the Council of State (including tax cases), publishing quarterly information on court performance, and rationalizing the system of magistrate courts to improve efficiency.

DISCUSSIONS

10. There was agreement on the main policy challenges facing the authorities at this juncture. As to fiscal policy, discussions focused on whether over-performance relative to end-December and end-March targets indicated fiscal space to ease measures agreed at the last review, as well as on corrective actions needed in light of continued serious shortfalls in implementation of reforms of tax administration and of public employment policies. Broader structural reforms have taken more of a back seat during the present review as the programs for liberalization of closed professions and privatization will feature dominantly in the next two reviews, while the labor market needs time to

digest the very comprehensive and so far highly effective reforms implemented last year. With the bank recapitalization and resolution program in its final stage, discussions focused on how to complete this process.

A. Outlook

11. The review did not modify the macroeconomic framework (Table 13). The outlook remains for continued recession in 2013, and a gradual recovery starting in 2014. The external environment is now weaker than expected earlier, and the Cypriot crisis is expected to have a small negative impact on Greece, from trade effects (Box 1). However, the authorities and staff agreed that these effects would be offset by stronger services exports in real terms (as confirmed by recent tourism bookings), better liquidity conditions, and the evidence mentioned above that confidence indicators are improving somewhat faster than expected. The baseline scenario continues to assume improvements in price competitiveness, manifested in mild deflation in 2013 and 2014. On the basis of this balance of factors, no significant changes were made to the program's macroeconomic framework. The latest consensus forecast is for a somewhat deeper contraction in 2013 (-4.9 percent versus -4.2 percent in the program), and foresees the recession continuing into 2014 (-1.4 percent growth versus 0.6 percent in the program), with more rigid prices.

12. Greek debt remains sustainable in the medium term, although subject to downside risks (Appendix I):

- **Public debt**. In view of the unchanged macroeconomic framework, public debt dynamics remain as in the first and second reviews staff report of January 2013: after peaking around 175 percent of GDP this year, debt is projected to fall to 124 percent in 2020. On balance, risks remain on the downside, summarized in a tailored alternative scenario, where due to implementation delays and weak economic performance (see accompanying Article IV staff report for a description of the tailored scenario), debt only falls to 147 percent of GDP by 2020.

- **External debt**. The trajectory of external debt is also similar to the path in the last review. It is expected to decline gradually as a result of projected improvements in the current account balance and continued reliance on official financing at low interest rates. Risks to external debt sustainability include delayed structural reforms that slow competitiveness improvements, and slippages in the privatization program and corresponding non-debt-creating inflows. Higher interest rates could also worsen the external debt outlook, although this effect is dampened by Greece's reliance on official financing.

13. The program baseline remains subject to considerable downside risks. Such risks arise in three main areas, which pertain to the possibility that the anticipated recovery will be undermined by weaker confidence, investment, and productivity gains, or a weaker external environment.

- Political risks remain elevated, in light of very high unemployment and social hardships. A loss of commitment to program implementation would undermine confidence, tightening liquidity

conditions and restraining domestic demand. In the medium term, growth could disappoint if structural reforms are not implemented as envisaged.

- Greece's high public debt continues to pose significant risks. Even under the programmed path, debt will remain exceptionally high well into the next decade, and concerns about debt sustainability could weigh considerably on the investment climate, delaying or preventing the recovery assumed in the baseline.

- A more severe slowdown in the euro area than expected would make the needed reorientation towards exports more difficult, weakening the recovery and exerting more pressure for internal devaluation, which would have negative implications for debt sustainability.

B. Economic Policies

Fiscal policy

14. On current projections, no additional measures are needed for 2013–14. The authorities pointed to fiscal over-performance in 2012 and early 2013, which they believed could open up space to ease some of the adjustment measures, such as the property tax, solidarity contributions, VAT on restaurants, and excise tax on heating oil. Staff cautioned that data on budget performance were too incomplete to give confidence in the existence of fiscal space and such relaxation could give rise to a significant fiscal gap. Moreover, there was a risk that weakness in social security contributions in late 2012 could persist, and there were some one-off measures in 2013 (notably, a central bank profit transfer of ¼ percent of GDP), which called for conservatism. Finally, the effectiveness of tax administration reforms—which are assumed to make significant contributions to closing fiscal gaps starting in 2014—was still an open question. On that basis it was agreed to forego any easing and that the question of possible fiscal space would be revisited at the next review.

Fiscal structural reforms

Tax administration reforms

15. Discussions focused on how to overcome problems in tax administration. Reforms of tax administration to tackle Greece's severe tax compliance problems remains a condition sine qua non for the success of the program, not least because associated fairness concerns seriously threaten broader political support for the program. In view of this, significant corrective actions are being taken in this area.[2]

- **The independence of the tax authority will be strengthened in a bid to reduce the scope for political interference** (MEFP ¶13). The Secretary General (SG) will be given control over key

[2] For more details on the revenue administration in Greece, see Selected Issues Paper "Revenue Administration and Fiscal Consolidation" in the accompanying 2013 Article IV consultation staff report.

functions previously outside the SG's purview (such as prosecution of tax evasion and IT systems) and significant autonomy over staffing, organizational structures, and the budget. If this approach fails to deliver, the more radical approach of establishing a revenue agency outside the civil service will be considered (see Table 14 for a description of the two alternative approaches).

- **The legal framework for the revenue administration will be strengthened** (MEFP ¶4). Key legal changes (a prior action for this review) will provide the revenue administration with flexibility to focus its efforts in areas with the highest return, such as streamlining cancellation of uncollectable debt and auditing high risk taxpayers. The legislation will also speed up dispute resolution and provide new powers to determine taxpayers' income through indirect methods.

- **The efficiency of the revenue administration will be improved** (MEFP ¶5). New audit staff will be hired and existing staff given further training, efforts will be refocused on enforcement and collection rather than tax assessment, and some additional resources will be directed to the high wealth, large debtor, and large taxpayer units.[3]

- **Installment schemes will be strengthened, to avoid amnesty-like features** (MEFP ¶6). The basic installment scheme for payment of tax arrears will be reformed as a prior action for this review, to exclude participation by those who can pay and to ensure payments are commensurate with ability to pay. The authorities will also introduce a one-off installment scheme ("Fresh Start") that is justified by the severe liquidity constraints affecting taxpayers in the current recession, by providing a longer payment period and a reduction in penalties and surcharges.[4]

16. Performance of the revenue administration will be monitored by key performance indicators (MEFP ¶8). A set of KPIs for the revenue administration was set as a prior action for this review (targeting collection on new debts, and audits and collection from large taxpayers and high wealth individuals) (MEFP Annex I). They were chosen to demonstrate improved performance in areas that are essential for achieving the targeted improvement in revenue collection in 2015-16. The KPIs are less ambitious than earlier targets, reflecting the substantial delays that have occurred (some of the KPI targets for end-June and end-December 2013 were also adjusted (MEFP Annex II)). Nonetheless, the KPIs imply significantly improved performance compared to last year, and some progress is already evident: by April, the authorities achieved more than two-thirds of the number of full scope LTU audits and exceeded the assessment amount in HWI audits achieved for the entire year in 2012. While the program does not assume any significant gains from tax administration

[3] The authorities reported before the completion of the first and second reviews in January 2013 that 50 auditors had been transferred to the HWI unit, which was a prior action for the reviews. However, some of the auditors failed to take up their new posts, giving rise to a case of misreporting. Additional auditors were later transferred to make up the shortfall, and the Fund granted a waiver of nonobservance of the prior action.

[4] Brondolo, John, 2009, "Collecting Taxes During an Economic Crisis: Challenges and Policy Options", IMF Staff Position Note 09/17.

reforms through 2014, implementation of the KPIs will be essential to secure the programmed gains in 2015–16.

Public financial management reforms

17. Public financial management needs to be strengthened (MEFP ¶9):

- **The budget legal framework will be strengthened to impose more effective expenditure controls.** The organic budget law will be revised to incorporate tighter monitoring on local governments and SOES, and to impose multi-year budget ceilings on line ministry and health sector expenditures.

- **Control on expenditure commitments will be augmented.** General Directorates of Financial Services—which are intended to centralize expenditure commitment controls and budget preparation within ministries—will be made more effective via secondary legislation that assigns these functions to a single unit within each ministry. The electronic reporting system (the e-portal) will also be expanded.

- **Reporting of social expenditures will be enhanced to improve transparency and planning.** The new social budget framework will include data on spending commitments and arrears in the social sectors, and will be brought into closer conformity with GFSM and ESA 95 standards.

18. Arrears clearance is being accelerated (MEFP ¶10). The missed quarterly target on arrears clearance reflects institutional shortcoming, such as the late adoption of local government budgets and the slow implementation of commitment registers in SSFs. As both of these are now being addressed, and funding to hospitals is now channeled directly (rather than through the EOPYY as was the case until recently), the stock of expenditure arrears is expected to be materially reduced. However, additional legislative reforms will be needed within the next six months to address cumbersome payment processes that stall efficiency. This is key to ensure that there is no significant increase in the interest costs related to the EC's late payment directive (transposed by Greece in April 2013), which requires member states to pay interest compensation on payments overdue by more than 30 days.

19. Key performance indicators were established as prior actions for the review, and end-2013 targets were maintained (MEFP ¶11). To bring PFM reforms back on track, end-March KPIs were set as a prior action for this review (MEFP Annex III). The end-March targets require 91 percent of already established entities to report with 2 percent deviation between survey and e-portal data. For newly added entities, which need some time to establish their reporting through the e-portal system, the KPIs require such reporting for 55 percent of them, with a precision of 30 percent. The end-2013 targets established under the previous review remain appropriately ambitious, and thus were maintained (MEFP Annex IV).

Public administration reforms

20. The authorities will bring public administration reforms back on track to support the medium-term fiscal targets and foster a more effective civil service (MEFP ¶13).

- Public sector employment has declined by over 100,000 since 2010, in line with the cumulative program target of at least 150,000 by 2015, as hiring has been restricted by the 1:5 rule of new hiring to attrition. However, staff projects that application of the 1:5 rule will be just sufficient to reach the 2015 target, suggesting that additional reductions are needed to allow room for new hires to address skill shortages. Further, rigid job security inhibits accountability and limits incentives for good performance. The program intended to address these problems by bringing in new and better qualified civil service staff through the mobility scheme (which is a precursor to redeployment between government entities or to mandatory exits from public service), but program targets have been persistently missed by large margins.

- Against this setting, the authorities agreed as a prior action for this review to set semiannual targets for the mobility scheme and quarterly targets for mandatory exits through 2014, approve annual overall employment level ceilings for the general government through 2016, and adopt legal changes to help ensure that the agreed targets are met. The speed of exits is limited by legal provisions that provide most categories of public sector workers with the right to a one-year period in the "mobility reserve" before mandatory exit. But a significant number of up-front mandatory exits can be achieved by focusing on disciplinary cases and closure of extra budgetary funds, which are excluded from the one-year requirement. This will send a powerful signal that the taboo against public sector dismissals is finally being broken. It was agreed that exits will free up space for replacement hiring of critical skills on a 1:1 basis, provided that targets for the reduction in aggregate employment are on track. This will open up room to hire from the large pool of unemployed youth, which the authorities believed would win popular support for the policy.

21. Measures have been introduced to contain contingent fiscal liabilities (MEFP ¶15):

- ***Renewable energy.*** Subsidies to producers of photovoltaic energy have led to a build-up of debt in the renewable energy (RES) account, which is projected, without corrective measures, to reach close to 1 percent of GDP by end-2014. To address this, the government is adopting measures to control subsidies, including by limiting new capacity coming on stream. Further, the RES Special Levy surcharge on consumers will be adjusted in January and July of each year to eliminate any remaining debt. Separately, to improve liquidity in the electricity system where arrears are building up, household tariffs will be liberalized as of July 1, 2013.

- ***Tax investment incentives and subsidies.*** The government is undertaking an initiative with Fund technical assistance to quantify and streamline existing tax incentives, and align Greece's investment framework with best international practices. In this context, tax expenditure and limits on subsidies (including sunset provisions for past subsidy commitments that have not been used) will be reflected in future MTFS updates.

22. Additional measures were added to the program to support job creation and strengthen the safety nets (MEFP ¶14). The fiscal adjustment strategy for 2013–16 was designed to protect the most vulnerable, with both revenue measures and spending cuts having a progressive nature. Further, in the context of this review the authorities have adopted employment programs targeting 45,000 unemployed youths, passed legislation to launch two pilot programs targeted at long-term unemployed and jobless households, and will launch in July 2013 a Health Voucher Program that will provide access to primary healthcare services for 100,000 long-term uninsured citizens. Given the unacceptably high unemployment, especially among youths, and the growing share of long-term unemployment, the authorities recognize that these measures will need to be expanded and complemented by additional programs. They are thus committed to identify gaps in the social safety nets and fill them with priority, leveraging EU funding where possible, within the existing program envelope.

Financial sector policies

23. A principal focus of the review was to bring the recapitalization of the four core banks to a conclusion (MEFP ¶17-18). It was agreed that the framework for bank recapitalization remained appropriate, although small extensions to the end-April deadline were necessary to accommodate procedural requirements.

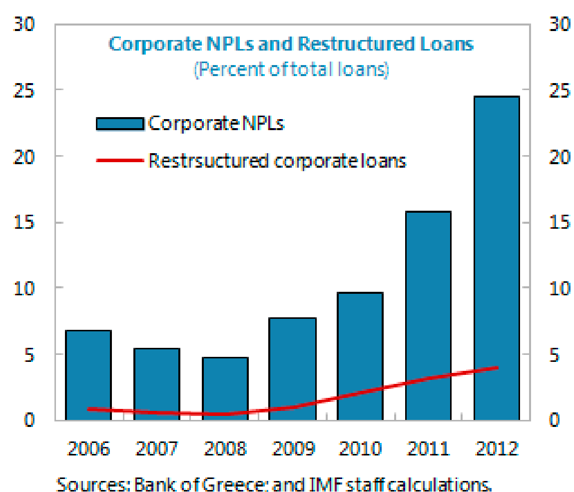
24. The resolution of non-core banks were more fully defined (MEFP ¶19). The two bridge banks that are currently under HFSF control, New Hellenic PostBank and Nea Proton bank, are undergoing restructuring to reduce personnel and other operational costs. The objective is to sell these two banks no later than July 15, 2013. The private owners of the other non-core banks did not manage to raise by the end-April deadline the needed equity capital. For these banks, the authorities will consider alternatives to resolution, including take-over by a core bank.

25. Capital needs of the banking system will be reassessed in light of changed circumstances (MEFP ¶22). The situation in Greece has changed significantly since the BoG's latest stress test exercise, which was based on bank data and macroeconomic projections as of mid-2011. Notably, the macroeconomic environment has deteriorated well beyond what was envisaged in the last stress test, which can be expected to reduce earnings capacity and increase loan losses, adding to capital needs; and the absorption of Cypriot branches has also added to capital needs. In the other direction, recapitalization of foreign subsidiaries by their parents, changes in the recognized amount of deferred tax assets, private sector participation in core bank recapitalization, and liability management exercises have reduced capital needs. It is difficult to quantify these various effects with any precision, in particular during a period of rapid restructuring and consolidation. However, on balance staff does not have reason to doubt the continued adequacy of the existing envelope of €50 billion, which includes a €5 billion buffer. Nevertheless, it will be important that the authorities refine their estimates of the cost of bank recapitalization and resolution through a new stress test by end-2013, based on end-June 2013 data and updated macro scenarios.

26. To contain potential recapitalization needs and support the recovery, an overarching priority is to put in place a framework that helps banks manage distressed assets effectively. There are several dimensions to this framework:

- **The household insolvency framework will be overhauled to safeguard the payment culture while providing relief to over-indebted households** (MEFP ¶25 and Box 2). The existing framework for dealing with household debt—centered around a case-by-case approach applied by the banks, an ineffective insolvency law, and two blanket moratoria on auctions of repossessed assets (de facto preventing property foreclosures)—is deficient. It does not help distressed borrowers in need of temporary forbearance, while imposing very high costs on banks. To address these shortcomings, the authorities will: (i) adopt legislation by end-June to establish a new incentive-compatible "facilitation program" for low-income households who have suffered income losses and are temporarily unable to service their debts; (ii) clarify and tighten by end-June the eligibility criteria for accessing the existing insolvency scheme under law 3869/2010; and (iii) adopt by end-June legislation to facilitate government initiatives to deal with NPLs (including standardization of processing and restructuring solutions, and enhanced non-judicial resolutions). The current blanket moratoria will be discontinued once the new framework is fully operational (no later than end-August 2013).

- **The insolvency framework for the corporate sector will be reviewed.** Restructuring of nonperforming corporate debt (especially SMEs) has so far been very slow. The authorities will thus evaluate in the coming months the potential legal, operational and structural obstacles that could be hampering effective debt resolution in the SMEs, small business and professional sectors, and are committed to adopt promptly remedial measures.



Sources: Bank of Greece; and IMF staff calculations.

- **The authorities will develop a framework to ensure banks address the problem of growing NPLs** (MEFP ¶26). Agreement was reached to establish by end-August 2013 definitions on a set of KPIs related to reporting, resolving, and provisioning of NPLs, and the authorities will provide guidance on bank NPL resolution practices. Banks will be required to report on these KPIs by October 2013. Also, the upcoming NPL resolution review by the HFSF will assess the capacity of banks to deal with their NPLs and address any identified shortcomings. Separately, the BoG has decided to manage the bad assets of resolved banks by transferring them to a central liquidator, which would have powers to manage and liquidate assets.

27. Agreement was reached to further strengthen financial sector governance (MEFP ¶27):

- The HFSF and banks will put in place relationship frameworks by end-May 2013. These frameworks are expected to establish a clear basis for banks to be run on commercial principles, while guarding against transactions that are not in the interest of the majority public owner.

- To address weaknesses in the HFSF governance framework, it was agreed as a prior action to add two independent members in the HFSF General Council.

28. The authorities will prepare a comprehensive strategy for the banking system. In light of the transformed banking landscape following the process of recapitalization and restructuring, the authorities will prepare a comprehensive strategy by July 15, 2013. This will address, among other issues, whether the banking sector should be based around the four existing core banks (or allow mergers among core banks), and will determine the timetable for disposing to the private sector the shares held by the HFSF. Staff's present view is that there must be a clear business rationale for any combined bank, including clear and significant synergies, and that plans must be in place for early privatization of strategic stakes in any banks that the government does end up controlling.

Structural reforms

29. Structural reforms have advanced, but the real test of progress will come in future reviews. With the far-reaching labor market reforms introduced under the program delivering results, the focus of structural reforms is now on opening closed professions, liberalizing product and service markets, and transferring state assets to the control of the private sector (MEFP ¶28–30 and Table 15). Some progress has been achieved, but delays across most areas suggest that backloaded targets for 2013 could be missed absent a redoubled effort.

- **Liberalization of regulated professions is a work in progress.** The authorities removed excessive restrictions on entry, minimum prices, and mandatory use and exclusivity of services for a number of professions and economic activities. They have now completed the first round of liberalization for most regulated professions that were identified at the beginning of the program as having excessive restrictions. However, some key professions have yet to be tackled, including engineering (where exclusivity restrictions abound), and lawyers. The authorities are committed to address those professions during the second half of 2013. Moreover, the effectiveness of actions to date needs to be assessed in light of the myriad ways that vested interests can effectively block implementation despite de jure liberalization. To that end, the authorities will review by end-July 2013 the 20 economically most important professions to assess the degree of de facto liberalization, and address promptly any remaining restrictions.

- **Other product and service market reforms focused on tourism and retail trade.**

    - Reforms are targeting the maritime sector and airports at this stage, which are critical for tourism. In the maritime sector, routing restrictions and high manning obligations affecting the domestic ferry industry were eased. However, the authorities have not yet taken actions to increase the flexibility of labor arrangements in the shipping industry by allowing for

adjustment of individual labor contracts and for firm level agreements when collective labor agreements have expired, as in other economic sectors. This will be reviewed in the fall. Concerning airports, competitive fees for regional airports have been secured. However, so far there has been little progress in lowering the Athens airport fees, which are among the highest in the world, reflecting in part the complications posed by the existing concession agreement.

➢ Following up on retail market liberalization in the previous review, actions will be taken to liberalize the market for over-the-counter (OTC) drugs, which remains one of the most restricted in the EU. Thus fixed margins will be replaced with maximum ones in June 2013, and by end-September 2013 the sale of selected OTC products (e.g., vitamins) outside pharmacies will be allowed.

- **Measures to improve the business environment focused on trade facilitation and judicial reform.** Working shifts for customs will be increased to 24/7 in the Athens airport, and an additional shift will be added in the port of Piraeus. Going forward, the authorities will expand to imports the risk-based approach to inspections (by end-September) as well as the e-customs system (by end-November). In the area of judicial reforms, by end-September 2013 the authorities will relocate judges to the administrative courts with the highest backlog, and prepare legislation for compulsory mediation of small claims, in order to reduce delays in court decisions.

30. The review discussed ways to build on the recent momentum in privatization and avoid delays (MEFP ¶31, Table 16). The successful tender of the betting company (OPAP) and expected imminent tender of the natural gas company (DEPA) mark important milestones in the privatization effort. Important next steps are the timely unbundling of the national electricity company (PPC), state aid clearance for the ports and the gas transmission company (DEFSA), and readying additional real estate assets for sale. The authorities will also seek to put in place processes for earlier and coordinated involvement of the supervisory entities (the Court of Audit, Council of State, and Competition Authorities, including DG Comp) in the privatization process, to minimize undue delays for their required approvals. Absent greater progress on completing these next steps, the quarterly timetable for privatization proceeds under the program will be at risk.

PROGRAM MODALITIES

Program monitoring

31. The authorities implemented nine prior actions to set the stage for Board consideration of the third review (MEFP Table 3). These measures were mainly geared to catch up with program commitments regarding revenue administration and public administration reform, and to strengthen HFSF governance:

- **Improving revenue collection.** Prior actions cover: (i) adoption of legislation to strengthen the independence of the revenue administration; (ii) adoption of legislation to establish new installment arrangements for the collection of tax and social contribution debt; (iii) a package of revenue administration procedural reforms; and (iv) meeting end-April quantified key performance indicators for the revenue administration.

- **Implementing fiscal strategy for 2013–14.** Prior actions cover: (i) adoption of legislation to extend collection of the real estate tax through 2013 via the public power company; (ii) measures to implement public administration reforms (including setting targets on mandatory redundancies and on overall employment in the general government); and (iii) a package of measures to eliminate by end-2014 the debt in the RES account.

- **Strengthening expenditure control.** A prior action required meeting quantified key performance indicators for public financial management, to strengthen expenditure control, and thus help prevent accumulation of new expenditure arrears.

- **Improving HFSF governance.** A prior action required amending the HFSF law to increase the number of independent members of the General Council.

32. Program quantitative targets are proposed for revision (MEFP Table 1):

- **Fiscal quarterly performance criteria (QPCs).** This review proposes an adjustment to the end-June QPC on the primary balance to reflect the within year changes in the fiscal program. In addition, fiscal QPCs for end-September and end-December 2013 have been set.

- **Indicative targets.** Existing targets for 2013 are unchanged. However, in view of continued implementation problems, two new indicative targets are proposed regarding mandatory exits and transfers to the mobility scheme. Given the importance of steady progress regarding mandatory exits, and long required lead times, quarterly targets are proposed for 2014 as well.

33. New structural benchmarks have been established (MEFP Table 4):

- To secure **fiscal sustainability**: by end-October 2013, the authorities should complete a key step towards finalizing the new semi-autonomous structure for the revenue administration. Thus a new organizational structure of the revenue administration should be approved, covering staffing numbers, grading system, job classification, and qualification and appointment processes (MEFP ¶3).

- To preserve **financial stability:** (i) by July 15, 2013, a comprehensive banking sector strategy should be completed (MEFP ¶18); and (ii) by July 15, 2013, the New Hellenic PostBank will be resolved via a P&A transaction (MEFP ¶19).

34. Program reviews will continue on a quarterly basis. The fourth and fifth reviews under the program are proposed to take place, respectively, on or after July 25, 2013 and September 29, 2013 (Table 17).

Exceptional access criteria, financing assurances, and capacity to repay

35. The program continues to satisfy the substantive criteria for exceptional access but with little margin (Box 3). Delays in program implementation resulting in several missed structural benchmarks raised doubts about the capacity of the authorities to implement the program in a difficult political environment. Nevertheless, the authorities' willingness to stay the course in fiscal adjustment, despite intense political pressure, and their additional efforts in the form of strong prior actions, mitigate this concern and allow the program to satisfy the criteria for exceptional access. The commitment of euro area member states to support Greece and to undertake further debt relief as necessary continues to be an essential part of meeting the criteria.

36. Financing assurances are in place for the third review (Tables 18–19). The program is fully financed through the first half of 2014, but a projected financing gap of €4 billion will open up in the second half of 2014. Thus, under staff's current projections, additional financing will need to be identified by the time of the next review, to keep the program fully financed on a 12-month forward basis, and the Eurogroup has initiated discussions already on how to eliminate the projected 2014 gap. In this regard, the Eurogroup commitment made in both February and November 2012 to provide adequate support to Greece during the life of the program and beyond, provided that Greece fully complies with the program, is particularly important.

37. The staff's assessment of capacity to repay the Fund has not changed and under the baseline Greece has the capacity to repay the Fund (Table 20). The macroeconomic outlook, debt service to the Fund, and peak access remain broadly unchanged and euro area member states remain committed to an official support package that will help keep debt on the programmed path as long as Greece adheres to program policies. Capacity to repay the Fund thus depends on the authorities' ability to fully implement an ambitious program. It continues to be the case that if the program went irretrievably off-track and euro area member states did not continue to support Greece, capacity to repay the Fund would likely be insufficient.

STAFF APPRAISAL

38. The program is meeting its short-run objectives, but questions remain about medium-term targets and sustainability. The impressive fiscal adjustment evident since the crisis erupted is continuing, and the competitiveness gap and the current account deficit are now narrowing fast. This reflects full implementation of programmed stabilization policies. However, the adjustment is still taking place through recessionary channels, and although the contraction is clearly slowing and sentiments are improving, there is no evidence yet of the sustained expansion in investments necessary for a robust recovery to get underway. Thus, mindful that Greece will have to endure several more years of painful adjustment amid a fragile social and political situation, investors remain doubtful about sustainability. From this perspective, policy implementation remains much less satisfactory, as reforms of tax administration, public employment policies and closed professions—all in various ways key to improving sustainability—have continued to fall short.

39. Greece is on track to meet its fiscal target for 2013. The fiscal program is ambitious in its scale—the adjustment remains huge by international comparison for the fourth consecutive year—and in its focus on difficult but overdue spending cuts, and the strong implementation speaks to the Government's determination. While staff understands the desire to use fiscal space to ease the adjustment, the authorities should resist pressures to do so before there is firm evidence that such space exists. Staff does not see this evidence at this stage. With much-needed debt relief riding on adherence to the programmed path for the primary balance, the authorities cannot afford to take risks in this area.

40. Progress on improving tax administration remains very disappointing. This is becoming a matter of urgency if the authorities are to be able to avoid—as promised—further across-the-board cuts in public sector wages and social transfers, as European partners are unlikely to make up for Greece's inability to tackle its notorious tax evasion problem by providing more financing. In this context, the planned increase in independence of the revenue administration is essential to insulate it from what remains continued political interference. If these measures—and other measures to modernize the revenue administration's legal framework, operating procedures, and personnel management—fail to deliver, the authorities should consider more fundamental changes, by switching to a revenue agency outside the remit of the civil service.

41. Public administration reforms need to start in earnest. The provision of important public services is hampered by the lack of qualified staff, especially in the revenue administration, and attrition alone is not sufficient to upgrade public administration in support of a modern and well-functioning state. Following several failed attempts, the authorities should deliver on their commitment to dismiss nonperforming public employees. This will free up room to bring in qualified and young personnel, using a one-to-one rule for dismissals, as long as the strict application of the attrition rule delivers the programmed reduction in overall employment.

42. New governance challenges are emerging in the financial sector. With the HFSF having become the largest shareholder of all major banks in Greece, and considering the serious governance problems associated with state-owned banks in the past, adherence to the governance safeguards put in place under the program is essential. Moreover, the strategy for the banking system that will be developed in the coming months should envisage swift divestiture of shares in HFSF-controlled banks. To that end, any merger among the core banks should show clear and significant synergies, and should not jeopardize the prospect for a speedy transfer of HFSF shares to the private sector. The adoption of a revised household debt restructuring framework is a welcome start to a coordinated strategy for dealing with distressed assets, and needs to be followed by a similar approach to address the growing NPLs of the corporate sector, especially the SMEs. In this regard, staff is concerned about pressure for debt relief that could undermine the payment culture. To maintain financial sector stability, it is essential that these approaches should be consistent with the program's bank recapitalization envelope.

43. Reforms to open up the economy to competition should be stepped up. While on the cost side most of the pre-crisis competitiveness gap has been closed, prices have failed to adjust commensurately, indicating the presence of market rigidities. The focus going forward should be on

continuing to liberalize the closed professions, opening up other product and service markets, and removing red tape that feeds corruption and strangles initiative. A critical mass of such reforms is essential for improving productivity and lowering input and consumer prices. This will help boost investments, and create much-needed employment opportunities. It will also ensure that the burden of adjustment is more fairly distributed and thus help shore up support for the program.

44. The privatization process is finally moving forward, although still too slowly. The tenders of the national betting company and the national gas company are important steps, and the authorities now need to press forward forcefully to secure the regulatory approvals and complete other actions needed to finalize these sales. They must also redouble their efforts to sell other assets in their portfolio, including real estate. Staff is concerned that preparations for these other privatizations are running behind schedule and that targets for end-2013 could be missed. Staff remains of the view that if the comprehensive review of the privatization program scheduled for the fall of 2013 suggest that delays are continuing—in particular that political interference continue to hamper the process—more far-reaching governance changes to the HRADF must be considered, including bringing in foreign managers.

45. Debt sustainability concerns continue to hang over the program. If investors are not persuaded that the policy for dealing with the debt problem is credible, investments and growth will be unlikely to recover as programmed. The commitment of Greece's European partners to provide debt relief as needed to keep debt on the programmed path remains, therefore, a critical part of the program. But the programmed path entails still very high debt well into the next decade. As noted at the last review, should debt sustainability concerns prove to be weighing on investor sentiments even with the framework for debt relief now in place, and strong program implementation by the Greek authorities notwithstanding, a more front-loaded approach to debt relief would need to be considered. The macroeconomic and debt outlook must remain under close review.

46. On the basis of reforms undertaken in the context of this review, and government's policy commitments going forward, staff supports the completion of the third review.

Table 1. Greece: Selected Economic Indicators, 2009–13

	2009	2010	2011	2012		2013
				Prog.	Est.	Proj.
	(Percentage change, unless otherwise indicated)					
Domestic economy						
Real GDP	-3.1	-4.9	-7.1	-6.0	-6.4	-4.2
Output gap (percent of pot. output)	7.3	3.3	-2.6	-7.3	-7.7	-10.6
Total domestic demand	-5.5	-7.0	-8.7	-8.7	-10.4	-5.6
Private consumption	-1.6	-6.2	-7.7	-7.7	-9.1	-6.9
Public consumption	4.9	-8.7	-5.2	-6.2	-4.2	-4.0
Gross fixed capital formation	-13.7	-15.0	-19.6	-14.4	-19.2	-4.0
Change in stocks (contribution)	-1.2	0.7	-0.4	0.4	0.0	0.4
Foreign balance (contribution)	3.0	3.0	2.4	3.3	3.7	2.6
Exports of goods and services	-19.4	5.2	0.3	-1.2	-2.4	3.0
Imports of goods and services	-20.2	-6.2	-7.3	-11.5	-13.8	-6.4
Unemployment rate (percent) 1/	9.4	12.5	17.5	24.4	24.2	27.0
Employment 1/	-1.0	-2.7	-6.6	-9.2	-8.2	-3.7
Unit labor costs	4.2	-1.1	-3.9	-8.1	-6.1	-6.5
Consumer prices (national definition), period averag	1.2	4.7	3.3	1.2	1.5	-0.8
Consumer prices (HICP), period average	1.3	4.7	3.1	...	1.0	...
Core prices, period average 2/	2.3	2.6	1.1	...	-0.3	...
GDP deflator	2.3	1.1	1.0	-0.5	-0.8	-1.1
	(Percent of GDP, unless otherwise indicated)					
Balance of payments						
Current account	-11.2	-10.1	-9.9	-4.2	-3.4	-0.8
Structural current account balance	-7.0	-8.3	-10.9	...	-5.4	-4.9
Trade balance	-7.8	-6.8	-6.0	-2.5	-2.5	-0.2
Export of goods and services	18.3	20.5	23.4	25.3	25.4	27.4
Imports of goods and services	-26.2	-27.3	-29.5	-27.8	-27.9	-27.6
Total transfers	0.6	0.1	0.3	0.3	0.7	1.8
Net income receipts	-3.9	-3.5	-4.1	-2.0	-1.6	-2.5
Net international investment position	-86.4	-98.4	-86.1	-94.2	-114.1	-118.9
Public finances (general government)						
Total revenues	38.3	40.6	42.4	43.6	44.1	44.3
Total expenditures	54.0	51.4	52.0	50.3	50.4	48.4
Primary expenditures	48.8	45.5	44.8	45.1	45.4	44.3
Overall balance	-15.6	-10.8	-9.6	-6.7	-6.3	-4.1
Primary balance	-10.5	-4.9	-2.4	-1.5	-1.3	0.0
Cyclically-adjusted primary balance	-13.0	-6.1	-1.3	...	2.2	5.0
Gross debt	130	148	170	158	157	176
Interest rates and credit						
Lending interest rate (percent)3/	5.1	6.1	6.8	...	5.8	6.4
Private credit growth (percent change) 4/	4.2	0.0	-3.1	-7.2	-4.0	-6.5
Exchange rates, end-period (percent change) 3/						
Nominal effective exchange rate	0.4	-3.7	0.0	...	-0.5	0.1
Real effective exchange rate (CPI-based)	1.7	-1.2	-0.7	...	-1.9	-2.1
Real effective exchange rate (man. ULC-based)	1.1	0.8	-6.1	...	-8.4	-8.4
Memorandum items:						
Nominal GDP (billions of euros)	231	222	209	195	194	183
Nominal GDP (percent change)	-0.9	-3.9	-6.1	-6.5	-7.1	-5.3

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

1/ Based on Labor Force Survey.
2/ Core prices exclude energy, food, alcohol, and tobacco.
3/ Data for 2013 as of March.
4/ Includes securitized or otherwise transferred loans from 2010 onward.

Table 2. Greece: Modified General Government Cash Balance, 2012–16 1/

(Billions of euros)

	2012	2013 (cumulative)				2014	2015	2016
		Mar-13	Jun-13	Sep-13	Dec-13			
	Actual				Prog.			Proj.
I. State budget								
Revenue	51.6	11.9	22.6	35.9	50.3	48.8	48.7	49.2
Ordinary budget (A + B + C - D + E)	48.0	10.3	20.2	32.2	45.2	44.2	44.7	46.4
A. Recurrent revenue	49.7	10.2	20.6	32.9	46.6	45.5	46.5	48.4
1. Direct taxes	21.1	4.2	8.5	14.1	19.6	19.0	19.3	19.8
Income taxes	13.3	2.0	4.5	8.1	11.1	12.2	12.9	14.0
PIT	10.0	1.6	3.2	5.6	7.8	6.7	7.0	7.5
CIT	1.7	0.0	0.5	1.0	1.5	3.6	4.0	4.4
Other	1.6	0.4	0.8	1.4	1.9	1.9	1.9	2.0
Property taxes	2.9	0.7	1.5	2.1	3.3	2.8	2.8	2.8
Tax arrears collection	1.8	1.0	1.6	2.1	2.6	1.4	1.5	1.6
Other direct taxes	3.1	0.4	0.9	1.8	2.6	2.6	2.2	1.4
2. Indirect taxes	26.1	5.6	11.2	17.2	24.2	23.9	24.5	25.9
Transaction taxes	15.7	3.5	6.9	10.5	14.1	13.9	14.4	15.2
VAT	15.0	3.4	6.6	10.0	13.5	13.2	13.6	14.4
Other	0.7	0.1	0.3	0.5	0.7	0.7	0.7	0.8
Consumption taxes	9.6	1.8	3.9	6.1	9.4	9.2	9.4	9.9
Tax arrears collections	0.5	0.2	0.3	0.4	0.4	0.4	0.4	0.5
Other indirect taxes	0.3	0.1	0.1	0.2	0.3	0.3	0.3	0.3
3. Transfers EU	0.2	0.0	0.1	0.1	0.2	0.2	0.2	0.2
4. Nontax revenue	2.2	0.4	0.9	1.5	2.5	2.4	2.4	2.5
B. One-off revenue	1.5	0.3	0.5	0.7	0.9	0.7	0.8	0.8
C. Revenue from concession and rights	0.0	0.0	0.0	0.1	0.1	0.2	0.0	0.0
D. Tax refunds	3.2	0.2	0.9	1.8	2.9	2.8	2.8	2.9
E. Tax Installment Scheme	0.0	0.0	0.0	0.2	0.5	0.6	0.3	0.1
Investment budget	3.6	1.6	2.4	3.7	5.1	4.6	3.9	2.9
A. EU flows	3.4	...	...	...	...	4.4	3.7	2.7
B. Own revenues	0.2	...	...	...	...	0.2	0.2	0.2
Expenditure	66.9	13.7	28.7	43.7	59.0	55.9	56.0	55.5
Ordinary spending	59.9	13.1	25.7	38.6	51.2	48.6	48.0	48.1
Ordinary primary spending	47.7	11.2	22.3	33.2	44.8	41.7	40.8	40.8
A. Remuneration and pensions	20.5	4.6	9.3	13.9	18.6	18.0	17.9	17.8
B. Insurance and healthcare	16.7	4.2	8.0	11.7	15.3	13.2	12.3	12.3
C. Operating and other expenditure	6.4	2.3	4.7	6.9	9.9	5.6	5.7	5.6
D. Earmarked revenue	3.5	0.0	0.0	0.0	0.0	3.5	3.6	3.8
E. Reserve	0.0	0.0	0.2	0.6	0.9	1.2	1.2	1.2
F. EFSF commitment fee	0.5	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Interest	12.2	1.9	3.3	5.4	6.4	6.9	7.2	7.3
Transfers to hospitals for the settlement of past debt	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Investment	6.1	0.5	2.5	4.2	6.7	6.4	7.0	6.7
Spending on military procurement	0.4	0.0	0.2	0.5	0.8	0.6	0.8	0.6
Guarantees on entities outside the general government	0.1	0.1	0.3	0.4	0.4	0.2	0.2	0.1
Balance	-15.3	-1.8	-6.1	-7.9	-8.7	-7.0	-7.3	-6.3
Primary balance	-3.1	0.1	-2.7	-2.4	-2.3	-0.1	-0.1	1.0
II. Balance local governments	0.1	0.2	0.3	0.3	0.3	0.3	0.6	0.6
III. Balance social security funds	0.2	1.4	1.4	1.4	1.9	1.3	-0.4	-0.3
IV. Balance of extra-budgetary funds (ETERPS)	0.5	0.0	0.1	0.2	0.2	0.2	0.0	0.0
VIII. Balance of reclassified public enterprises	-0.5	-0.1	-0.2	-0.2	-0.3	0.2	0.3	0.4
X. Modified general government cash balance	-14.9	-0.3	-4.5	-6.2	-6.6	-5.0	-6.8	-5.6
Modified general government primary cash balance	-2.7	1.7	-1.2	-0.8	-0.2	1.9	0.4	1.7
Primary spending	55.4	11.8	25.8	34.4	53.2	49.4	49.2	48.7
Memorandum items:								
Floor on the modified general government primary cash balance	-3.8	1.5	-1.2	-0.8	-0.3	2.0	3.6	...
Ceiling on primary spending	56.8	13.9	26.0	38.8	53.2	49.4	46.3	...

Sources: Ministry of Finance; and IMF staff projections.

1/ Calculations based on program definitions as outlined in the TMU.

Table 3. Greece: General Government Operations, 2010–17 1/

	2010	2011	2012	2013	2014	2015	2016	2017
					Proj.			
				(Billions of euros)				
Revenue	90.2	88.4	85.5	81.2	80.3	81.2	83.7	87.8
Indirect taxes	27.3	26.6	24.3	23.5	23.2	23.7	25.0	26.2
Direct taxes	17.5	18.0	19.1	18.7	18.5	18.6	18.8	19.7
Social contributions	29.8	27.4	26.5	24.7	25.2	25.1	25.8	27.1
Other current revenue	4.9	5.7	4.7	5.3	5.1	5.3	5.5	5.8
Sales	6.1	5.6	5.8	4.6	4.4	4.6	4.8	5.0
Capital revenue	4.6	5.0	4.9	4.4	3.8	3.9	3.8	4.0
Primary expenditure	101.1	93.3	87.9	81.3	77.6	78.7	78.9	82.7
Social benefits	47.5	47.5	44.4	40.0	38.5	39.3	40.0	42.0
Subsidies	0.1	1.0	1.0	1.1	0.5	0.2	0.4	0.4
Other current expenditure	3.4	2.6	2.3	2.5	2.4	2.4	2.4	2.5
Compensation of employees	27.8	25.9	24.2	21.2	20.4	20.2	19.9	20.9
Intermediate consumption	13.4	9.8	9.5	7.6	6.9	7.1	7.0	7.3
Investment	8.9	6.7	6.6	8.9	8.9	9.6	9.2	9.7
Unidentified measures (cumulative)	0.0	0.0	0.0	0.0	0.0	3.2	4.2	4.4
Primary balance	-10.9	-4.9	-2.5	0.0	2.8	5.7	9.0	9.4
Interest	13.2	15.0	9.7	7.5	8.7	9.8	10.5	11.0
Overall balance	-24.1	-20.0	-12.2	-7.5	-6.0	-4.1	-1.6	-1.6
Gross debt (Maastricht)	329.5	355.2	303.9	322.5	320.3	319.8	317.9	312.9
				(Percent of GDP)				
Total primary revenue	40.6	42.4	44.1	44.3	43.7	42.7	42.0	42.0
Indirect taxes	12.3	12.8	12.6	12.8	12.6	12.5	12.5	12.5
Direct taxes	7.9	8.6	9.9	10.2	10.1	9.8	9.4	9.4
Social contributions	13.4	13.2	13.7	13.4	13.7	13.2	12.9	12.9
Other current revenue	2.2	2.7	2.4	2.9	2.8	2.8	2.8	2.8
Sales	2.7	2.7	3.0	2.5	2.4	2.4	2.4	2.4
Capital revenue	2.1	2.4	2.5	2.4	2.1	2.1	1.9	1.9
Total primary expenditure	45.5	44.8	45.4	44.3	42.2	41.4	39.6	39.6
Social benefits	21.4	22.8	22.9	21.8	20.9	20.7	20.1	20.1
Subsidies	0.1	0.5	0.5	0.6	0.3	0.1	0.2	0.2
Other current expenditure	1.5	1.2	1.2	1.4	1.3	1.2	1.2	1.2
Compensation of employees	12.5	12.4	12.5	11.5	11.1	10.6	10.0	10.0
Intermediate consumption	6.0	4.7	4.9	4.1	3.8	3.7	3.5	3.5
Investment	4.0	3.2	3.4	4.9	4.8	5.1	4.6	4.6
Unidentified measures (cumulative)	0.0	0.0	0.0	0.0	0.0	1.7	2.1	2.1
Primary balance	-4.9	-2.4	-1.3	0.0	1.5	3.0	4.5	4.5
Interest	5.9	7.2	5.0	4.1	4.8	5.1	5.3	5.3
Overall balance	-10.8	-9.6	-6.3	-4.1	-3.3	-2.1	-0.8	-0.8
Gross debt (Maastricht)	148.3	170.3	156.9	175.8	174.2	168.2	159.5	149.7
Nominal GDP (billions of euros)	222.2	208.5	193.8	183.5	183.9	190.1	199.3	209.1

Sources: Ministry of Finance; and IMF staff projections.

1/ Calculations based on program definitions as outlined in the TMU.

Table 4. Greece: General Government Statement of Operations (GFSM 2001, flows), 2010–16 1/

(Millions of euros)

	2010	2011	2012	2013	2014	2015	2016
Revenue	90,232	88,383	85,458	81,243	80,265	81,205	83,675
Taxes	45,109	44,917	43,644	42,264	41,714	42,259	43,802
Social contributions	29,764	27,435	26,508	24,666	25,220	25,127	25,790
Grants and other revenue	15,359	16,031	15,306	14,313	13,331	13,819	14,082
Expenditure	114,289	108,346	97,655	88,807	86,313	88,484	89,403
Expense	114,472	111,332	100,264	....	....	....	....
Compensation of employees	27,773	25,852	24,215	21,184	20,365	20,175	19,895
Use of goods and services	13,429	9,789	9,456	7,583	6,919	7,069	6,999
Consumption of fixed capital	5,386	5,782	6,263	....	....	....	....
Interest	13,193	15,016	9,723	7,527	8,745	9,786	10,524
Subsidies	129	982	977	1,090	478	212	375
Social benefits	47,476	47,450	44,383	39,957	38,513	39,251	40,010
Grants and other expense	7,086	6,461	5,247	3,130	2,772	2,725	2,652
Net acquisition of nonfinancial assets	-183	-2,986	-2,609	....	....	....	....
Gross capital formation 2/	5,203	2,796	3,654	8,337	8,520	9,265	8,948
(-) Consumption of fixed capital	5,386	5,782	6,263	....	....	....	....
Unidentified Measures (Cumulative)	0	0	0	37	60	3,195	4,173
Gross operating balance 3/	-18,854	-17,167	-8,543	810	2,532	5,181	7,392
Net operating balance 4/	-24,240	-22,949	-14,806	....	....	....	....
Net lending (+)/borrowing (–) 5/	-24,057	-19,963	-12,197	-7,527	-5,988	-4,084	-1,556
Primary Net lending (+)/borrowing (–)	-10,864	-4,947	-2,474	0	2,758	5,702	8,969
Net acquisition of financial assets	4,798	356	52,061	....	....	....	....
Monetary gold and SDRs	0	0	0	....	....	....	....
Currency and deposits	5,097	-2,012	4,979	....	....	....	....
Debt securities	0	-48	13,535	....	....	....	....
Loans	144	832	-4,995	....	....	....	....
Equity and investment fund shares	380	652	38,036	....	....	....	....
Insurance, pensions, and standardized guarantee schemes	4	1	1	....	....	....	....
Financial derivatives and employee stock options	0	0	0	....	....	....	....
Other accounts receivable	-827	931	505	....	....	....	....
Net incurrence of liabilities	28,695	20,057	64,525	....	....	....	....
SDRs	0	0	0	....	....	....	....
Currency and deposits	-503	-184	-46	....	....	....	....
Debt securities	-311	-2,981	-44,744	....	....	....	....
Loans	30,216	26,907	107,811	....	....	....	....
Equity and investment fund shares	0	0	0	....	....	....	....
Insurance, pensions, and standardized guarantee schemes	0	0	0	....	....	....	....
Financial derivatives and employee stock options	951	166	-1,499	....	....	....	....
Other accounts payable	-1,658	-3,851	3,003	....	....	....	....

Sources: Ministry of Finance; and IMF staff projections.

1/ Calculations based on program definitions as outlined in the TMU.
2/ Acquisition less disposals of nonfinancial assets.
3/ Revenue minus expense (excluding consumption of fixed capital).
4/ Revenue minus expense (including consumption of fixed capital).
5/ Revenue minus expenditure.

Table 5. Greece: Financial Balance Sheet (GFSM 2001, stocks), 2008–12 1/

(Millions of euros)

	2008	2009	2010	2011	2012
Stock positions					
Net worth	....	....	....	....	....
Nonfinancial assets	....	....	....	....	....
Net financial worth	-221,099	-242,350	-211,112	-153,297	-198,700
Financial assets	64,412	77,232	79,471	75,756	121,573
Monetary gold and SDRs	0	0	0	0	0
Currency and deposits	13,213	11,764	16,901	14,732	20,707
Debt securities	702	741	741	693	14,196
Loans	1,591	5,261	5,407	6,238	1,243
Equity and investment fund shares	29,256	39,757	37,533	34,270	65,097
Insurance, pensions, and standardized guarantee schemes	38	42	47	48	49
Financial derivatives and employee stock options	0	0	0	0	0
Other accounts receivable	19,612	19,667	18,842	19,775	20,281
Liabilities	285,511	319,582	290,583	229,053	320,273
Monetary gold and SDRs	0	0	0	0	0
Currency and deposits	728	1,508	1,005	820	774
Debt securities	213,617	248,184	190,632	104,586	78,128
Loans	45,912	44,811	75,193	102,921	216,240
Equity and investment fund shares	0	0	0	0	0
Insurance, pensions, and standardized guarantee schemes	0	0	0	0	0
Financial derivatives and employee stock options	2,736	980	1,311	2,134	3,536
Other accounts payable	22,518	24,099	22,442	18,592	21,595
Memorandum items:					
Debt (at market value)	282,775	318,602	289,272	226,919	316,737
Debt at face value	285,802	323,784	351,957	373,764	325,513
Maastricht debt	263,284	299,685	329,515	355,172	303,918
Other economic flows					
Change in net worth from other economic flows	....	....	....	....	....
Nonfinancial assets	....	....	....	....	....
Change in net financial worth from other economic flows	-5,405	15,093	55,135	77,516	-25,729
Financial assets	-13,417	10,552	-2,559	-4,071	966
Monetary gold and SDRs	0	0	0	0	0
Currency and deposits	48	-67	40	-157	-223
Debt securities	0	0	0	0	-32
Loans	-2	0	2	-1	0
Equity and investment fund shares	-13,461	10,619	-2,604	-3,915	1,220
Insurance, pensions, and standardized guarantee schemes	-1	-1	1	0	0
Financial derivatives and employee stock options	0	0	0	0	0
Other accounts receivable	-1	1	2	2	1
Liabilities	-8,012	-4,541	-57,694	-81,587	26,695
Monetary gold and SDRs	0	0	0	0	0
Currency and deposits	0	57	0	-1	0
Debt securities	-7,067	-3,353	-57,241	-83,065	18,286
Loans	6	-11	166	821	5,508
Equity and investment fund shares	0	0	0	0	0
Insurance, pensions, and standardized guarantee schemes	0	0	0	0	0
Financial derivatives and employee stock options	-950	-1,234	-620	657	2,901
Other accounts payable	-1	0	1	1	0

Sources: Ministry of Finance; and IMF staff projections.

1/ Calculations based on program definitions as outlined in the TMU.

Table 6. Greece: Summary of Balance of Payments, 2010–18

	2010	2011	2012	2013	2014	2015	2016	2017	2018
						Proj.			
					(Billions of euro)				
Current account balance	-22.5	-20.6	-6.5	-1.6	-0.4	0.2	0.4	0.9	1.9
Balance of goods and services	-15.0	-12.6	-4.9	-0.3	2.6	4.6	5.9	7.2	8.6
Goods balance	-28.3	-27.2	-19.6	-16.9	-15.4	-14.9	-15.0	-15.1	-15.4
Exports	17.1	20.2	22.0	22.2	22.8	23.5	24.4	25.6	26.9
Imports	45.4	47.5	41.6	39.1	38.2	38.4	39.4	40.7	42.3
Services balance	13.2	14.6	14.7	16.6	18.0	19.5	20.9	22.4	24.0
Credit	28.5	28.6	27.1	28.1	29.3	30.9	32.7	34.8	37.0
Debit	15.2	14.0	12.4	11.5	11.2	11.4	11.9	12.4	13.0
Income balance	-7.7	-8.6	-3.1	-4.7	-5.7	-6.6	-7.3	-7.7	-7.5
Credit	4.0	3.3	3.3	3.8	4.2	4.6	5.1	5.7	6.1
Debit	11.7	11.9	6.3	8.5	9.9	11.2	12.3	13.4	13.6
Current transfers (net)	0.2	0.6	1.4	3.4	2.7	2.2	1.8	1.5	0.8
Capital and financial account balance	-8.6	-21.0	-103.4	-33.2	-15.2	-7.0	-3.0	-4.9	-5.0
Capital account balance	2.1	2.7	2.3	4.6	3.5	3.2	3.3	3.3	2.8
Financial account	-10.6	-23.7	-105.7	-37.9	-18.7	-10.3	-6.3	-8.2	-7.8
Direct investment	-0.9	-0.5	2.3	2.3	1.8	1.9	1.8	2.2	3.0
Portfolio investment	-20.9	-19.8	-99.9	-2.8	-9.0	-5.4	-2.1	-3.5	0.2
Of which: government	-26.8	-23.3	-57.0	6.2	-9.1	-6.1	-2.7	-4.7	-0.9
Other investment (excl. program financing)	11.0	-3.4	-8.1	-37.3	-11.4	-6.8	-6.0	-6.8	-11.0
Reserve assets (increase = -)	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net errors and omissions	-0.4	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Program financing, net	31.5	41.5	109.9	34.8	11.0	0.3	2.6	3.9	3.1
Unidentified financing	0.0	0.0	0.0	0.0	4.6	6.5	0.0	0.0	0.0
					(Percent of GDP)				
Current account balance	-10.1	-9.9	-3.4	-0.8	-0.2	0.1	0.2	0.5	0.9
Balance on goods and services	-6.8	-6.0	-2.5	-0.2	1.4	2.4	3.0	3.5	3.9
Goods balance	-12.7	-13.1	-10.1	-9.2	-8.4	-7.8	-7.5	-7.2	-7.0
Services balance	6.0	7.0	7.6	9.0	9.8	10.2	10.5	10.7	11.0
Income balance	-3.5	-4.1	-1.6	-2.5	-3.1	-3.5	-3.7	-3.7	-3.4
Current transfers	0.1	0.3	0.7	1.8	1.5	1.2	0.9	0.7	0.4
Capital and financial account balance	-3.9	-10.1	-53.4	-18.1	-8.3	-3.7	-1.5	-2.3	-2.3
Capital account balance	0.9	1.3	1.2	2.5	1.9	1.7	1.7	1.6	1.3
Financial account	-4.8	-11.3	-54.6	-20.6	-10.1	-5.4	-3.2	-3.9	-3.6
Direct investment	-0.4	-0.2	1.2	1.2	1.0	1.0	0.9	1.0	1.4
Portfolio investment	-9.4	-9.5	-51.6	-1.5	-4.9	-2.8	-1.1	-1.7	0.1
Of which: government	-12.1	-11.2	-29.4	3.4	-4.9	-3.2	-1.4	-2.2	-0.4
Other investment	5.0	-1.7	-4.2	-20.4	-6.2	-3.6	-3.0	-3.3	-5.0
Reserve assets (increase = -)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net errors and omissions	-0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Program financing	14.2	19.9	56.7	19.0	6.0	0.2	1.3	1.9	1.4
Unidentified official financing / market access	0.0	0.0	0.0	0.0	2.5	3.4	0.0	0.0	0.0
Gross external debt	213.1	225.4	232.8	247.0	238.1	222.2	204.7	190.6	176.6
Public sector	150.9	173.5	183.3	196.0	187.9	173.8	158.5	146.8	134.7
Private sector	62.2	51.9	49.5	51.0	50.2	48.4	46.2	43.8	42.0
Memorandum item:									
Current account balance in cash terms	-10.1	-9.9	-3.4	-0.4	0.8	2.1	2.5	3.0	3.5
Structural current account balance	-8.3	-10.9	-5.4	-4.9	-3.6	-2.1	-0.8	0.1	1.0

Sources: Bank of Greece; and IMF staff estimates.

Table 7. Greece: Monetary Survey, 2010–14

	2010	2011	2012	2013				2014			
				Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14
								Proj.			
	(Billions of Euros)										
Aggregated balance sheet of Monetary Financial Institutions (MFIs)											
Total assets	654.6	646.1	602.5	558.5	541.4	526.7	520.9	512.4	505.6	499.5	494.4
Cash (held by credit institutions)	2.1	2.4	2.5	2.0	2.0	1.9	1.9	1.9	1.9	1.9	1.9
Claims on Bank of Greece	10.6	5.1	3.1	4.2	3.5	3.4	3.4	3.4	3.4	3.4	3.4
Claims on other MFIs	186.0	146.8	170.7	130.9	129.0	124.2	122.0	117.6	113.8	109.8	106.1
Claims (Loans) on non MFIs	289.0	275.9	250.1	249.3	240.2	232.8	229.6	226.6	224.3	222.5	221.2
Domestic	282.5	269.5	244.8	243.6	235.1	227.7	224.5	221.6	219.3	217.4	216.1
General government	26.3	22.3	17.4	15.3	14.6	14.0	13.9	13.8	13.8	13.9	13.9
Other sectors 1/	256.2	247.2	227.5	228.2	220.5	213.7	210.6	207.7	205.4	203.6	202.2
Other countries	6.5	6.4	5.2	5.7	5.2	5.2	5.1	5.1	5.1	5.1	5.1
Securities 2/	101.2	93.0	100.4	99.8	96.9	95.5	95.3	94.5	93.9	93.5	93.2
Other assets	60.7	117.9	70.6	67.4	65.2	64.3	64.2	63.9	63.9	64.0	64.2
Fixed assets	5.0	5.0	5.0	4.9	4.6	4.5	4.5	4.5	4.5	4.5	4.5
Total Liabilities	654.6	646.1	602.5	558.5	541.4	526.7	520.9	512.4	505.6	499.5	494.4
Liabilities to Bank of Greece	97.8	76.9	121.2	92.0	88.8	83.9	81.5	77.6	74.1	70.5	66.9
Liabilities to other MFIs	164.7	155.4	133.2	109.3	108.7	103.9	101.6	97.6	94.1	90.4	86.9
Deposits and repos of non MFIs	282.5	237.5	225.2	227.2	223.7	221.1	220.9	220.2	220.1	220.7	221.8
Domestic	225.1	187.7	179.1	186.0	182.1	180.2	180.4	179.7	179.6	180.2	181.2
Other countries	57.4	49.8	46.1	41.2	41.6	40.8	40.6	40.5	40.5	40.5	40.7
Capital and reserves	46.7	54.8	56.0	59.8	58.2	57.0	56.6	56.9	57.3	57.8	58.4
Banknotes and coins in circulation	22.5	23.7	24.3	23.9	23.3	22.8	22.6	22.5	22.5	22.5	22.6
Other liabilities	40.3	97.8	42.6	46.3	38.8	38.0	37.7	37.6	37.6	37.6	37.7
Money and credit											
Broad money	232.9	199.2	188.4	193.7	191.4	189.5	189.6	189.3	189.6	190.5	191.9
Credit to the private sector 3/ 4/	257.5	248.1	227.3	228.0	220.5	213.7	210.6	207.7	205.4	203.6	202.2
Credit to government 3/	63.0	59.1	28.2	22.5	22.8	22.3	22.4	22.3	22.3	22.3	22.3
	(Annual percentage change) 5/										
Broad money	-11.2	-14.6	-5.3	1.5	8.6	4.9	0.6	-2.2	-1.0	0.5	1.2
Domestic private sector deposits	-12.4	-17.0	-7.0	0.9	9.8	6.0	1.3	-2.0	-1.1	0.3	1.0
Credit to the private sector 3/ 4/	0.0	-3.1	-4.0	-3.5	-5.0	-5.6	-6.5	-8.8	-6.8	-4.8	-4.0
Credit to government 3/	28.3	2.0	-7.9	-17.0	-15.0	-24.6	-20.8	-0.9	-2.3	-0.1	-0.1
	(Percent of GDP)										
Broad money	101.8	89.5	89.1	97.8	101.0	102.7	103.5	103.6	103.8	104.2	104.6
Domestic deposits	98.4	84.3	84.7	93.9	96.1	97.7	98.4	98.4	98.4	98.5	98.7
Credit to the private sector 4/	112.6	111.4	107.5	115.1	116.3	115.9	115.0	113.7	112.5	111.3	110.1
Credit to government	27.6	26.6	13.4	11.4	12.0	12.1	12.2	12.2	12.2	12.2	12.2
Memorandum items:	(Percent)										
Capital to assets	5.8	6.9	5.7	5.8	5.7	5.7	5.6	5.9	6.1	6.3	6.5
Loans to customer deposits	103.5	117.0	111.6	110.3	107.1	104.9	103.5	102.5	101.4	100.3	99.2
Velocity	1.0	1.1	1.1	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

Sources: 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/ Projected growth rates are calculated from differences in outstanding amounts and do not take into account write-offs, valuation changes, or reclassifications.

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

Table 8. Greece: Monetary Financial Institutions (excl. BoG)—Uses and Sources of Funds, 2010–16

	2010	2011	2012	2013	2014	2015	2016
				Proj.			
	(Billions of euros)						
Assets	515.0	476.9	442.2	408.6	396.6	394.4	398.7
Cash	2.1	2.4	2.5	1.9	1.9	2.0	2.1
Claims on other MFIs	88.9	68.7	48.3	40.5	39.1	39.0	39.4
Claims on non-MFIs	354.8	338.4	321.3	299.9	289.3	284.9	285.4
General government	63.0	59.1	28.2	22.4	22.3	23.1	24.2
Private sector 1/	255.8	246.8	227.1	210.6	202.2	197.7	196.6
Corporate	116.5	113.0	100.8	97.1	95.3	95.3	96.8
Households	139.3	133.8	126.3	113.5	106.8	102.4	99.8
Other countries	36.0	32.4	66.0	66.9	64.8	64.1	64.5
Other assets	69.1	67.4	70.0	66.4	66.3	68.5	71.8
Liabilities	515.0	476.9	442.2	408.6	396.6	394.4	398.7
Liabilities to other MFIs	66.3	44.5	31.7	34.6	34.5	35.5	37.0
Deposits of non-MFIs	280.2	232.3	218.9	215.7	216.6	225.0	237.9
Central government	9.0	4.1	7.1	7.2	6.4	6.4	7.2
Private sector	213.9	178.7	166.2	168.4	170.0	175.8	184.5
Other countries 2/	57.4	49.5	45.6	40.1	40.2	42.8	46.2
Other liabilities	26.3	18.1	17.2	24.3	24.3	25.1	26.3
Capital and reserves	44.4	53.1	53.2	52.5	54.3	57.8	62.5
Eurosystem liquidity support	97.8	128.9	121.2	81.5	66.9	51.0	35.0
	(Percent of GDP)						
Assets	231.8	228.7	228.2	223.0	216.1	207.9	200.4
Cash	1.0	1.1	1.3	1.0	1.0	1.0	1.0
Claims on other MFIs	40.0	33.0	24.9	22.1	21.3	20.6	19.8
Claims on non-MFIs	159.7	162.3	165.8	163.7	157.6	150.2	143.5
General government	28.4	28.4	14.6	12.2	12.2	12.2	12.2
Private sector 1/	115.2	118.4	117.2	115.0	110.1	104.3	98.9
Corporate	52.4	54.2	52.0	53.0	51.9	50.3	48.7
Households	62.7	64.2	65.2	62.0	58.2	54.0	50.2
Other countries	16.2	15.6	34.1	36.5	35.3	33.8	32.4
Other assets	31.1	32.3	36.2	36.2	36.1	36.1	36.1
Liabilities	231.8	228.7	228.2	223.0	216.1	207.9	200.4
Liabilities to other MFIs	29.8	21.4	16.4	18.9	18.8	18.7	18.6
Deposits of non-MFIs	126.1	111.4	113.0	117.7	118.0	118.6	119.6
Central government	4.0	2.0	3.7	3.9	3.5	3.4	3.6
Private sector	96.3	85.7	85.8	91.9	92.6	92.7	92.8
Other countries 2/	25.8	23.7	23.5	21.9	21.9	22.6	23.2
Other liabilities	11.8	8.7	8.9	13.2	13.2	13.2	13.2
Capital and reserves	20.0	25.4	27.5	28.7	29.6	30.5	31.4
Eurosystem liquidity support	44.0	61.8	62.5	44.5	36.5	26.9	17.6
Memorandum items:							
Domestic private sector deposit growth (percent)	-12.4	-17.0	-7.0	1.3	1.0	3.4	5.0
Private credit growth (percent change) 3/	0.0	-3.1	-4.0	-6.5	-4.0	-2.2	-0.6
Eurosystem liquidity support (percent of total assets)	19.0	27.0	27.4	20.0	16.9	12.9	8.8

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

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

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

3/ Projections do not take into account write-offs, valuation changes, or reclassifications.

Table 9. Greece: Core Set of Financial Soundness Indicators for Deposit Taking Institutions, 2009–12

(Percent, unless otherwise indicated)

	2009	2010	2011				2012			
			Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.
Core set										
Regulatory capital to risk-weighted assets 1/	11.9	12.3	12.3	10.6	10.1	7.0	5.7	8.9	10.2	10.2
Regulatory tier I capital to risk-weighted assets 1/	10.9	11.2	11.1	9.6	9.2	5.8	4.7	8.1	9.4	9.5
Nonperforming loans net of provisions to capital	37.9	46.9	51.2	66.3	78.6	...	...	...	...	...
Nonperforming loans to total gross loans	7.8	10.5	11.5	12.8	14.7	16.0	18.7	21.6	22.5	24.6
Bank provisions to nonperforming loans	42.0	46.2	...	...	...	62.9	57.1	49.5	50.1	48.1
Return on assets (after taxes) 2/	-0.1	-0.6	-0.3	-1.7	-2.1	...	...	...	...	...
Return on equity (after taxes) 2/	-1.7	-8.8	-3.9	-27.3	-34.2	...	...	...	...	...
Interest margin to gross income 2/	75.8	91.0	82.5	87.4	91.7	93.7	100.1	106.5	123.1	103.1
Non-interest expenses to gross income 2/	57.4	62.2	54.1	56.9	58.6	66.1	72.0	89.2	106.0	94.0
Liquid assets to total assets 3/	45.2	35.2	34.5	35.2	33.2	32.3	27.3	29.3	30.8	32.1
Liquid assets to short-term liabilities 3/	56.9	46.9	46.4	48.2	50.2	43.1	34.0	37.5	39.7	41.9
Net open position in foreign exchange to capital 1/ 4/	11.6	11.3	12.0	15.4	14.5	...	...	...	...	...
Encouraged set										
Spread between reference lending and deposit rates (end-of-period, basis points) 5/	5.2	6.4	...	...	...	7.5	7.4	7.3	7.1	7.1
Customer deposits to total (noninterbank) loans 3/	125.7	96.6	...	...	...	85.5	84.2	80.5	85.0	89.6
Foreign currency-denominated liabilities to total liabilities 3/	10.8	9.0	...	...	...	7.7	7.1	6.7	6.5	6.5
Market liquidity										
Average bid-ask spread in the securities market (basis points)	60.6	126.0	...	...	...	87.2	177.0	185.0	155.0	193.0
Households										
Household debt to GDP	52.1	60.0	...	...	...	61.3	63.8	66.2	64.1	63.7
Real estate markets										
Residential real estate loans to total loans 3/	20.3	21.1	...	...	...	22.8	24.2	25.0	25.5	25.5
Memorandum items:										
Assets (billions of euros)										
Banks	440.3	465.5	...	...	...	412.7	376.0	383.5	383.3	389.7
Branches of foreign banks	38.3	36.9	...	...	...	52.0	47.6	42.6	40.9	39.1
General insurance companies 6/	15.6	15.7	...	...	...	14.9	14.3	14.1	15.1	15.4
Other credit institutions	11.6	11.4	...	...	...	11.5	10.6	10.9	12.1	12.6
Deposits (billions of euros)										
Banks	248.6	220.3	...	...	...	172.4	163.3	152.0	155.0	164.0
Branches of foreign banks	21.9	18.7	...	...	...	20.9	20.1	16.0	16.7	18.1

Source: Bank of Greece.

1/ Data on a consolidated basis. For end-2011 and 2012Q1, C.A.R. ratios are affected by the PSI and include only the first tranche of €18 billion HFSF recapitalization. In addittion, C.A.R. ratios are affected by the negative supervisory own funds of two banks (ATEbank and TT Hellenic Post Bank).

2/ From 2004 in accordance with IFRS.

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

4/ Based on revised figures from 2002 onwards.

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

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

Table 10. Greece: Revenue Collection Process—Issues and Actions

Stage of the revenue collection process	Issues	Next Steps
1. Organization and management		
An independent revenue administration with modern operating structure and methods.	• Fragmented tax administration. • The General Secretariat for Public Revenues lacks autonomy and power over core business activities and is vulnerable to political interference. • Too many local offices lacking central control.	• Establish the mandate and composition for the SGPR advisory board; the IAD and the revenue-related departments of GSIS to the revenue administration; assign authority to the SGPR to reallocate expenditures across budget lines (June 2013). • Approve the new organizational structure, staffing numbers, grading system, and classification, and qualification and appointment processes of the revenue administration; transfer the revenue-related functions of SDOE (October 2013). • Approve the 2014 revenue administration budget (end-2014). •Transition staff to the new organizational structure of the revenue administration (March 2014).
1. Assessment		
Tax authorities provide services and support to voluntary taxpayer compliance.	• Payment of taxes at tax offices. • Potentially large tax evasion: about 75 percent of self-employed professionals declaring taxable income below minimum exemption threshold. Unregistered taxpayers.	• Revise the tax and AML laws to: (i) ensure that the SGPR is represented at the Board of the FIU; (ii) enable the SGPR to obtain from the FIU information on individual tax audits and debt collection cases; (iii) require that information on relevant cases of failure to pay confirmed debt over €50,000 be transmitted to the FIU ; and (iv) require the FIU to promptly inform the SGPR when freezing assets related to laundering proceeds of tax crimes. • Adopt a new Tax Procedures Code to harmonize, simplify, and modernize tax procedures (June 2013).
2. Controls		
Tax authorities perform controls and enforce timely filing and payment.	• Data gathering ad hoc with no central control for monitoring and enforcing compliance.	• Require that all ministries which have a fiscal relationship with taxpayers utilize their identification number for financial transactions with them (June 2013) and make it compulsory for all official transactions (end-2013) . • Introduce a central agency to consolidate and link all of the different identification numbers now employed across various government agencies (June 2014).
Audits are performed and taxes due are assessed and collected.	• Audit workforce not sufficient and low levels of audit coverage of high risk groups. • Limited use of indirect methods of assessment. • Low collection of assessed taxes.	• Monitor progress towards achieving performance targets (Monthly performance reports in 2013). • Hire 200 external auditors (July 2013) and increase the number of staff devoted to audit by 2,000 by admitting staff with audit experience and selecting other qualified staff following interviews (in 2013). • Expand the sources of third party information used in assessments (May 2013).
3. Enforcement		
Tax assessments under appeal and tax arrears (including penalties and fines) are collected.	• Poor collection enforcement: collection of fines and penalties around 1 percent.	• Monitor progress towards achieving performance targets (Monthly performance targets in 2013). • Launch an easily accessible website, which will publicize, on a monthly basis, information enabling the public to be informed about the tax debt assessed and recovered (include summary statistics on key performance indicators) (May 2013).

Source: IMF staff.

Table 11. Greece: Spending Process—Issues and Actions

Stages of the Spending Process and Issues	Next Steps
1. Budgeting	
Develop a medium-term budget framework and prepare annual budgets within medium-term expenditure ceilings. • Budgets prepared mainly in a bottom-up fashion with no hard budget constraints. Budget preparation processes for general government entities still largely disjointed. Responsibility for social security fragmented with no effective preparation, management, and monitoring of social security budget.	• Issue circular regulating the calendar, deadlines, and the role of all institutions in formulating the 2014–17 MTFS (Immediately). • Modify the organic budget law to introduce: (i) rolling 3-year expenditure ceilings (binding for the first 2 years); (ii) provisions to freeze ex-ante 10 percent of discretionary appropriations; (iii) binding annual budget balance targets for LGs; (iii) performance targets for state enterprises;(v) clarity in treatment of carryover of end-year outstanding commitments. (August 2013). • Adopt legislation to introduce the Fiscal Compact provisions, including a structural balance rule (August 2013). • Issue a Joint Ministerial Decision indicating a common methodology for LG budget preparation and budget adoption by year-end and a review process of LG budgets by the Observatory of Local Authorities (end-June).
2. Spending controls	
Ensure that expenditure commitments do not exceed appropriations and arrears are avoided. • Line ministries do not check or control expenditure commitments. • No central control on incurred commitments by decentralized agencies. • Execution of budget releases focused on verifying payments.	• Ensure that commitment registers are in operation in 80 percent of general government entities under the 2013 KPI definition (June 2013). •Issue a new circular to clarify issues and provide guidance on functioning of the commitment registers, including carry-over of end-year outstanding commitments to the following year (October 2013). • Set conditions under which the right of SOEs to receive new transfers or loans will be contingent on restoring financial soundness, including through spending cuts and fee increases in consultation with the supervising ministry and the MoF (June 2013).
3. Reporting	
Collect and analyze information on payments, pending bills, and arrears. • Limited real-time monitoring of arrears and other pending bills. • Collection of payment information at non-central government level difficult.	• Expand the scope of data captured by the General Accounting Office's e-portal to include the whole expenditure cycle and monitor reporting of the expanded data (June 2013). • Start a process to clear past arrears subject to validation of arrears, and compliance with basic PFM reforms and reporting requirements (During 2013).
Monitoring and reporting of fiscal developments for general government and SOEs. • Monitoring and reporting of detailed fiscal data focused on the state budget. No timely in-year monitoring or reporting for general government published. Deviations of general government budget and contingent liabilities not detected on time.	• Establish a system for monthly financial reporting by state-owned enterprises (SOE) currently outside the general government (June 2013).
4. External auditing	
Parliamentary oversight and general auditing. • Lack of independent oversight of the budget process after dismissal of the Parliamentary Budget Office.	• Parliament continues to receive periodical reports (During 2013). • Re-staff the Parliamentary Budget Office, resume and enhance its operation (June 2013), and strengthen its independence and competence with a view to establish a fiscal council (December 2013). • Conduct an audit of commitment registers and health related arrears records maintained by EOPYY and the SSFs (August, 2013), launch a tender for an independent external auditor (September, 2013) to complete an audit of EOPYY's outstanding stock of accounts payable (end-March 2014).

Source: IMF staff.

Table 12. Greece: Implementation of Structural Reforms

Measures	Description	MEFP Deadline	Status
Labor market			
Refocusing the Labor Inspectorate	The government completes an independent assessment of the Labor Inspectorate, focusing on effective control procedures to fight undeclared work and to eliminate activities that impose excessive administrative costs for businesses.	Dec-12	Assessment of the Labor Inspectorate completed by the ILO, and action plan prepared in December 2012.
Minimum wage	The government adopts a mechanism to set the statutory minimum wage (the new system, which becomes effective in 2017, will be legislated by the government after consultation with social partnesr, other stakeholders and independent experts, taking into account the economic and labor market situation and prospects).	Mar-13	In progress (a minimum wage mechanism is expected to be adopted by end-May 2013).
Sectoral deregulation			
Liberalization of regulated professions	The government takes steps during November and December 2012 to eliminate excessive entry restrictions on the remaining list of regulated professions (removing minimum fee for services and mandatory use of services). Structural benchmark.	Dec-12	Significant program made, but restrictions remaining in a number of professions (e.g., engineers and lawyers). These will be addressed during 2013 (See Table 16).
Business environment			
Trade facilitation	The government publishes a national trade facilitation strategy to simplify pre-customs and customs procedures, and to increase working shifts in customs (Athens airport and Piraeus port will shift to 24/7 by end-March 2013).	Nov-12	A national trade facilitation strategy as adopted in November 2012. The working hours for customs were increased in April 2013 to 24/7 in Athens airport, and expanded to two shifts in the port of Piraeus.
Simplification of licensing	The government further simplifies procedures for establishing companies (including streamlining background checks on company founders, and reducing minimum capital requirements in line with best EU practices); and completes the legal framework for the implementation of licensing laws (especially on manufacturing activities and environmental projects).	Mar-13	Procedures for establishing companies were streamlined in [March 2013]; the implementation of licensing laws on manufacturing activities and environmental projects has been delayed.
Reduction of case backlog in courts	Starting from end-2012, the government publishes quarterly reports on progress in tax cases backlog reduction, and updates the work plan to reduce the tax case backlog (with priority on cases exceeding €1 million).	Dec-12	Completed.
	The government adopts an action plan to reduce the non-tax case backlog.	Jan-13	Completed.
Reforming the Code of Civil Procedure	The government prepares a paper outlining the main proposals for amendments to the Code of Civil Procedure.	Mar-13	In progress (expected to be completed by end-May).

Source: IMF staff.

Table 13. Greece: Medium-Term Macro Framework, 2012–18

	2012	2013	2014	2015	2016	2017	2018
	Est.			Proj.			
	(Percentage change, unless otherwise indicated)						
Domestic economy							
Real GDP	-6.4	-4.2	0.6	2.9	3.7	3.5	3.3
Output gap (percent of pot. output)	-7.7	-10.6	-9.5	-6.9	-4.5	-2.7	-1.0
Total domestic demand	-10.4	-5.6	-1.1	1.7	3.2	3.2	3.0
Private consumption	-9.1	-6.9	-1.6	1.4	2.2	1.8	1.5
Public consumption	-4.2	-4.0	-6.2	-4.8	-4.0	3.2	3.7
Gross fixed capital formation	-19.2	-4.0	8.4	11.3	14.4	8.5	7.4
Change in stocks (contribution)	0.0	0.4	0.0	0.0	0.0	0.0	0.0
Foreign balance (contribution)	3.7	2.6	1.7	1.2	0.6	0.4	0.4
Exports of goods and services	-2.4	3.0	4.6	5.5	4.7	4.1	4.3
Imports of goods and services	-13.8	-6.4	-1.9	1.2	2.7	3.1	3.2
Unemployment rate (percent) 1/	24.2	27.0	26.0	24.0	21.0	18.6	16.3
Employment	-8.2	-3.7	0.6	2.6	4.0	3.0	2.7
Unit labor costs	-6.1	-6.5	-1.5	-0.3	1.7	1.4	1.6
Consumer prices (national defintion), period average	1.5	-0.8	-0.4	0.3	1.1	1.2	1.3
Consumer prices (HICP), period average	1.0	...	...	...	...	...	...
GDP deflator	-0.8	-1.1	-0.4	0.4	1.1	1.3	1.4
Monetary survey							
Private credit growth (percent change) 2/	-4.0	-6.5	-4.0	-2.2	-0.6	5.3	n.a.
Private sector deposit growth (percent change)	-7.0	1.3	1.0	3.4	5.0	5.0	n.a.
Liabilities to the Bank of Greece (billions of Euro)	121.2	81.5	66.9	51.0	35.0	27.7	n.a.
	(Percent of GDP, unless otherwise indicated)						
Balance of payments							
Current account	-3.4	-0.8	-0.2	0.1	0.2	0.5	0.9
Structural current account balance	-5.4	-4.9	-3.6	-2.1	-0.8	0.1	1.0
Trade balance	-2.5	-0.2	1.4	2.4	3.0	3.5	3.9
Export of goods and services	25.4	27.4	28.3	28.6	28.7	28.9	29.1
Export of goods	11.4	12.1	12.4	12.4	12.2	12.2	12.3
Exports of services	14.0	15.3	15.9	16.3	16.4	16.6	16.9
Imports of goods and services	-27.9	-27.6	-26.9	-26.2	-25.7	-25.4	-25.2
Imports of goods	-21.5	-21.3	-20.8	-20.2	-19.7	-19.5	-19.3
Imports of services	-6.4	-6.3	-6.1	-6.0	-6.0	-5.9	-5.9
Total transfers	0.7	1.8	1.5	1.2	0.9	0.7	0.4
Net income receipts	-1.6	-2.5	-3.1	-3.5	-3.7	-3.7	-3.4
Net international investment position	-114.1	-118.9	-116.9	-111.3	-104.3	-96.9	-89.1
Gross external debt	232.8	247.0	238.1	222.2	204.7	190.6	176.6
Private sector capital flows (net)	-21.5	-14.2	5.1	5.1	4.5	0.7	0.8
Public finances (general government)							
Total revenues	44.1	44.3	43.7	42.7	42.0	42.0	42.0
Total expenditures 3/	50.4	48.4	46.9	44.8	42.7	42.6	42.8
Primary expenditures 3/	45.4	44.3	42.2	39.7	37.5	37.5	37.7
Overall balance	-6.3	-4.1	-3.2	-2.1	-0.7	-0.6	-0.8
Primary balance	-1.3	0.0	1.5	3.0	4.5	4.5	4.3
Cyclically-adjusted primary balance	2.2	5.0	5.9	6.0	6.4	5.6	4.7
Privatization receipts	0.1	1.4	1.0	1.1	1.1	1.1	1.5
Gross debt	156.9	175.8	174.2	168.2	159.5	149.7	140.9

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

1/ Based on Labor Force Survey.

2/ Projections do not take into account write-offs, valuation changes, or reclassifications.

3/ Includes unidentified measures.

Table 14. Greece: Autonomy of the Tax Administration: Revenue Agency vs. General Secretariat of Public Revenue

Major Autonomy Requirements	Semi-Autonomous Agency	General Secretariat for Public Revenue	Current Status and Timelines
1. **Tax administration must be a separate and dedicated body including all tax administration functions** to prevent overlap and duplication. The tax administration needs to be accountable for all of its core businesses functions.	Tax administration comprises: (i) a management board: (ii) a chief executive officer; (iii) the employees; and (iv) the various organizational units of a single agency.	Tax administration incorporates multiple administrative units: several Directorates General; local offices (DOYs); and other organizational units that are supervised by the SGPR.	IAD and parts of GSIS to be transferred to SGPR by July; parts of SDOE to be transferred by October. April 28 Omnibus Bill establishes an Advisory Council of the SGPR, to be set up by July 2013.
2. **For operational autonomy the head of the administration must be empowered to administer and enforce the revenue laws.** These powers must be carried out without political interference.	Tax administration is responsible for all tax administration functions. Taxes administered by the agency are listed in the enabling legislation.	Tax administration assesses and collects taxes and duties and administers and enforces the revenue laws. Minister of Finance has this mandate under law and powers are delegated to the SGPR. Admin powers are delegated to SG.	Delegations from Minister and DM to SG have taken place, but their completeness needs to be confirmed. A comprehensive review of the revenue laws that apply powers to the Minister or to specific officials or units must be done to assign them to the SG.
3. **The head of the tax administration must be a non-political appointment** for a 5-year term responsible and with full control over the entire organization, including all DOYs.	CEO appointed by the government, on the recommendation of the Board; responsible for the operational and administrative execution of the agency's mandate. Non-political appointee, for a 5-year term.	Secretary General appointed by the government; with responsibilities as per SGPR law, other instruments of delegation, general rules applying to SG in Public service. Non-political appointee, for a 5-year term.	No further action required.

Table 14. Greece: Autonomy of the Tax Administration: Revenue Agency vs. General Secretariat of Public Revenue (continued)

Major Autonomy Requirements	Semi-Autonomous Agency	General Secretariat for Public Revenue	Current Status and Timelines
4. Authority to design and change organizational structure to be able to react quickly. Management must have flexibility to design its internal structure.	Determines its own structure Board of management approves. May grant considerable leeway to CEO for most organizational changes.	The internal structure of the SGPR only up to directorate level may be determined, set-up or abolished by decision of the SG upon non-binding opinion of MAREG within 14 days.	By end-October 2013, the SG will approve the new organizational structure of the SGPR.
5. Adequate budget with reasonable management controls with flexibility to re-allocate funds across budget lines. Control over the budget is the major tool for ensuring that priorities can be accomplished.	A single budget executed flexibly within a parliamentary appropriation. Funds received on the basis of general budget rules or a percentage of collection formula. The agency may move funds across major budget lines. Management board approves budget request and ensures adherence to financial policy.	A unified budget allocation covers tax administration functions, subject to same budget rules and as other General Secretariats in MoF. A small financial management unit in the SGPR: (i) coordinates the preparation of the budget; (ii) follows up its implementation; and (iii) proposes reallocations of nonwage recurrent spending in line with the organic budget law.	Budget allocations of IAD and from IAD to be transferred to SGPR by July 2013, those of SDOE to be transferred by October. By end-2013, 2014 revenue administration budget will be established with full flexibility for the SGPR to reallocate funds among nonwage recurrent spending.

Table 14. Greece: Autonomy of the Tax Administration: Revenue Agency vs. General Secretariat of Public Revenue (concluded)

Major Autonomy requirements	Semi-Autonomous Agency	General Secretariat for Public Revenue	Current Status and Timelines
6. **The tax administration has authority to undertake at least 90 percent of its own recruitment, promotion recruitment, promotion and dismissal**. This enables the tax administration to operate with maximum efficiency.	Agency has authority to recruit, promote, dismiss through enabling legislation. The agency sets up fair and transparent processes in all these areas, and provides procedures for redress.	SGPR enabled to determine the conditions for hiring under the control of ASEP. All cases of potential dismissal must go to Disciplinary Council, and the SG implements the decision.	By end-October 2013, the SGPR will approve staffing numbers, and appointment processes of the revenue administration.
7. **Tax administration determines its grade structure and has a strong influence over compensation levels**. Due to unique requirements for specialized staff, tax administration is in direct competition with the private sector.	Agency determines grading structure subject to overall budget level. This is a decision of the managing board.	SGPR empowered—subject to ministerial approval—to determine a special system for grade qualifications, promotions and evolution through grades, and rules relating to promotion and relocation of employees. The SGPR has authority to implement the system.	By end-October 2013, the SG approves the grading system, and classification of the revenue administration.

Table 15. Greece: Selected Structural Reforms Ahead, 2013–14

Measures	MEFP/MoU Deadline	Description	Macroeconomic Implications
Labor market			
Reducing tax wedge on labor	Sep-13 and Nov-13	The government completes by September 2013 actuarial studies on social security funds, and adopts a plan by November 2013 to reduce the employer share of social security contributions by 5 ppt (in a budget-neutral way and phased manner during 2014-16) by broadening the base for social security contributions; simplifying the contribution schedule across various funds; and phasing out nuisance taxes.	Improves competitiveness, and promotes employment and growth.
Product and service markets			
Liberalization of regulated professions	Jun-13	Adopt a new Code of Lawyers, which will include removal of exclusivity for lawyers for the research of mortgage books and land registry.	Fosters competition, lowers intermediate costs and promotes investment and growth.
	Jul-13	Complete a study of the 20 largest professions examining the degree to which they have been liberalized, including results with respect to new entrants and price changes.	
Transportation services	Oct-13	Adopt additional steps to increase the flexibility of labor arrangements and reduce manning obligations in the domestic shipping industry.	Fosters competition, improves price flexibility and competitiveness.
Retail trade	Jun-13	Adopt legislation to liberalize further the retail market, including: removing restrictions against discount sales outside sale periods; increasing flexibility in retailers' opening days; and replacing the current system of fixed margins for over-the-counter drugs with maximum margins.	Fosters competition, improves price flexibility and competitiveness.
	Sep-13	Government to allow the sales of selected over-the-counter drugs in other points than pharmacies.	
Product market liberalization	Sep-13	Based on OECD findings, Government to prepare draft legislative amendments aimed at reducing regulatory barriers to competition for construction materials, machinery and food processing industries, and tourism sector.	Fosters competition, improves price flexibility and competitiveness.
	Oct-13	Government to propose legislative amendments to reduce administrative burdens in 13 key sectors based on the findings of the OECD Standard Cost Model.	
Business environment and judicial reform			
Trade facilitation	Jul-13	Increase the working shifts to 24/7 in the Athens airport, and expand service to two shifts in the Piraeus port for imports.	Reduces input costs.
	Nov-13	Adopt risk-based audits for imports in line with EU practices.	
	Nov-13	Adopt e-custom system (allowing for electronic submission and e-signature) for imports.	
Reduction of case backlog in courts	Jul-13	Government to present to EC/ECB/IMF a first assessment of the operations of the magistrates' courts.	Improves efficiency of courts.
	Sep-13	Reallocate judges to the administrative courts with the highest backlog, and adopts an action plan to reduce civil and commercial cases backlogs, including draft legislation providing for compulsory mediation of small claims.	
Reforming the Code of Civil Procedure	Jun-13	Adopt a new Code of Civil Procedure.	Improves system efficiency.

Source: IMF staff.

Table 16. Greece: Privatization Process

Timing of Privatization (Launch of Tender)	Binding offers (submission)	Project	Intermediate Steps
I. State-owned enterprise/share sale			
n/a	n/a	2 Airplanes	
2012 Q1	Q2/13	Public Gas (DEPA)	Modification of statutory provision at time of privatization.
Q1	Q2/13	Public Gas (DESFA)	State aid clearance (DG Comp).
Q4	Q2/13	Football Prognostics Organization (OPAP)	Proceed with the phase B of the tendering process and finalize selection (April 2013) **(DONE).**
2013 Q1	Q3/13	Horserace Betting Organization (ODIE)	Launch of tender (March 2013- **DONE**). Law for clarifying responsibilities between Jockey Club and the New Concessionaire (May 2013). Law for clarifying the taxation regime of the Concession (May 2013).
Q1	Q3/13	Thessaloniki Water (EYATH)	Establish regulatory framework (March 2013 - **DONE**). Establish pricing policy (May 2013) and amend the license (November 2013).
Q2	Q4/13	Hellenic Post (ELTA)	Ministerial decisions for (i) the determination of the content of universal service (**DONE)** and (ii) the compensation mechanism for USP drafted and prenotified to DGComp (further clarifications/ amendments asked by EC are being processed by HR & ELTA).
Q2	Q2/14	Hellenic Vehicle Industry (ELVO)	Transaction structure to be determined and agreed (May 2013). EC (DG Comp) consent (May 2013).
Q2	Q4/13	Hellenic Petroleum (HELPE)	Following divestment of DEPA.
Q3	Q2/14	Athens Water (EYDAP)	Establish regulatory framework (March 2013 - **DONE**). Establish pricing policy (September 2013) and amend license (February 2014). Settlement of receivables from the State (February 2014).
Q2	Q1/14	Mining and Metallurgical Company (LARCO)	Agreement on pricing structure (DG Comp). Law for establishing a new company (June 2013).
Q2	Q2/14	Athens Airport (AIA)	Agree on extension and sale process with Hochtief (June 2013).
Q3	Q3/14	Hellenic Defense Systems (EAS)	Identify assets for privatization (May 2013). State Aid formal investigation clearance (pending discussions with DGComp).
Q2	Q2/14	Railways (Trainose)	Trainose will be transferred to HRADF (March 2013 - **DONE**). - Comfort letter from EC (DG Comp) for TRAINOSE State Aid investigation clearance (May 2013).
Q3	Q3/14	Public Power Corporation (PPC)	MoEnergy approves the PPC restructuring plan (April 2013). Prepare action plan based on approved restructuring plan.
n/a	n/a	Casino Mont Parnes	Pending European Court decision.
II. Concessions			
n/a	n/a	Hellenic Motorways	Negotiations for the restart of projects currently in progress; ratification of reset agreement by Parliament (April 2013).
2011 Q4	Q4/12	State Lottery	Court of auditors approval.
2013 Q1	Q3/13	Small ports and marinas	Resolve issues related to urban zoning (May 2013).
Q1	Q4/13	Regional airports	Clarify state aid related issues (before launch of the 2nd phase - estimated May/June 2013). Establish regulatory framework (April 2013).
Q2	Q4/13	Egnatia Odos	Launching of tender process dependent on: a) agreement/finalisation with Ministry of Development on key characteristics of the concession and conclusion of business plan (**DONE**) b)decision on tolling policy/toll collection-system (**DONE**) c) treatment of Piraeus loan granted to Egnatia Odos SA and legislative settlement of such arrangement (April 2013).
Q2	Q1/14	Thessaloniki Port (OLTH),Piraeus Port (OLP) & Large regional ports	State aid clearance (DG Comp). Submit privatization strategy (April 2013). Establish regulatory framework (April 2013).
Q3	n/a	South Kavala Gas Storage	Decision on the best exploitation option (December 2012 - **DONE**).
2014 Q2	Q4/2014	Digital Dividend	Entire process led by Ministry of Development. Adopt secondary legislation for: a. TV stations (June 2013 - tbc with Min Dev) and b. analogue switch-off date (June 2013 - tbc with Min Dev). Launch tender for TV network providers (June 2013).
n/a	n/a	Mining rights	
III. Real Estate			
2011 Q4	Q4/13	Hellenikon 1	Transfer of Hellinikon SA ownership to HRADF (Pending decision: December 2012- **DONE**). Launch Phase B of tender process (December 2012 - **DONE**). Bids will be submitted end of December 2013.
2012 Q1	Q3/12	IBC	Issue PD for ESCHADA 1/ and have approval from Court of Audit (December 2012- **DONE**).
Q1	Q1/13	Cassiopi	Right of surface establishment and creation of the SPV (June 2013).
Q4/12	Q1/13	Buildings abroad	Launch tender process (December 2012- **DONE).** Tender concluded for 4/6 buildings. Court of Audit approval (Q3 2013). Launch of tender for the remaining 2 buildings (April 2013).
2013 Q1	Q2/13	Afantou	All intermediate steps have been fulfilled. Request binding offers from investors (April 2013), subject to timely issuance of decision by the Council of State. PD issue for ESCHADA (September 2013).
Q1	Q2/13	Sale/repo 28 buildings	All intermediate steps have been fulfilled. Launch the first phase of tender (March 2013 - **DONE**). Launch second tender (June 2013).
Q1	Q4/13	Astir Vouliagmenis	Finalize the negotiations with NBG - **DONE**. Transfer EOT property to HRADF (March 2013). Launch the request for EoI (April 2013 - **DONE**). PD for ESCHADA (April 2014).
Q1	Q2/13	Paliouri	Launch tender process (December 2012 - **DONE).** Transfer of asset to HRADF (March 2012-**DONE).** Launch second phase (April 2013).
Q1	Q3/13	HEY	Launch tender process (February 2013-**DONE).** Transfer of asset to HRADF (March 2013-**DONE**). Launch second phase (April 2013).
Q1	Q4/13	Agios Ioannis	All intermediate steps have been fulfilled. Launch the first phase of tender (March 2013 - **DONE).** PD for ESCHADA (April 2014).
Q1	n/a	Real Estate lot 2	The 40 properties already identified are transferred to HRADF (March 2013 - **DONE**).
Q4	n/a	Real Estate lot 3	At least 1,000 real estate properties to be transferred to HRADF (December 2013). The first 250 real estate assets are transferred to HRADF (April 2013 - **DONE**).

Source: HRADF.

1/ ESCHADA = zoning and land planning permit.

Table 17. Greece: Schedule of Proposed Purchases under the Extended Arrangement, 2012–16

Review	Availability Date	Action	Purchases		Total Disbursements
			Millions of SDRs	Percent of quota	Billions of euros 1/
	March 15, 2012	Board approval of EA	1,399.1	127.0	1.6
First Review	May 31, 2012	Observance of end-December 2012 performance criteria, completion of first and second reviews 3/	...	...	...
Second Review 2/	August 31, 2012	Observance of end-December 2012 performance criteria, completion of first and second reviews 3/	2,798.2	254.0	3.3
Third Review	February 28, 2013	Observance of end-2012 performance criteria, completion of third review 4/	1,506.8	136.8	1.8
Fourth Review	July 25, 2013	Observance of end-June 2013 performance criteria, completion of fourth review	1,506.8	136.8	1.8
Fifth Review	September 29, 2013	Observance of end-June 2013 performance criteria, completion of fifth review	1,506.8	136.8	1.8
Sixth Review	November 30, 2013	Observance of end-September 2013 performance criteria, completion of sixth review	1,506.8	136.8	1.8
Seventh Review	February 28, 2014	Observance of end-December 2013 performance criteria, completion of seventh review	1,506.8	136.8	1.8
Eighth Review	May 31, 2014	Observance of end-March 2014 performance criteria, completion of eighth review	1,506.8	136.8	1.8
Ninth Review	August 31, 2014	Observance of end-June 2014 performance criteria, completion of ninth review	1,506.8	136.8	1.8
Tenth Review	November 30, 2014	Observance of end-September 2014 performance criteria, completion of tenth review	1,506.8	136.8	1.8
Eleventh Review	February 15, 2015	Observance of end-December 2014 performance criteria, completion of eleventh review	1,506.8	136.8	1.8
Twelfth Review	May 31, 2015	Observance of end-March 2015 performance criteria, completion of twelfth review	1,506.8	136.8	1.8
Thirteenth Review	August 31, 2015	Observance of end-June 2015 performance criteria, completion of thirteenth review	1,506.8	136.8	1.8
Fourteenth Review	November 30, 2015	Observance of end-September 2015 performance criteria, completion of fourteenth review	1,506.8	136.8	1.8
Fiftheenth Review	February 29, 2016	Observance of end-December 2015 performance criteria, completion of fifteenth review	1,506.4	136.8	1.8
Total			23,785.3	2,158.8	28.0

Source: IMF staff projections.

1/ Exchange rate of January 5, 2012.

2/ Purchases and disbursements sum the total available upon completion of the first and second reviews.

3/ End-December 2012 performance criteria became controlling for the purchase that was made upon completion of the first and second reviews in January, 2013. A waiver of applicability of these performance criteria was requested due to the lack of information on performance as of end-December.

4/ End-March 2013 performance criteria have now become controlling for the purchase that would be made upon completion of the third review in May 2013.

Table 18. Greece: General Government Financing Requirements and Sources, 2012–16

(Billion of euros, unless otherwise indicated)

	2012	2013	2014	2015	2016
		Proj.			
Gross borrowing need	111.0	34.4	27.6	14.3	8.2
Overall balance (accrual)	12.5	6.9	5.5	3.5	1.1
Amortization	9.3	16.1	25.1	16.4	6.8
Medium and long-term (non-official)	12.7	11.0	17.7	7.8	3.7
Short-term (net)	-3.4	3.4	0.0	0.0	0.0
Official creditors	0.0	1.7	7.4	8.6	3.1
IMF	0.0	1.7	7.4	8.6	3.1
EC	0.0	0.0	0.0	0.0	0.0
Other	89.2	11.4	-3.0	-5.7	0.4
Bank recapitalization	44.2	7.2	0.0	0.0	0.0
PSI-related costs	34.5	0.0	0.0	0.0	0.0
Arrears clearance	...	7.5	0.0	0.0	0.0
Privatization	...	-2.5	-1.9	-2.0	-2.2
ECB related income (SMP and ANFA)	...	-2.7	-2.5	-2.0	-1.7
Other	10.5	1.9	1.4	-1.7	4.2
Gross financing sources	110.9	34.4	23.0	7.7	8.2
Market access	0.0	0.0	0.0	0.0	0.0
Official financing (including disbursed and committed)	109.9	37.4	19.3	11.0	6.4
EC bilateral loans/EAMS	108.2	27.9	8.6	0.0	0.0
EC interest deferral	...	0.9	1.8	3.9	4.6
IMF	1.6	8.6	8.9	7.1	1.8
Deposit financing	1.0	-3.0	3.7	-3.3	1.8
Financing gap	0.0	0.0	4.6	6.5	0.0
Memorandum Items:					
Total Maastricht debt	303.9	322.5	320.3	319.8	317.9
Of which:					
Official creditors	183.6	219.3	235.8	244.7	248.1
IMF	22.3	29.2	30.7	29.2	27.9
(percent of quota)	29.2	2249.7	2363.7	2248.2	2148.1
EAMS	161.3	190.1	205.2	215.6	220.2
Private sector	120.6	103.2	79.8	63.9	58.6
Unidentified official financing/market access	0.0	0.0	4.6	11.1	11.1
Total Maastricht debt (percent of GDP)	156.9	175.8	174.2	168.2	159.5
Of which:					
Official creditors	94.8	119.5	128.3	128.8	124.5
IMF	11.5	15.9	16.7	15.3	14.0
EAMS	83.3	103.6	111.6	113.4	110.5
Private sector	62.3	56.3	43.4	33.6	29.4
Unidentified official financing/market access	0.0	0.0	2.5	5.9	5.6

Sources: Ministry of Finance; and IMF staff projections.

Table 19. Greece: External Financing Requirements and Sources, 2010–18

(Billions of euros, unless otherwise indicated)

	2010	2011	2012	2013	2014	2015	2016	2017	2018
						Proj.			
Gross financing requirements	216.2	239.0	205.6	178.8	158.5	139.2	119.6	105.6	95.5
Current account deficit	22.5	20.6	6.5	1.6	0.4	-0.2	-0.4	-0.9	-1.9
Medium and long-term debt amortization	22.7	35.5	17.5	13.8	19.5	17.8	8.8	9.1	6.7
Public sector	15.6	22.5	10.6	10.7	16.4	14.7	5.8	6.1	3.8
Of which: EC/IMF	0.0	0.0	0.0	1.7	7.4	8.6	3.1	0.7	2.2
Banks	6.7	10.7	5.6	1.2	1.2	1.2	1.2	1.2	1.0
Other	0.3	2.3	1.4	1.9	1.9	1.8	1.8	1.8	1.8
Short-term debt amortization	171.1	182.9	181.5	163.4	138.6	121.6	111.2	97.4	90.7
Public sector and Bank of Greece	57.2	88.2	106.5	99.8	75.9	58.9	47.5	32.4	25.3
Bank of Greece 1/	49.0	87.1	104.8	98.4	74.5	57.5	46.1	31.0	23.2
Public sector	8.2	1.2	1.8	1.4	1.4	1.4	1.4	1.4	2.1
Banks 2/	113.2	93.4	74.4	63.0	62.2	62.2	63.2	64.5	64.7
Other	0.6	1.3	0.6	0.6	0.5	0.5	0.5	0.6	0.6
Source of financing	184.7	197.4	95.7	141.4	134.6	121.7	113.2	100.4	89.7
Capital account (net)	2.1	2.7	2.3	4.6	3.5	3.2	3.3	3.3	2.8
Foreign direct investment (net)	-0.9	-0.5	2.3	2.3	1.8	1.9	1.8	2.2	3.0
Equities (net)	-2.3	-0.2	-0.2	0.0	0.1	0.6	1.1	1.3	1.3
Assets drawdown (- increase)	21.7	12.4	-43.3	-7.6	10.5	9.4	7.7	0.9	0.0
New borrowing and debt rollover	164.1	183.5	135.3	142.1	118.7	106.4	99.3	92.7	82.6
Medium and long-term borrowing	-18.8	2.0	-28.1	3.5	-2.8	-4.7	1.8	2.0	2.9
Public sector 3/	-5.7	-3.1	-31.6	1.7	-4.6	-6.5	0.0	0.0	0.0
Banks	-12.3	3.8	0.0	0.0	0.0	0.0	0.1	0.3	1.0
Other	-0.8	1.2	3.5	1.8	1.8	1.8	1.7	1.8	1.8
Short-term borrowing	182.9	181.5	163.4	138.6	121.6	111.2	97.4	90.7	79.8
Public sector and Bank of Greece	88.2	106.5	99.8	75.9	58.9	47.5	32.4	25.3	14.1
Bank of Greece 1/	87.1	104.8	98.4	74.5	57.5	46.1	31.0	23.2	11.2
Public sector 4/	1.2	1.8	1.4	1.4	1.4	1.4	1.4	2.1	2.9
Banks 2/	93.4	74.4	63.0	62.2	62.2	63.2	64.5	64.7	65.0
Other	1.3	0.6	0.6	0.5	0.5	0.5	0.6	0.6	0.7
Other	0.1	-0.6	-0.8	0.0	0.0	0.0	0.0	0.0	0.0
Program financing	31.5	41.5	109.9	37.4	19.3	11.0	6.4	5.3	5.7
Unidentified official financing / market access	0.0	0.0	0.0	0.0	4.6	6.5	0.0	0.0	0.0

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

1/ Includes liabilities to Eurosystem related to TARGET.
2/ Includes currency and deposits and securitized loans.
3/ Actual figures on public sector medium and long-term borrowing are based on non-residents amortization figures provided by GAO and net flows from the balance of payment statistics provided by Bank of Greece. Negative sign indicates debt buybacks.
4/ Includes government deposits' build-up (regardless of currency denomination for presentational purposes).

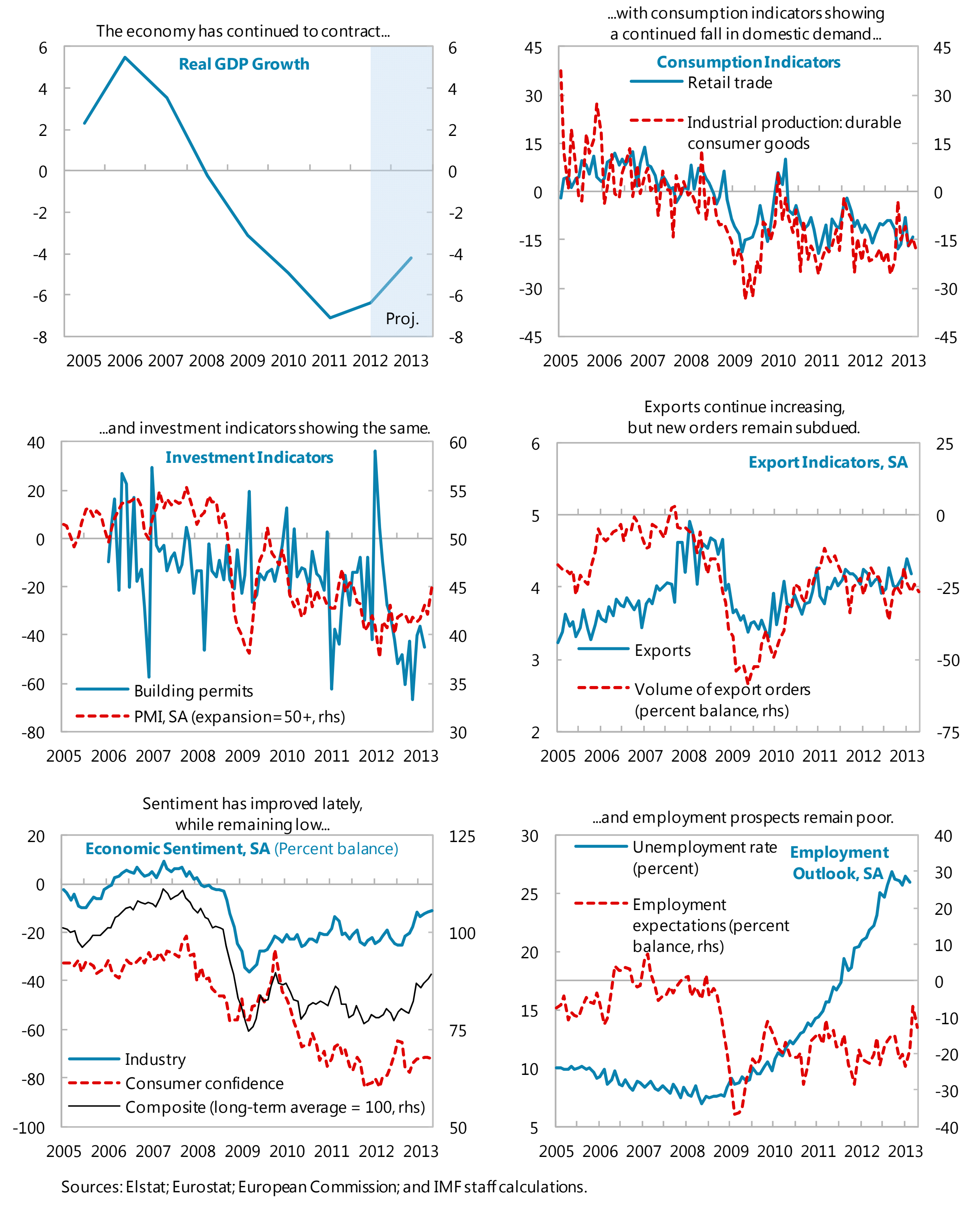
Table 20. Greece: Indicators of Fund Credit, 2012–26

(Millions of SDRs, unless otherwise specified)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Prospective drawings (4-year EFF)	1,399	8,825	6,027	6,027	1,506	…	…	…	…	…	…	…	…	…	…
Percent of quota	127	801	547	547	137	…	…	…	…	…	…	…	…	…	…
(Projected Debt Service to the Fund based on Existing and Prospective Drawings)															
Amortization	0	1,472	6,278	7,299	2,610	718	1,955	2,960	3,839	3,964	3,848	3,247	2,009	1,004	126
SBA	0	1,472	6,278	7,299	2,493	0	0	0	0	0	0	0	0	0	0
4-year EFF	0	0	0	0	117	718	1,955	2,960	3,839	3,964	3,848	3,247	2,009	1,004	126
Interest and service charge	504	480	1,007	960	910	859	810	718	586	426	265	114	28	8	1
Total debt service	504	1,952	7,285	8,259	3,520	1,576	2,766	3,678	4,425	4,390	4,113	3,362	2,037	1,013	127
Percent of exports of goods and services	1.2	4.6	16.5	17.9	7.3	3.1	5.1	6.4	7.3	7.1	6.4	5.0	3.0	1.4	0.2
Percent of GDP	0.3	1.3	4.7	5.1	2.1	0.9	1.5	1.9	2.2	2.1	1.9	1.5	0.9	0.4	0.0
(Projected Level of Credit Outstanding based on Existing and Prospective Drawings)															
Outstanding stock	18,941	26,294	26,044	24,772	23,669	22,951	20,996	18,036	14,198	10,233	6,386	3,139	1,130	126	0
Percent of quota	1,719	2,387	2,364	2,248	2,148	2,083	1,906	1,637	1,289	929	580	285	103	11	0
Percent of GDP	11.5	16.9	16.7	15.3	14.0	12.9	11.3	9.3	7.0	4.8	2.9	1.4	0.5	0.1	0.0
Memorandum items:															
Exports of goods and services (billions of euros)	49	50	52	54	57	60	64	67	71	73	76	79	81	84	87
GDP (billions of euros)	194	183	184	190	199	209	219	229	240	249	259	269	280	291	302
Euro/SDR rate 1/	1.177	…	…	…	…	…	…	…	…	…	…	…	…	…	…
Quota (millions of SDRs)	1,102	…	…	…	…	…	…	…	…	…	…	…	…	…	…

Source: IMF staff projections.

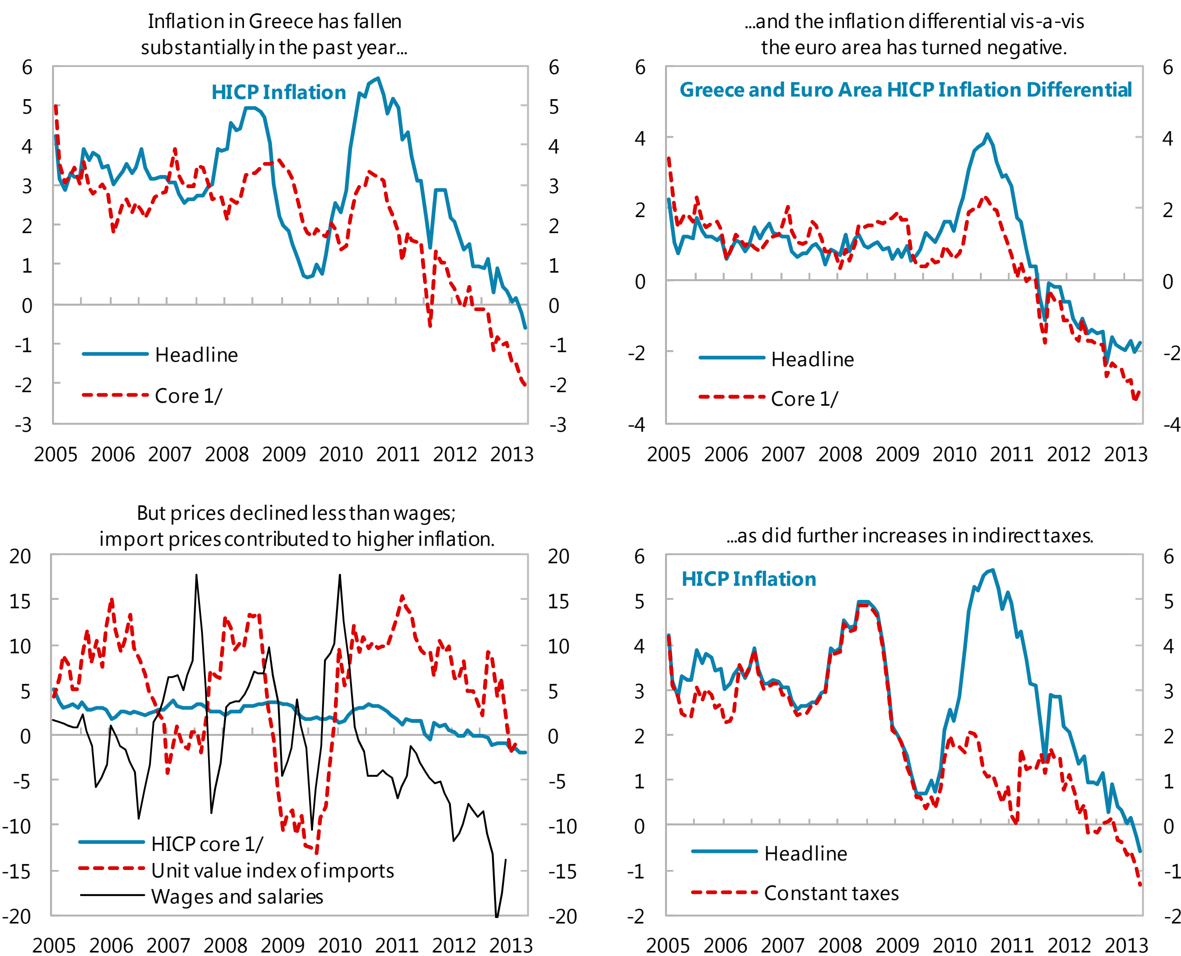
1/ Program exchange rate (see TMU).



Sources: Elstat; Eurostat; European Commission; and IMF staff calculations.

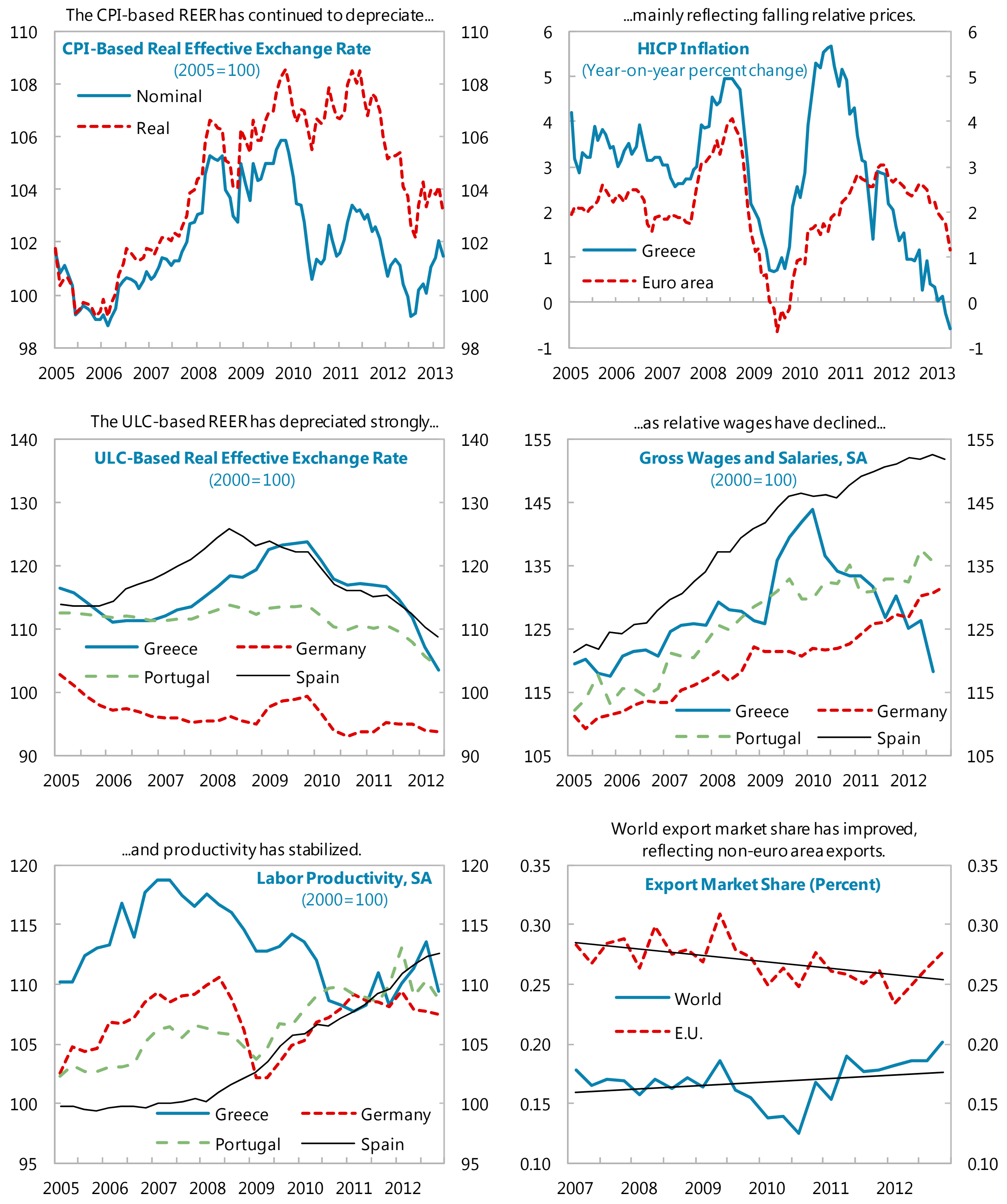
Figure 2. Greece: Inflation Developments, 2005–13

(Year-on-year percent change)

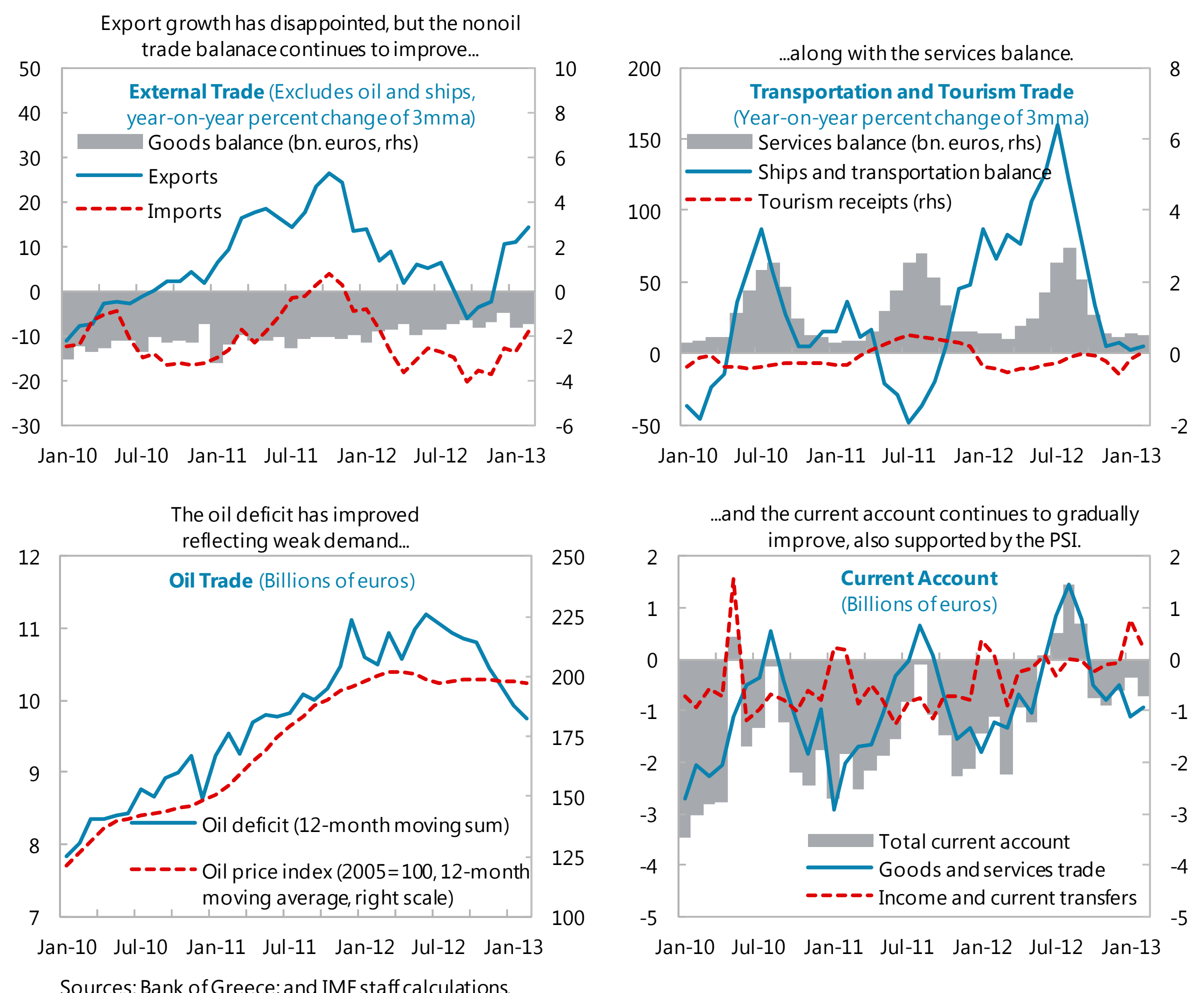


Sources: Elstat; Eurostat; Haver; and IMF staff calculations.
1/ Excludes food, alcohol, tobacco, and energy.

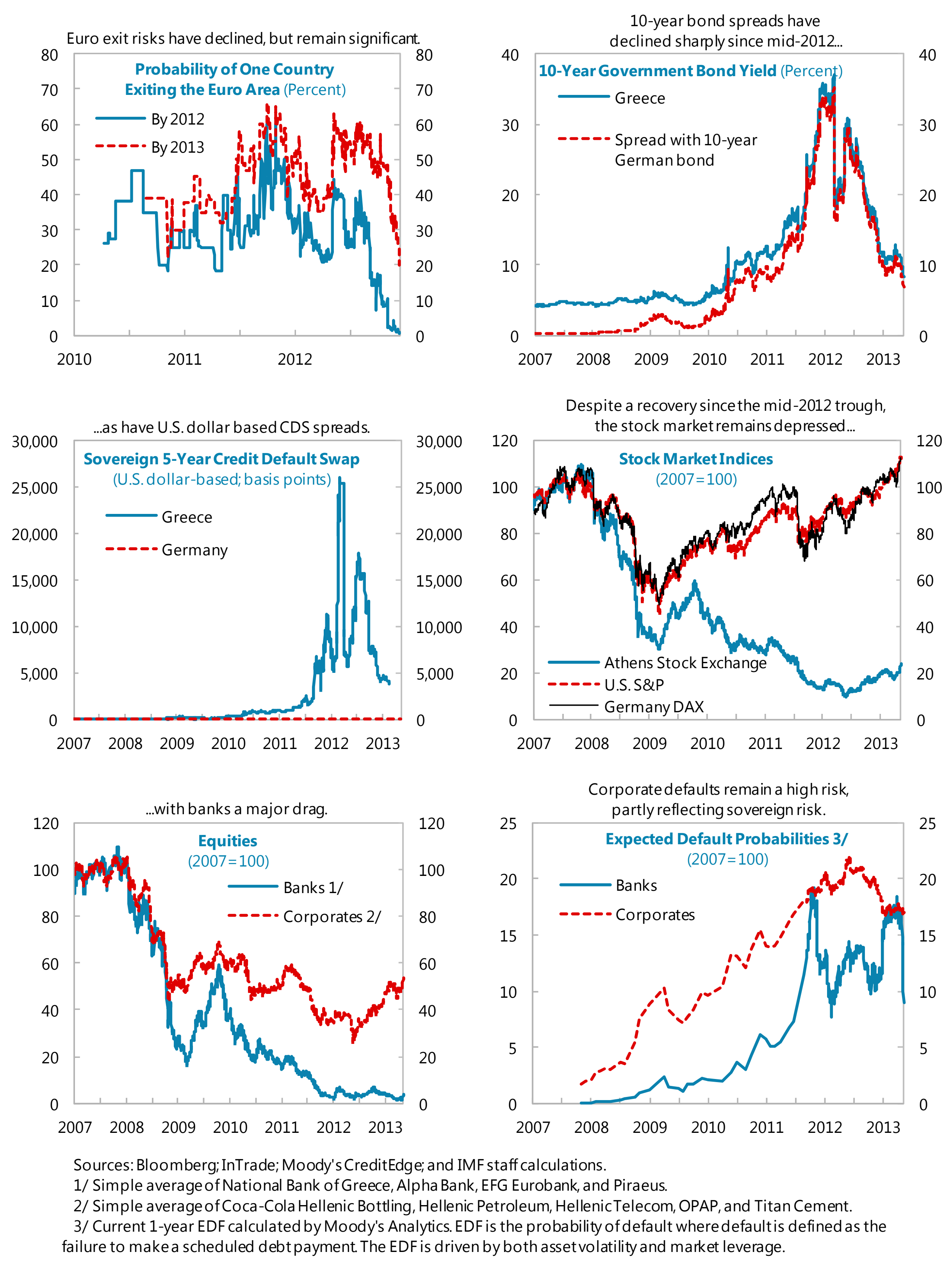
Figure 3. Greece: Competitiveness Indicators, 2005–13



Sources: Haver; Eurostat; IMF, *Direction of Trade Statistics*; and IMF staff calculations.

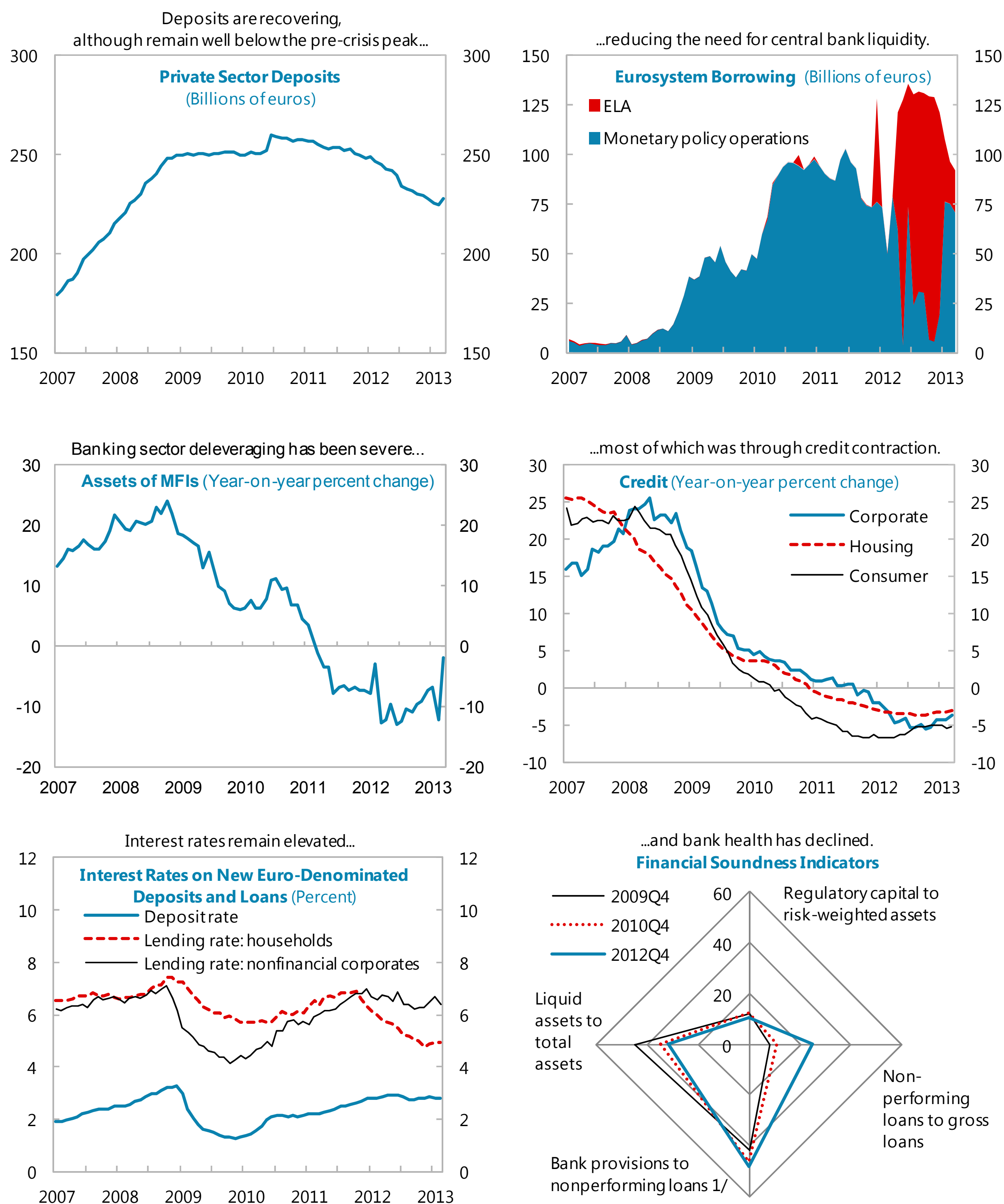


Sources: Bank of Greece; and IMF staff calculations.



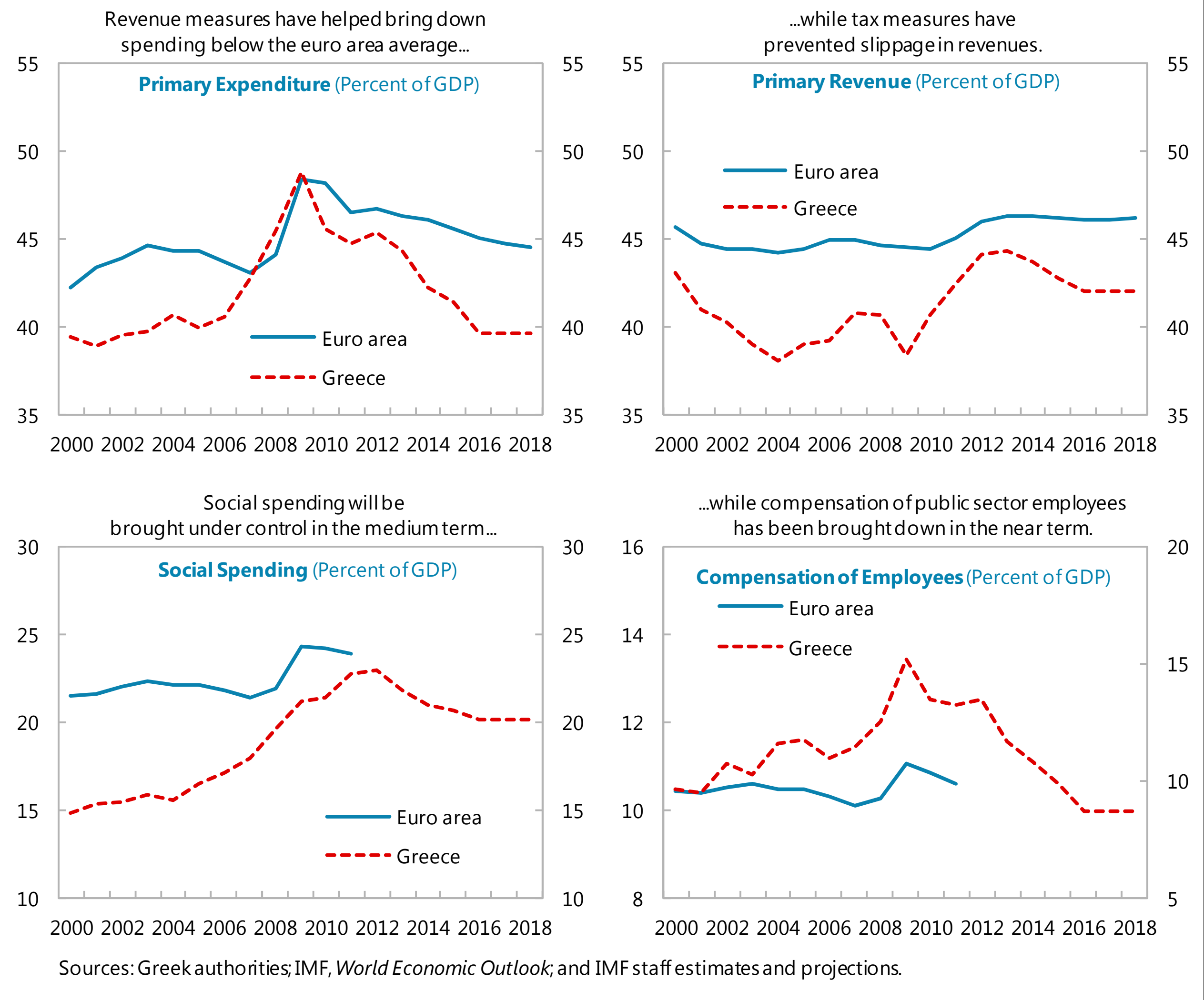
Sources: Bloomberg; InTrade; Moody's CreditEdge; and IMF staff calculations.
1/ Simple average of National Bank of Greece, Alpha Bank, EFG Eurobank, and Piraeus.
2/ Simple average of Coca-Cola Hellenic Bottling, Hellenic Petroleum, Hellenic Telecom, OPAP, and Titan Cement.
3/ Current 1-year EDF calculated by Moody's Analytics. EDF is the probability of default where default is defined as the failure to make a scheduled debt payment. The EDF is driven by both asset volatility and market leverage.

Figure 6. Greece: Money and Banking Developments, 2007–13



Sources: Bank of Greece; and IMF staff estimates.
1/ Nonperforming loans exclude restructured loans.

Figure 7. Greece: Revenue and Expenditure Trends, 2000–18



Sources: Greek authorities; IMF, *World Economic Outlook*; and IMF staff estimates and projections.

Box 1. Greece: Spillovers from Cyprus

The adverse impact on Greece of the crisis in Cyprus is expected to be moderate. Trade—the main spillover channel—is estimated to subtract about ¼ of a percentage point from 2013 GDP growth. The Cypriot crisis precipitated a moderate outflow of deposits from Greek banks in April, breaking a trend of increases since mid-2012. However, with bank recapitalization in Greece nearing completion, the adverse impact on confidence and deposit flows is expected to be reversed.

Trade is the main spillover channel. Exports to Cyprus account for about 5 percent of total Greek exports (about 1¼ percent of Greek GDP). Given the projected GDP contraction in Cyprus, and assuming an import elasticity of 1.5 (taking into account the large share of petroleum products in exports to Cyprus, for which demand is fairly inelastic), the estimated adverse impact on GDP growth in Greece for 2013 is about ¼ percentage point.

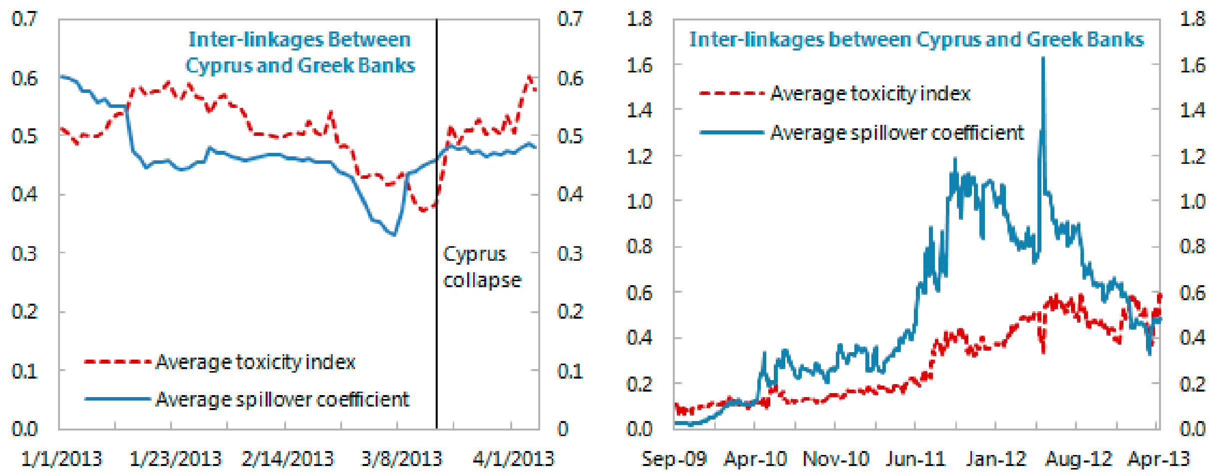
Direct spillover effects from the financial channel are expected to be limited.

- **Deposits of Greek households and financial corporations in Cyprus are relatively small (€3.2 billion), and the share that is subject to haircuts (above €100,000) is estimated to be low.** The exposure of the Greek banking system to Cyprus is also limited: assets of Greek banks in their subsidiaries in Cyprus account for around 4 percent of Greek banking system assets. Finally, according to a recent survey, Greek listed companies with exposure to Cyprus do not envisage any major impact from the crisis on their activity in Greece.
- **Spillovers from Cypriot bank branch operations in Greece have been contained through the branches' absorption into a Greek bank.** The agreement of March 26 between the Greek and Cypriot authorities included the acquisition by Piraeus (a core Greek bank) of the branch networks and operations of all Cypriot banks in Greece (Bank of Cyprus, Cyprus Popular Bank, and Hellenic Bank), which accounted for about 9 percent of the Greek banking sector deposits. This ensured that uninsured depositors in the Greek branches of Cypriot banks would not be subject to haircuts.

The largest risk from the Cyprus crisis is from indirect spillovers—in particular deposit outflows if perceptions take hold that uninsured depositors in undercapitalized Greek banks may also be subject to haircuts. The Cypriot crisis resulted in a reversal in April of the deposit recovery that had been in train since mid-2012, with outflows concentrated in banks with uncertain prospects for private sector recapitalization. Such outflows have been manageable so far (about €2 billion, compared to €19 billion in inflows from the mid-2012 trough through March 2013). With bank recapitalization in Greece nearing completion, the indirect spillover effects from the financial channel are expected to be contained in the short term, and once all Greek banks are fully recapitalized (or absorbed into fully capitalized core banks) using program resources, the adverse impact on confidence and deposit flows is expected to be reversed.

The evolution of the probability of default indexes suggest that risks for Greek banks from the Cypriot crisis, while increasing since the Cypriot program was announced, are below their mid-2012 elections peak. Two indicators—the toxicity index and the spillover coefficient—show that Cypriot risks for the Greek banks had been building for some time.[1] After peaking in May 2012, indicators of the level of Greek banks distress given Cyprus being under distress (i.e., toxicity) and the vulnerability levels of Greek banks (spillover effects) both had been on a downward trend, but jumped when the Cypriot program was announced (though they remain below their mid-2012 peak). Stock market losses and a hike in the GGB spread since the Cyprus crisis also suggest a negative impact on confidence.

Box 1. Greece: Spillovers from Cyprus (concluded)

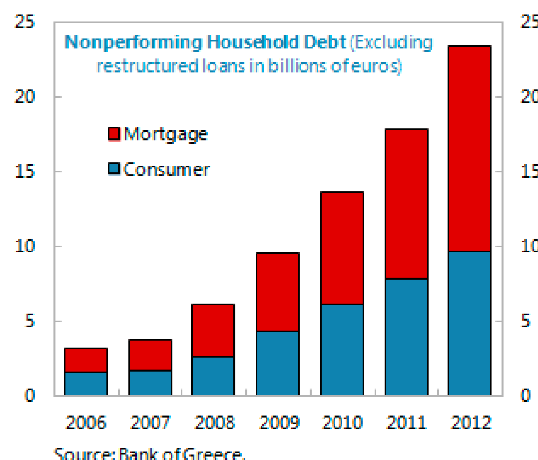


Source: IMF staff estimates.

[1] The toxicity index captures the expected conditional probability that banks in Greece fail under distress given Cyprus is in distress. The spillover coefficient, captures the banks' vulnerability to inward spillovers from the sovereign *Cyprus.* Both measures are based on 5-year CDS and stock prices for the sovereign Cyprus and Greek core banks. For more details, see on Caceres, Guzzo, and Segoviano (2010), "*Sovereign Spreads: Global Risk Aversion, Contagion or Fundamentals?*" International Monetary Fund, WP/10/120.

Box 2. Greece: Framework to Deal with Household Debt

The rapid increase in nonperforming loans (NPLs) has overwhelmed the normal restructuring framework, calling for a coordinated approach to facilitate more rapid loan restructuring. While NPLs have increased by almost seven-fold in the five years to December 2012, less than a third of these loans have been restructured. This suggests that the current restructuring framework is inadequate to deal with the impact of the current crisis on loan quality. Under normal circumstances, banks would deal with a nonperforming loan by modifying its terms or writing it off and taking any residual loss after recovering collateral. However, when the banking system faces a sudden systemic deterioration in loan quality, the capacity of banks to process individual loan restructuring tends to be overwhelmed, collateral values drop sharply, and banks may seek to defer action to avoid the impact on capital from recognizing losses. Moreover, weaknesses in existing personal insolvency laws in Greece and two blanket moratoria on auctions of repossessed assets (de facto preventing property foreclosures) risk undermining borrower repayment behavior. These problems need to be addressed to restore bank and household balance sheets, and ultimately to support the economic recovery.



Source: Bank of Greece.

International experience points to certain emerging best practices.[1] A wide range of resolution framework features have emerged across national borders with varying degrees of success.[2] Features that facilitate debt workouts while promoting the payment culture (such as adoption of standard loan restructuring tools for implementation by banks to assess borrowers' ability and willingness to pay, availability of affordable new loan terms, loan restructuring targets for banks, and the removal of legal impediments to resolution) have tended to contribute to positive outcomes. On the other hand, features that discourage engagement in the resolution process (such as forbearance available to all, restrictions on banks to contact delinquent borrowers, unconditional protection from foreclosure, and not addressing incentives to walk away) have been counterproductive.

Against this background, the Greek authorities have responded to rising NPLs by announcing a framework aimed at addressing the shortfalls and stemming the growth in NPLs using a three-tier approach:

- **Amending Law 3869/2010.** The 2010 law provided blanket protection to borrowers, including those who strategically choose not to honor their debt obligations. It also made it difficult for creditors to agree on a revised repayment schedule in an extrajudicial setting. These shortfalls, plus a number of other technical elements in the 2010 law will be addressed in amendments scheduled to be adopted in June 2013.

- **Introducing a new "facilitation program" to provide debt relief for households in financial difficulty.** This program, which will also be introduced in June 2013, is targeted at low-income households who are fully honoring their tax and debt obligations but face significant financial challenges. It is expected that more than 80 percent of taxpayers with mortgages could eventually be eligible for the program. Participants will benefit from a cap on repayments set at an affordable level relative to current income, for a period of up to four years. The program will be implemented by all banks, and is expected to be fully rolled out in the second half of 2013.

Box 2. Greece: Framework to Deal with Household Debt (concluded)

Greek "Facilitation Program" for Highly Indebted Borrowers	
Eligibility Criteria:	Key Repayment Features:
a. Available to employees, not the self-employed. b. Household's current on debt and tax obligations. c. All loans issued by credit institutions that are secured by a mortgage on a main residence where the debtor is registered for tax purposes. d. Households with post-tax income of up to €25,000 and 20 percent cumulative income loss since 2009. e. Total outstanding debt of up to €150,000. f. The fiscal value of main residence of up to €180,000. g. Immovable assets (that cannot be easily transferred out of the jurisdiction) of up to €250,000. h. Total savings and other financial assets not to exceed €10,000.	1. Repayments set to 30 percent of post-tax income for employed and retired with an annual post-tax income of between €15,000 and €25,000. 2. Repayments set to 30 percent of post-tax income with a cap on interest rate of (0.75 percent + ECB main refinancing rate) for employed and retired with annual household income of up to €15,000. Borrowers above the poverty line will continue to pay interest as per the terms agreed with their banks. 3. Unemployed with no income source other than unemployment benefit receive a cumulative 6-month grace period over the life of the program.

- **Introducing a legal framework to expedite loan modification for households.** The previous legislative framework provided debt resolution mainly via a court-led insolvency process. The Greek authorities will pass enabling legislation in June 2013 and will follow with secondary legislation by August 2013 to provide a wider set of tools to assess ability and willingness to pay, to restructure loans terms and to introduce loan restructuring targets for banks. These tools are necessary to achieve effective and expeditious resolution of nonperforming debt and will be incorporated into all debt resolution activities, including the facilitation program, bank-led initiatives and the personal insolvency process. The authorities will also take steps to reduce excessive court waiting times. Once these measures have been introduced, the two blanket moratoria on auctions of repossessed assets will be abolished.

[1] See "Working Group on NPLs in Central, Eastern and Southeastern Europe", European Banking Coordination "Vienna" Initiative, March 2012.

[2] See "Dealing with Private Debt Distress in the Wake of the European Financial Crisis: A Review of the Economics and Legal Toolbox," IMF Working Paper, WP/13/44.

Box 3. Greece: Exceptional Access Criteria

The program continues to satisfy the substantive criteria for exceptional access but with no margin. This assessment crucially depends on the euro area member states' commitment to support Greece and to undertake further debt relief as necessary to ensure debt sustainability.

- **Criterion 1.** The member is experiencing or has the potential to experience exceptional balance of payments pressures on the current or capital account, resulting in a need for Fund financing that cannot be met within the normal limits. Balance of payments support beyond normal access limits continues to be required since external financing needs remain large and financial conditions remain adverse.

- **Criterion 2.** A rigorous and systematic analysis indicates that there is a high probability that the member's public debt is sustainable in the medium term. However, in instances where there are significant uncertainties that make it difficult to state categorically that there is a high probability that the debt is sustainable over this period, exceptional access would be justified if there is a high risk of international systemic spillover. The baseline debt trajectory is sustainable in the medium term but subject to significant risks. In the near term debt will remain very high, giving rise to uncertainties that make it difficult to categorically affirm that debt is sustainable with a high probability. However, the risk of international systemic spillovers in case of a permanent interruption of the program remains high and justifies exceptional access.

- **Criterion 3.** The member has prospects for gaining or regaining access to private capital markets within the timeframe when Fund resources are outstanding. Prospects for market access exist conditional on successful program implementation and adequate support from Greece's European partners. Under this scenario, market financing would be adequate to secure repayments to the Fund.

- **Criterion 4.** The policy program of the member provides reasonably strong prospects of success, including not only the member's adjustment plans but also its institutional and political capacity to deliver that adjustment. Program implementation faltered in a difficult social and political environment but the authorities have demonstrated program ownership and policy resolve through the implementation of prior actions in key areas. Technical assistance from the EC and the IMF will continue to support the authorities' efforts. On this basis, staff assesses there is a reasonably strong prospect of success of the program.

Appendix I. Debt Sustainability Analysis

1. This appendix provides a brief update regarding staff's assessment of the sustainability of Greece's public and external debt. Results continue to suggest that the current program can place Greece's debt on a sustainable trajectory but that significant risks remain, particularly due to the significant and sustained primary adjustment required of Greece.[1]

A. Key Inputs for the DSA

4. **The macro, policy, and financing framework underlying the DSA is broadly unchanged**:

- **Output.** Staff continues to project further contraction in the economy before a mild recovery begins in 2014. Liquidity conditions and confidence have improved but the underlying balance sheet correction continues to weigh on demand. Recent events in Cyprus are poised to have a modest negative effect on growth in Greece, but are offset by stronger than expected tourist receipts.

- **Fiscal adjustment.** The program remains based on 1.5 percent of GDP in headline primary adjustment per year culminating in a surplus of 4.5 percent of GDP in 2016. The DSA assumes Greece can maintain a primary surplus of 4 percent in the long run. Though some European countries (Belgium and Ireland) have sustained high primary surpluses in the past, this assumption is ambitious.

- **Privatization proceeds.** The DSA continues to assume that the authorities can generate €22 billion from assets sales through 2020, down from the €45 billion assumed at the start of the EFF.

- **Financing.** The financing relief measures committed by the Eurogroup in December that are relevant for debt projections have broadly taken hold: the interest margin on GLF loans was cut from 100bps to 50bps, the administrative fee on EFSF loans was eliminated, and income on SMP profits is expected to be transferred later this year. The DSA assumes any financing gaps that may exist are filled with additional financing from the EFSF at current terms.

- **Other.** The DSA has unchanged assumptions regarding key issues of liquidity management in Greece. As agreed with the euro area member states, Greece has reduced outstanding T-bills to €15 billion and will maintain that stock over the program period rather than a more aggressive drawdown as originally envisioned. Meanwhile, the program continues to assume financing provided will be adequate to reduce arrears in net terms by €8 billion by end-2013 while maintaining adequate deposit buffers.

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[1] For a detailed DSA see the accompanying Article IV staff report.

B. Public Sector DSA

5. **Baseline projections show that debt would decline to 124 percent of GDP in 2020** (Table AI.1). Due to small changes in the phasing of disbursements, debt now peaks in 2013 above 175 percent of GDP, before starting a sustained decline in 2015. In December 2012, euro area member states committed to provide further relief to Greece—once it reaches an annual primary surplus—to ensure that debt in 2020 is 124 percent of GDP in 2020 and substantially below 110 percent of GDP in 2022. On baseline projections, debt is expected to be around 113 percent of GDP in 2022.

6. **Stress tests suggest the baseline debt path is particularly vulnerable to growth and primary surplus shocks while being resilient to lower privatization or interest rate shocks.** This reflects the already low privatization assumptions and largely official sector debt.

- If the primary surplus stays at the 2013 target level of 0, debt to GDP will reach 148 percent of GDP in 2020 and will be rising over the medium term.

- If nominal growth averages 1 percent lower than the 4 percent baseline projection, debt will be 134 percent in 2020 with an only modest declining path thereafter.

- If privatization receipts are half of the €22 billion expected, debt in 2020 would be only 4ppts higher than the baseline while maintaining a strong downward trajectory.

- If EFSF interest rates are 1 ppt higher, debt would again be only 4 percentage points higher than the baseline. Shocks to market rates only affect debt slowly after 2020.

7. **The debt trajectory remains extremely sensitive to program delays.** To illustrate, an alternative scenario is presented in Table AI.2, modeled as: a protracted implementation of structural reforms, a two year delay in the fiscal adjustment path, privatization delivering half the projected amount, and lower growth via a delay in the recovery of confidence and investment. In this scenario, debt would only fall to 147 percent of GDP in 2020, about 23 percentage points higher than in the baseline scenario.

Table AI.1. Greece: Public Sector Debt Sustainability Framework: Baseline, 2008–30

(Percent of GDP, unless otherwise indicated)

	Actual					Projections							Debt-stabilizing primary balance 9/
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2020	2025	2030	
Baseline: public sector debt 1/	112.9	129.7	148.3	170.3	156.9	175.8	174.2	168.2	159.5	124.2	102.2	86.2	1.1
Of which: foreign-currency denominated	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Change in public sector debt	5.7	16.8	18.6	22.0	-13.5	18.9	-1.6	-6.0	-8.7	-8.1	-3.4	-3.1	
Identified debt-creating flows (4+7+12)	5.5	16.5	16.6	20.1	65.3	17.7	0.2	-7.6	-8.0	-8.6	-3.6	-2.9	
Primary deficit	4.8	10.5	4.9	2.4	1.3	0.0	-1.5	-3.0	-4.5	-4.3	-4.0	-4.0	
Revenue and grants	40.7	38.3	40.6	42.4	44.1	44.3	43.7	42.7	42.0	42.0	42.0	42.0	
Primary (noninterest) expenditure	45.5	48.8	45.5	44.8	45.4	44.3	42.2	39.7	37.5	37.7	38.0	38.0	
Automatic debt dynamics 2/	0.5	6.2	11.2	16.9	18.0	12.9	4.4	-0.6	-2.6	-1.2	0.1	0.9	
Contribution from interest rate/growth differential 3/	0.5	6.2	11.2	16.9	18.0	12.9	4.4	-0.6	-2.6	-1.2	0.1	0.9	
Of which contribution from real interest rate	0.3	2.6	4.5	5.7	6.3	5.9	5.4	4.3	3.4	2.2	2.0	2.4	
Of which contribution from real GDP growth	0.2	3.6	6.7	11.2	11.7	7.0	-1.0	-5.0	-6.0	-3.3	-1.9	-1.6	
Contribution from exchange rate depreciation 4/	0.0	0.0	0.0	0.0	0.0	...	...	...	...	...	...	...	
Other identified debt-creating flows	0.2	-0.1	0.6	0.8	46.0	4.8	-2.6	-4.0	-0.9	-3.2	0.3	0.2	
Privatization receipts (negative)	0.0	0.0	0.0	-0.5	-0.1	-1.4	-1.0	-1.1	-1.1	-1.8	0.0	0.0	
Recognition of implicit or contingent liabilities	0.2	-0.1	0.6	1.3	7.1	2.3	-1.6	-3.0	0.2	-1.4	0.3	0.2	
Other (Includes bank recap, PSI sweetener)	0.0	0.0	0.0	0.0	39.0	3.9	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including debt relief (2-3) 5/	0.1	0.3	2.0	1.9	-78.7	1.2	-1.8	1.7	-0.7	0.5	0.3	-0.2	
Public sector debt-to-revenue ratio	277.6	338.2	365.2	401.9	355.6	397.0	399.0	393.8	379.9	295.7	243.5	205.3	
Gross financing need 6/	9.9	15.6	19.6	27.5	18.9	21.1	25.1	18.6	11.7	8.7	5.4	4.0	
Billions of U.S. dollars	34.1	50.2	57.9	79.7	47.1	51.4	60.8	46.3	30.2	26.8	20.0	18.2	
Key macroeconomic and fiscal assumptions underlying baseline													
Real GDP growth (percent)	-0.2	-3.1	-4.9	-7.1	-6.4	-4.2	0.6	2.9	3.7	2.6	1.9	1.8	
Average nominal interest rate on public debt (percent) 7/	5.0	4.5	4.4	4.6	2.7	2.5	2.7	3.0	3.2	3.5	4.1	4.9	
Average real interest rate (nominal rate minus change in GDP deflator, percent)	0.3	2.2	3.3	3.5	3.5	3.6	3.1	2.6	2.2	1.8	2.1	2.9	
Inflation rate (GDP deflator, percent)	4.7	2.3	1.1	1.0	-0.8	-1.1	-0.4	0.4	1.1	1.7	2.0	2.0	
Growth of real primary spending (deflated by GDP deflator, percent)	6.3	3.9	-11.3	-8.6	-5.1	-6.5	-4.2	-3.0	-2.1	2.6	1.9	1.8	

1/ General government gross debt. Only intra-government holdings are netted out.

2/ Derived as [(r - p(1+g) - g + ae(1+r)]/(1+g+p+gp)) times previous period debt ratio, with r = interest rate; p = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

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 ae(1+r).

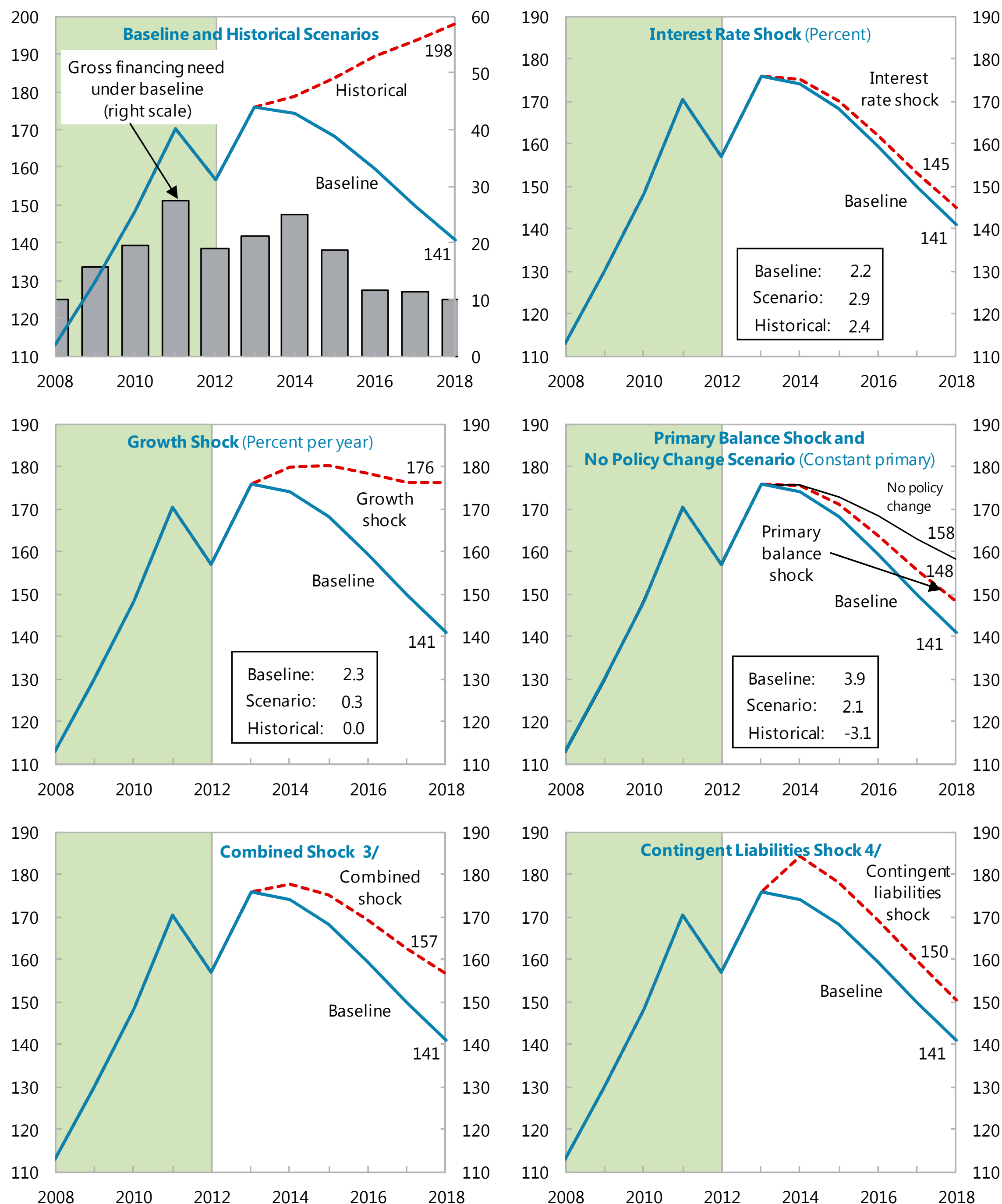
5/ For projections, this line includes exchange rate changes.

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

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

Figure AI.1. Greece: Public Debt Sustainability: Bound Tests, 2008–18 1/ 2/

(Public debt in percent of GDP)



Sources: IMF staff estimates.

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

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

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

4/ 10 percent of GDP shock to contingent liabilities occur in 2010.

Table AI.2. Greece: Public Sector Debt Sustainability Framework: Alternative Scenario, 2008–30

(Percent of GDP, unless otherwise indicated)

	Actual					Projections									Debt-stabilizing primary balance 9/
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2020	2025	2030	
Baseline: public sector debt 1/	112.9	129.7	148.3	170.3	156.9	180.5	182.1	181.7	176.4	169.7	161.6	147.2	126.0	111.3	1.4
Of which: foreign-currency denominated	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Change in public sector debt	5.7	16.8	18.6	22.0	-13.5	23.7	1.6	-0.5	-5.3	-6.7	-8.1	-6.6	-3.2	-2.8	
Identified debt-creating flows (4+7+12)	5.5	16.5	16.6	20.1	65.3	22.1	1.7	-6.3	-7.0	-9.9	-9.8	-9.2	-3.6	-2.6	
Primary deficit	4.8	10.5	4.9	2.4	1.3	0.0	-1.6	-2.0	-3.0	-3.5	-4.5	-4.3	-4.0	-4.0	
Revenue and grants	40.7	38.3	40.6	42.4	44.1	45.5	45.7	45.5	45.3	45.8	45.9	46.0	45.9	45.9	
Primary (noninterest) expenditure	45.5	48.8	45.5	44.8	45.4	45.5	44.1	43.5	42.3	42.3	41.4	41.8	41.9	41.9	
Automatic debt dynamics 2/	0.5	6.2	11.2	16.9	18.0	17.1	6.0	0.0	-3.0	-2.4	-2.1	-1.5	0.1	1.1	
Contribution from interest rate/growth differential 3/	0.5	6.2	11.2	16.9	18.0	17.1	6.0	0.0	-3.0	-2.4	-2.1	-1.5	0.1	1.1	
Of which contribution from real interest rate	0.3	2.6	4.5	5.7	6.3	10.0	7.1	5.2	3.5	3.5	3.3	2.4	2.5	3.1	
Of which contribution from real GDP growth	0.2	3.6	6.7	11.2	11.7	7.2	-1.1	-5.2	-6.5	-5.9	-5.3	-3.9	-2.4	-2.0	
Contribution from exchange rate depreciation 4/	0.0	0.0	0.0	0.0	0.0	...	...	...	...	...	...	...	...	...	
Other identified debt-creating flows	0.2	-0.1	0.6	0.8	46.0	5.0	-2.8	-4.3	-1.0	-4.0	-3.3	-3.5	0.3	0.3	
Privatization receipts (negative)	0.0	0.0	0.0	-0.5	-0.1	-1.4	-1.1	-1.1	-1.2	-1.2	-1.6	-1.9	0.0	0.0	
Recognition of implicit or contingent liabilities	0.2	-0.1	0.6	1.3	7.1	2.3	-1.7	-3.2	0.2	-2.8	-1.6	-1.5	0.3	0.3	
Other (Includes bank recap, PSI sweetener)	0.0	0.0	0.0	0.0	39.0	4.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including debt relief (2-3) 5/	0.1	0.3	2.0	1.9	-78.7	2.7	-0.1	5.8	1.7	3.2	1.7	2.6	0.4	-0.2	
Public sector debt-to-revenue ratio	277.6	338.2	365.2	401.9	355.6	396.9	399.0	399.0	389.3	370.9	352.2	320.0	274.4	242.5	
Gross financing need 6/	9.9	15.6	19.6	27.5	18.9	21.7	26.2	19.8	12.6	12.4	10.9	9.6	5.9	4.4	
Billions of U.S. dollars	34.1	50.2	57.9	79.7	47.1	51.4	60.8	46.3	30.2	30.8	27.9	26.8	20.0	18.2	
Key macroeconomic and fiscal assumptions underlying baseline															
Real GDP growth (percent)	-0.2	-3.1	-4.9	-7.1	-6.4	-4.2	0.6	2.9	3.7	3.5	3.3	2.6	1.9	1.8	
Average nominal interest rate on public debt (percent) 7/	5.0	4.5	4.4	4.6	2.7	2.5	2.7	3.0	3.2	3.4	3.5	3.5	4.1	4.9	
Average real interest rate (nominal rate minus change in GDP deflator, percent)	0.3	2.2	3.3	3.5	3.5	6.0	3.9	2.9	2.1	2.1	2.1	1.7	2.0	2.9	
Inflation rate (GDP deflator, percent)	4.7	2.3	1.1	1.0	-0.8	-3.5	-1.2	0.1	1.2	1.2	1.5	1.8	2.1	2.1	
Growth of real primary spending (deflated by GDP deflator, percent)	6.3	3.9	-11.3	-8.6	-5.1	-4.2	-3.4	0.1	-0.5	2.5	0.9	2.6	1.8	1.7	

1/ General government gross debt. Only intra-government holdings are netted out.

2/ Derived as [(r - p(1+g) - g + ae(1+r)]/(1+g+p+gp)) times previous period debt ratio, with r = interest rate; p = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

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 ae(1+r).

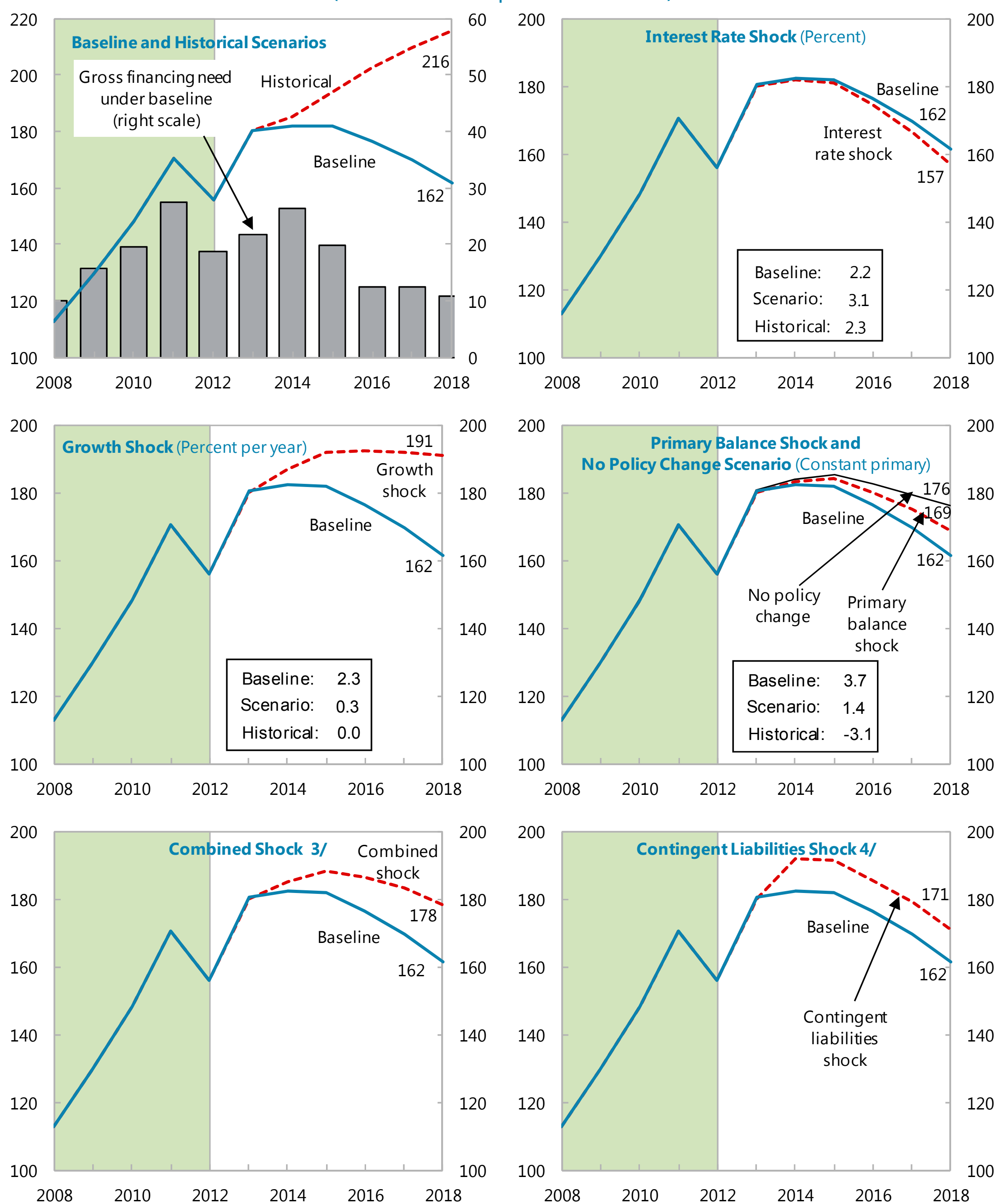
5/ For projections, this line includes exchange rate changes.

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

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

Figure AI.2. Greece: Public Debt Sustainability: Alternative Scenario, Bound Tests, 2008–18 1/ 2/

(Public debt in percent of GDP)



Sources: IMF staff estimates.

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

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

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

4/ 10 percent of GDP shock to contingent liabilities occur in 2010.

C. External Sector DSA

8. **External debt is expected to decline gradually.** Gross debt, currently at 233 percent of GDP, would peak at around 245 percent of GDP in 2013 and then decline to about 155 percent in 2020. Net debt would fall from about 130 percent of GDP in 2012 to around 75 percent in 2020. Several factors lie behind the projected improvement in external debt. Most importantly, the current account is projected to improve quickly as competitiveness is restored, and Greece continues to rely on official loans at relatively low interest rates. The agreed reduction in the GLF interest rate and EFSF fees, and the return of SMP profits will also contribute to the sharp improvement in the current account. FDI inflows related to privatization also remain an important non-debt-creating source of financing.

9. **Macroeconomic shocks and policy slippages could result in adverse dynamics:**

- **Larger current account deficits.** Slow competitiveness improvements resulting from delayed structural reforms or a terms-of-trade shock could affect exports negatively and worsen the baseline current account projections by around 1.5 percent of GDP. The debt ratio would remain on a downward path, but would be 10 percentage points higher than in the baseline by 2020.

- **Interest rate shock.** The effects of higher Greek sovereign spreads would be dampened by the almost exclusive reliance of Greece on official financing. Changes in the risk free rate would nevertheless impact Greece through the cost of official financing. A 100bps shock to Bund rates would worsen the income account and result in a 2020 debt ratio 8 percentage points above the baseline.

- **Slippages in privatization.** Privatization delays that result in only about half of the projected privatization proceeds over the projections period would affect external debt dynamics by reducing non-debt-creating flows. The impact on the debt path would be modest since baseline privatization related inflows are small relative to the overall financial account balance. The debt ratio in 2020 would be around 3 percentage points higher than in the baseline.

10. **Debt dynamics would be significantly worse under a combined shock involving lagged program implementation, weak competitiveness, and higher interest rates.** The shocks above would likely be individually manageable, but would have a more substantial impact in an adverse scenario where they occur simultaneously. The net debt ratio would reach about 100 percent of GDP in 2020, 23 percent of GDP higher than in the baseline.

Table AI.3. Greece: External Debt Sustainability Framework, 2007–21

(Percent of GDP, unless otherwise indicated)

	Actual						Projections									Debt-stabilizing non-interest current account 7/
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	
Baseline: external debt	70.5	76.8	90.5	134.4	148.3	130.6	135.0	132.0	124.5	115.4	105.9	95.8	86.1	77.0	70.7	-5.1
Change in external debt	6.7	6.4	13.7	43.9	13.9	-17.7	4.4	-3.0	-7.4	-9.1	-9.5	-10.1	-9.6	-9.2	-6.3	
Identified external debt-creating flows (4+8+9)	6.1	-1.9	9.2	12.6	16.7	12.2	4.9	-3.4	-8.2	-10.0	-10.1	-8.7	-8.5	-8.3	-7.0	
Current account deficit, excluding interest payments	9.8	9.1	6.0	4.9	3.7	-0.6	-3.8	-4.9	-5.5	-5.9	-6.3	-6.5	-6.6	-6.4	-6.0	
Deficit in balance of goods and services	11.2	11.5	7.8	6.8	6.0	2.5	0.2	-1.4	-2.4	-3.0	-3.5	-3.9	-4.3	-4.6	-4.5	
Exports	21.9	23.1	18.3	20.5	23.4	25.4	27.4	28.3	28.6	28.7	28.9	29.1	29.4	29.6	29.6	
Imports	33.1	34.6	26.2	27.3	29.5	27.9	27.6	26.9	26.2	25.7	25.4	25.2	25.1	25.0	25.2	
Net non-debt creating capital inflows (negative)	-2.4	-0.3	0.0	1.4	0.3	-1.1	-1.2	-1.0	-1.3	-1.5	-1.6	-2.0	-2.1	-2.3	-2.0	
Automatic debt dynamics 1/	-1.3	-10.7	3.2	6.3	12.7	13.9	9.9	2.5	-1.3	-2.6	-2.2	-0.3	0.1	0.4	0.9	
Contribution from nominal interest rate	2.6	2.5	2.5	2.6	3.9	2.6	2.6	2.8	3.0	3.1	3.2	3.0	2.8	2.6	2.4	
Contribution from real GDP growth	-1.8	-10.0	2.4	4.7	10.2	10.2	5.8	-0.8	-3.8	-4.4	-3.9	-3.3	-2.8	-2.2	-1.5	
Contribution from price and exchange rate changes 2/	-2.0	-3.2	-1.7	-1.0	-1.4	1.1	1.5	0.5	-0.6	-1.3	-1.5	-1.5	-1.6	-1.5	-1.4	
Residual, incl. change in gross foreign assets (2-3) 3/	0.6	8.2	4.5	31.2	-2.8	-29.9	-0.5	0.4	0.7	0.9	0.6	-1.4	-1.1	-0.9	0.7	
External debt-to-exports ratio (in percent)	321.8	332.6	494.5	655.3	633.2	515.2	492.3	466.2	435.3	402.6	366.8	328.6	293.3	259.9	238.6	
Gross external financing need (billions of euros) 4/	93.3	122.9	194.4	216.2	239.0	205.6	178.8	158.5	139.2	119.5	105.7	95.6	88.1	78.4	72.1	
Percent of GDP	41.9	52.7	84.1	97.3	114.6	106.1	97.5	86.2	73.2	60.0	50.6	43.6	38.4	32.7	28.9	
Scenario with key variables at their historical averages 5/	...	...	...	...	...	**...**	131.1	131.1	131.3	131.6	131.6	131.3	131.3	131.3	132.3	-6.7
Key macroeconomic assumptions underlying baseline																
Real GDP growth (percent)	3.0	17.5	-3.1	-4.9	-7.1	-6.4	-4.2	0.6	2.9	3.7	3.5	3.3	3.0	2.6	2.0	
GDP deflator (change in percent)	3.3	4.7	2.3	1.1	1.0	-0.8	-1.1	-0.4	0.4	1.1	1.3	1.4	1.7	1.7	1.9	
Nominal external interest rate (percent) 6/	4.3	4.4	3.3	2.8	2.7	1.6	1.9	2.1	2.4	2.6	2.9	3.0	3.1	3.1	3.3	
Growth of exports (euro terms, percent)	9.6	10.4	-21.5	7.7	7.2	0.6	2.4	3.5	4.5	5.1	5.6	5.8	5.6	5.3	4.0	
Growth of imports (euro terms, percent)	14.3	9.6	-25.2	0.3	1.4	-12.1	-6.4	-2.3	0.7	2.9	3.7	3.9	4.2	4.1	4.6	
Current account balance	-14.6	-14.9	-11.2	-10.1	-9.9	-3.4	-0.8	-0.2	0.1	0.2	0.5	0.9	1.2	1.4	1.1	
Net non-debt creating capital inflows	2.4	0.3	0.0	-1.4	-0.3	1.1	1.2	1.0	1.3	1.5	1.6	2.0	2.1	2.3	2.0	

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 euro 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.

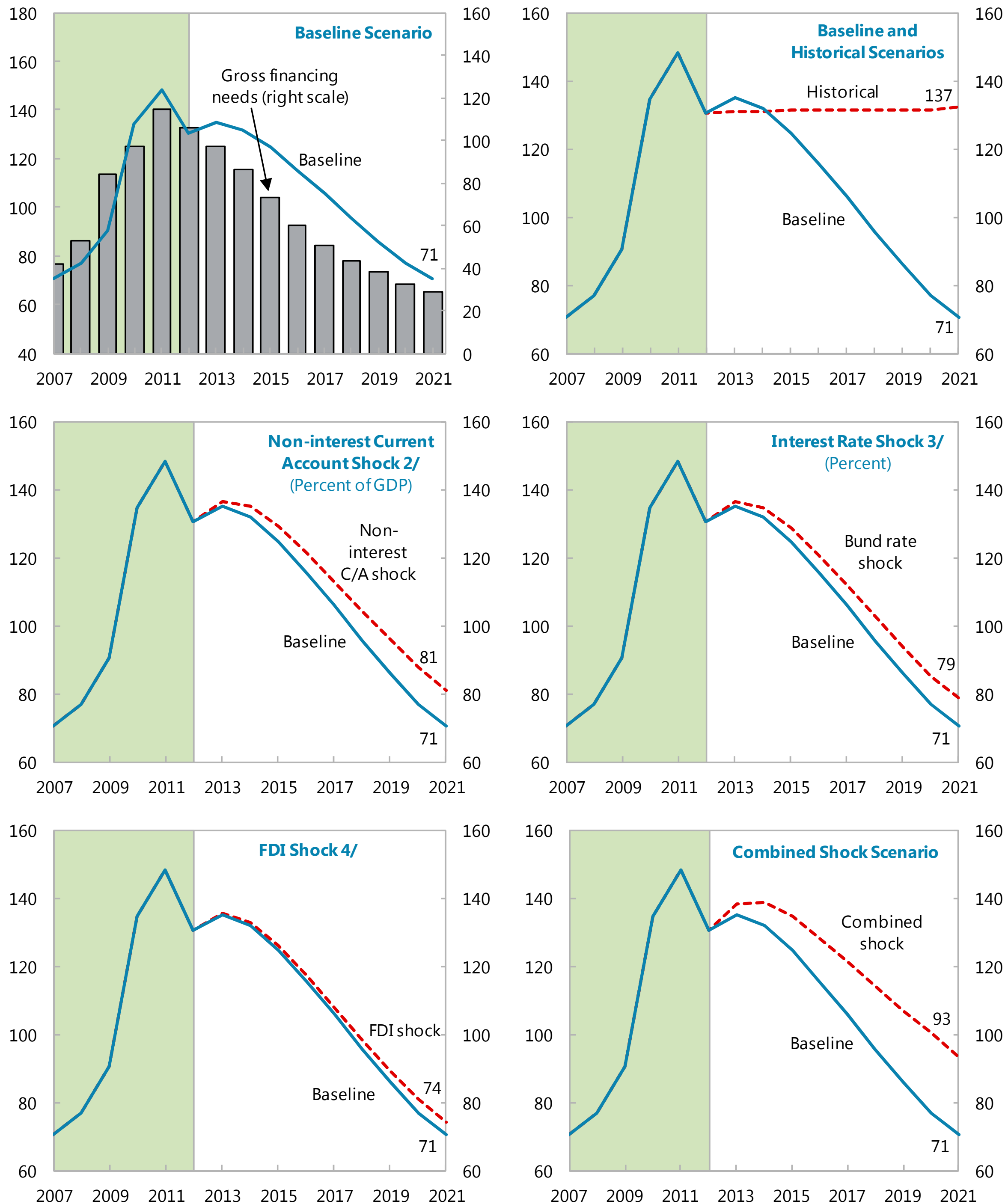
5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

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 AI.3. Greece: External Debt Sustainability: Bound Tests, 2007–21 1/

(Net external debt in percent of GDP)



Sources: Greek authorities; and IMF staff estimates.

1/ Shaded areas represent actual/preliminary data. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year (pre-crisis) historical average for the variable is also shown.

2/ Current account balance lower by 1.5 percent of GDP due to delayed program implementation and terms-of-trade shock.

3/ Impact of100bps shock to Bund rates on Greece's official interest rates and income balance.

4/ Decline in FDI due to reduced privatization receipts.

Appendix II. Fund Relations

(As of April 30, 2013)

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

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

General Resources Account:	**SDR Million**	**Percent Quota**
Quota	1,101.80	100.00
Fund holdings of currency	22,600.14	2,051.20
Reserve position in Fund	240.82	21.86

SDR Department:	**SDR Million**	**Percent Allocation**
Net cumulative allocation	782.36	100.00
Holdings	553.49	70.75

Outstanding Purchases and Loans:	**SDR Million**	**Percent Quota**
Stand–by Arrangements	17,541.80	1,592.10
Extended Arrangements	4,197.30	380.95

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
EFF	Mar 15, 2012	Mar 14, 2016	23,785.30	4,197.30
Stand-By	May 09, 2010	Mar 14, 2012	26,432.90	17,541.80

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

	Forthcoming				
	2013	2014	2015	2016	2017
Principal	1,471.81	6,277.79	7,299.09	2,609.70	466.37
Charges/Interest	532.65	658.44	364.27	129.96	61.73
Total	2,004.46	6,936.23	7,663.36	2,739.66	528.09

Implementation of HIPC Initiative: Not Applicable

Safeguards Assessment: An update safeguards assessment of the Bank of Greece (BoG) has been conducted in connection with the current Extended Fund Facility, and was finalized in

August 2012. The update assessment found that BoG has strengthened its safeguards framework since the 2010 assessment. Financial reporting and external audit practices adhere to international standards and recent amendments to the BoG's Statute are expected to enhance governance and the central bank's autonomy from private shareholders. Emergency lending operations are subject to established legal and control frameworks, but the assessment recommends a compliance review by the BoG's internal audit department.

Last Article IV mission: Discussions for the 2013 Article IV Consultation were held in Athens during April 3–15, 2013. The Staff Report for the 2013 Article IV will be considered by the Executive Board at the same time with the Staff Report for the third review under the Extended Arrangement on May 31, 2013. Article IV Consultations with Greece are currently held on a 24–month consultation cycle.

Third Review under the Extended Arrangement: Discussions for third review under the Extended Arrangement were held during February 26–March 14, and April 3–15, 2013. The mission met with the Prime Minister, Minister of Finance, Governor of the Bank of Greece, and other Cabinet Ministers; and staff in these and other ministries. The mission also met private banks, think tanks, and employer associations. The staff team comprised P. Thomsen (head), M. Flanagan, W. McGrew, G. Gottlieb, N. Hobdari, W. Maliszewski, and M. Shamloo (EUR); I. Petrova (FAD); S. Lanau and B. Rayner (SPR); O. Frecaut, M. Oliva, and D. Monaghan (MCM); and G. Esposito (LEG). B. Traa, S. Eble, M. Athanasopoulou, G. Gatopoulos, and M. Kalimeri (IMF resident representative office) assisted the mission. J. Manning and C. Piatakovas (EUR) assisted from headquarters.

Technical Assistance:

Department	Purpose	Date
MCM	Banking supervision	March 2010
FAD	Public financial management: initial analysis and priority reforms	April 2010
FAD	Revenue administration: initial analysis and reform priorities	April 2010
STA	Data quality and misreporting (K-1 Report)	April 2010
FAD	General tax policy	May 2010
MCM/FAD/LEG	Financial instruments	May 2010
FAD	Expenditure Policy	June 2010
FAD	Public financial management: follow-up on priority reforms	June 2010
LEG	Implementation of financial sector components of the SBA program	June 2010
MCM	Implementation of financial sector components of the SBA program	June 2010
FAD	Tax administration: design of the anti-evasion plan	July 2010
MCM	Implementation of financial sector components of the SBA program	September 2010
FAD	Tax administration: implementation of the anti-evasion plan	September 2010

Department	Purpose	Date
FAD	Public financial management: implementation status of priority reforms	September 2010
STA	Monitoring of fiscal data for the program	September 2010
FAD	Tax administration: anti–evasion and structural reforms	October 2010
FAD	Health system analysis and proposals	October 2010
STA	Government finance statistics	December 2010
FAD	Tax administration: anti–evasion and structural reforms	February 2011
FAD	Role of accounting officers	February 2011
STA/FAD	Government finance statistics/fiscal reporting	March 2011
FAD	Tax administration: strategic planning	March 2011
FAD	Public financial management: follow-up on implementation of priority reforms	April 2011
FAD/LEG	Tax administration: anti–evasion and structural reforms	April 2011
LEG	Legal framework for privatization	April 2011
MCM/LEG	Review of the Legal and Operational Framework for Bank Resolution	June 2011
FAD	Tax administration: strategic planning and taxpayer audit	June 2011
FAD	Tax administration: tax collection and tax administration reform	July 2011
LEG	AML and anti-tax evasion: strengthening BoG's supervisory process	September 2011
LEG	AML and anti-tax evasion: review of cross-border financial flows	September 2011
FAD	Safeguarding revenue and encouraging growth	September 2011
FAD	Modernizing the General Accounting office	September 2011
FAD	Preparing the 2012 budgets	September 2011
STA	TA Mission (Fiscal Reporting)	December 2011
FAD	Expenditure Policy: OECD Review of Social Programs	January 2012
FAD	Tax administration	January 2012
LEG	Reform of central bank governance for banking supervision and resolution	January 2012
LEG	AML and anti-tax evasion: strengthening BoG's supervisory process	January 2012
FAD	PFM: Accounting Officers and 2013 Budget Preparation	February 2012
FAD	Tax Administration: Collection and analyzing taxpayer compliance data	February 2012
STA	TA Mission (Fiscal Reporting)	February 2012
FAD	Expenditure Policy: Spending Review Mission	March 2012
FAD	Tax administration: Follow up	March 2012
FAD	Revenue Administration: Social contribution complaisance	March 2012
LEG	AML and anti-tax evasion: strengthening BoG's supervisory	April 2012

Department	Purpose	Date
	process	
STA	TA Mission (Fiscal Reporting)	April 2012
STA	TA Mission (Fiscal Reporting)	June 2012
FAD	PFM: Discussions on PFM TA with the new Government of Greece	July 2012
FAD	Tax Administration	July 2012
FAD	Revenue Administration: Social contribution compliance	July 2012
FAD/LEG	Tax Policy: Technical consultations on tax policy reforms	September 2012
FAD	Revenue Administration: Social contribution compliance	September 2012
FAD	Tax Administration: IT Audit Techniques	September 2012
FAD	Tax Administration: Tax Audit Case Selection	September 2012
LEG	AML and anti-tax evasion: Strengthening BoG's supervisory process	September 2012
FAD	PFM: Reform implementation review	October 2012
FAD	Tax Administration: Follow up	October 2012
FAD/LEG	Tax Policy: Technical consultations on tax policy reforms	October 2012
FAD	Tax administration: Organizational Reform	October 2012
FAD	Tax Administration: IT Audit Techniques	October 2012
FAD	Tax administration: Organizational Reform	November 2012
LEG	AML and anti-tax evasion: Strengthening BoG's supervisory process	November 2012
STA	Balance of Payments Statistics	November 2012
STA	General Accounting Office: Fiscal Reporting	January 2013
FAD	Revenue Administration: Social contribution compliance	January 2013
FAD	Tax Policy: New income tax law and tax procedures code	January 2013
LEG	AML and anti-tax evasion: strengthening BoG's supervisory process	February 2013
FAD	Expenditure Policy: Social budgeting monitoring framework	March 2013
FAD	Tax policy: New income tax law and tax procedures code	April 2013

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

Appendix III. Letter of Intent

Athens, May 20, 2013

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington DC

Dear Ms. Lagarde:

In the attached update to the Memoranda of Economic and Financial Policies (MEFP) from March 9 and December 21, 2012, we describe progress and policy steps towards meeting the objectives of the economic program of the Greek government, which is being supported by an arrangement under the Extended Fund Facility (EFF).

Economic sentiment in Greece has improved since the review in January, although significant challenges remain. The government believes that steadfast program implementation would further strengthen market confidence, and help secure an early return to growth and employment.

The program is back on track, as evidenced by the fact that we met all end-March 2013 quantitative performance criteria, although one indicative target (on domestic arrears) was missed (Table 1a). However, some structural benchmarks were not observed (Table 2). We have stepped up program implementation, adopting key reforms, including as prior actions for this review (Table 3):

- Regarding fiscal policy, we over-performed on the cash fiscal deficit target for 2012 and the first quarter of 2013. Indeed, for 2012 in ESA-1995 terms, we over-performed the program fiscal deficit target by 0.2 percent of GDP despite the deep recession. As prior action for this review, we have taken a number of steps to ensure that we continue to meet our fiscal targets for 2013 and 2014. While we experienced delays in putting our domestic arrears clearance program in place, and missed the end-March 2013 indicative target, we have taken several measures to support accelerating their clearance, and remain committed to achieve the program schedule of eliminating the stock of arrears by end-2013.

- Concerning our fiscal-institutional reform efforts, while we did not achieve several end-2012 key performance indicators (structural benchmarks), we have stepped up reforms to bring revenue administration and public financial management reforms back on track. As a prior action for this review, we have passed legislation to move towards a semi-autonomous revenue administration, adopted key tax administration procedural reforms,

reformed installment schemes for taxes and social security contributions to bring them in line with international best practices; and met key performance indicators on public financial management and revenue administration for end-March and end-April respectively.

- We have further advanced in our efforts to restore a viable and well-capitalized banking system that will support the economic recovery and maintain the protection of depositors. In particular, the recapitalization of each of the four core banks has been approved by its shareholders and is in the process of being implemented (and we are committed to implement a comprehensive banking sector strategy aimed at promptly returning core banks to the private sector), the resolution of undercapitalized noncore banks is proceeding apace, we are strengthening the banks' governance framework (including appointment of monitoring trustees in all four core banks and additional independent board members in the HFSF), and we will soon finalize a new framework to restructure debts of financially distressed households, while remaining within our recapitalization envelope.

- Regarding structural reforms to improve Greek competitiveness, we have made further progress with liberalizing the economy and advancing privatization. Our reforms in recent months in this area have focused on further liberalizing the regulated professions, and preparing assets for sale in the context of the privatization program.

- While the reforms outlined above will support growth and employment, there is a need to assist the most vulnerable groups in the society to cushion the crisis impact. To that end, we are stepping up efforts to leverage EU structural funds to facilitate employment creation, especially among the young. In addition, we plan to expand the support programs for unemployed, within the existing overall budget envelope.

The program is fully financed through June 2014. Firm commitments are also in place thereafter from euro area members to provide adequate support during the program period and beyond, provided that we fully comply with the requirements and objectives of the program. In this regard, we are on track to receive the first phase of conditional debt relief from our European partners, as described in the Eurogroup statements on November 27 and December 13, 2012, and in the staff report for the first and second reviews of the EFF-supported program.

On this basis, we request completion of the third review under the EFF and the third purchase under this arrangement in the amount of SDR 1,506.8 million. We propose to establish quantitative performance criteria for end-September 2013 and end-December 2013, as well as quarterly indicative targets for mandatory exits and semi-annual targets for entrants into the mobility scheme (Table 1). As detailed below, we propose to add two structural benchmarks (on the revenue administration and financial sector), reset two structural benchmarks and to modify two others (Table 4). In view of the delay in completing the third review, we request a rephasing of the fourth and fifth reviews and their associated purchases as indicated in Table 5.

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

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

/s/

Antonis Samaras
Prime Minister

/s/

Yannis Stournaras
Minister of Finance

/s/

George Provopoulos
Governor of the Bank of Greece

Appendix IV. Memorandum of Economic and Financial Policies

Outlook and Strategy

1. Recent macroeconomic developments have been broadly in line with program projections. The economic situation remains difficult, with the economy continuing to contract and unemployment reaching an unacceptably high level. However, following the resumption of program disbursements in December, liquidity conditions and confidence indicators have improved. At the same time, the fiscal consolidation has continued, and the current account has improved, reflecting a better trade balance and lower interest payments following the debt restructuring in 2012. In addition, inflation continues to decline and is expected to become negative in 2013, placing it the lowest among euro area member countries. This should help restore competitiveness and cushion the impact on household income of recession and ongoing wage adjustment. Against this setting, and based on firm program implementation, we continue to expect growth to turn positive in 2014. We will monitor possible fallouts from developments in Cyprus, but at this juncture no significant modifications are needed to the program's macroeconomic framework.

2. Full and timely implementation of our economic program remains the key to recovery. The main priorities for this review, within the overall program objectives, include:

- **Improving tax administration.** Reforms in this area are an overarching objective of this review. They will help improve revenue collection, which is critical to distribute more fairly the burden of fiscal adjustment, and avoid the need for socially-difficult measures.

- **Supporting economic growth and employment.** Our efforts in this area focus on: advancing the clearance of spending and tax refund arrears to improve liquidity, adopting new frameworks for restructuring viable debtors, finalizing bank recapitalization and restructuring, and key structural reforms to improve competition, foster investment and strengthen competitiveness.

- **Strengthening the social safety net.** While our economic reforms are stabilizing the economy and laying the basis for recovery, unemployment will remain too high for some time. Thus, to enhance and better target the social safety net, in particular to facilitate employment creation, several measures have been developed using EU structural funds.

Fiscal Institutional Reforms

Revenue administration

3. To give reforms greater chance of traction, the government is committed to strengthening the independence of the revenue administration. This is critical to insulate it from political pressure, and to accelerate the necessary changes in organizational structure, quality of personnel, and operating procedures. To that end, we will take a 2-step approach to modernize the organization of the revenue administration and grant it more autonomy:

- As a **prior action** for the review we will adopt legislation to: (i) transfer to the revenue administration the Ministry of Finance internal affairs department, and all tax and customs administration related functions within the General Secretariat for Information Systems and within the Corps for the Prosecution of Financial Crimes; (ii) create a five member advisory board comprised of high level experts to be appointed by the Minister of Finance (two of which will be persons with significant international experience working in tax administration); (iii) provide that any advice of MAREG to the revenue administration on organizational matters has to be given within a 14 day time frame; (iv) enable the Secretary General for Public Revenue Administration (SGPR) to determine the conditions for hiring under the control of ASEP; (v) create a budget code that encompasses all organizational units of the revenue administration (to enable a separate and unified budget allocation for approval by parliament starting with the 2014 budget); (vi) establish a small financial management unit in the revenue administration to coordinate the preparation and implementation of the revenue administration's budget (while maintaining the role of the GDFS as overall budget coordinator and financial controller for the Ministry of Finance's aggregate budget appropriation); and (vii) authorize the SGPR to determine a grading and promotion system for the revenue administration, subject to the approval of the Minister of Finance. Finally, we will also reconvene the institutional reform working group (IRWG), which will be chaired by the SGPR, and whose reports will be shared with the Minister of Finance and the EC/ECB/IMF. The TMU (¶28) specifies the prior action in more detail.

- To implement the reforms legislated through the prior action, we will:

  - By end-July (i) establish the mandate and composition for the advisory board and hold its first meeting; (ii) transfer all personnel functions and budget allocations of the IAD and the revenue-related departments of GSIS to the revenue administration, and draft and implement the service-level agreement between the SGPR and the GSIS; (iii) review the delegation of competencies to the SGPR and GDFS in the Ministry of Finance, and if necessary assign the authority to the SGPR to reallocate expenditures across budget lines in accordance with the general rules set out in Organic Budget Law 2362/1995; and (iv) complete the screening and adopt legislation to address the constraints to the autonomy of the revenue administration.

  - By end-October 2013, and as a **structural benchmark**, the SGPR will approve the new organizational structure, staffing numbers, grading system, and classification, and qualification and appointment processes of the revenue administration. Separately, by end-October 2013, we will transfer the revenue-related functions, personnel, and budget allocation of SDOE under the revenue administration.

  - By end-2013, approve the 2014 revenue administration budget—with full flexibility for the SGPR to reallocate funds among non-wage recurrent spending.

  - By end-March 2014, transition staff to the new organizational structure of the revenue administration.

4. We are also continuing our efforts to strengthen the legal framework governing tax administration operating procedures:

- As a **prior action** for the review we will pass legislation to: (i) simplify the procedure to classify debt as uncollectable, and suspend collection activities on uncollectable debt (subject to a joint decision with the Court of Audit for amounts more than €1.5 million); (ii) remove the legal requirement to audit all tax declarations for the previous 10 years, and allow audit cases to be selected on the basis of modern risk analysis; and (iii) implement indirect audit methods and allow their application to any open tax audit (to bring wealth and expenditures into the determination of taxable income); (iv) replace the quasi-judicial review committee with a full internal review process within the revenue administration (the Internal Review Unit will be operational by end-August 2013); and (v) reduce the payment requirement to file a VAT return to a minimum.

- We will revise the AML legislation by end-June 2013 to (i) ensure that the General Secretariat of public revenues (GSPR) is represented at the Board of the Financial Intelligence Unit (FIU); (ii) enable the GSPR to obtain from the FIU information relevant to individual tax audits and debt collection cases; (iii) require that information on relevant cases of failure to pay confirmed debt over €50,000 be transmitted to the FIU (for purposes of implementing the AML law); and (iv) require the FIU to promptly inform the GSPR when assets are frozen in relation to the laundering of proceeds of tax crimes.

5. The revenue administration is taking several further steps to make its operations more efficient:

- Regarding **audit activities**, we have expanded third party data collection to financial institutions to facilitate audit in past years. Alongside these efforts, we have consolidated the audit of capital remittance cases in the HWI unit, and have started targeted selection of cases. Finally, by end-June, all line ministries having a financial relationship with taxpayers or beneficiaries will utilize their tax identification number in financial transactions with them. The use of tax identification numbers will be made compulsory for all official transactions with the whole public administration by end-2013.

- Concerning the **collection of debts**, we have assigned additional staff, and have expanded the case base of the large debtor unit (LDU) to debts exceeding €1.5 million. Further, we will complete the consolidation of debt collection functions into the largest DOYs by end-September 2013. We will closely monitor the collection performance of the LDU, and once it performs effectively we will establish a second LDU. To increase the efficiency of enforced debt collection, we will complete the development of an IT system allowing immediate access to information about existence of bank accounts held by taxpayers, and about the current balance on the account, which we will implement on a pilot basis by end-July 2013, with full implementation by end-September 2013.

- ***Personnel management.*** One of our key priorities is to increase the number of qualified staff in the front lines to help improve revenue collection. To that end, we will finalize by end-July 2013 the external recruitment of 200 auditors, to boost audit and debt collection capacity. In addition, we will commence the delivery of basic audit training and will complete the certification of 2,000 auditors, and we have appointed the head of the HWI unit and will assign additional supervisors to the LTU and HWI units by mid-June to ensure new staff are effectively managed. We are amending the law for performance assessment, and the SGPR has specified and implemented new criteria for assessment of auditors. We have published a strategic anti-corruption plan and a code of ethics for the revenue administration that, among other things, addresses conflict of interest and protects whistleblowers.

6. We are taking steps, based on international practice, to facilitate tax refunds and collection in the exceptional economic circumstances that Greece currently faces:

- ***Elimination of the tax refund backlog.*** The backlog of gross tax refund claims (including those made by general government entities) has reached €2.7 billion at end-February, well above the normal amount of float. To help reduce the backlog: (i) we have repaid €721 million since end-November 2012; and (ii) we will develop systems to process refund requests more quickly (beyond the new targeted audit case selection for validating VAT refund claims developed in March, we will develop systems for income taxes by July; and electronic submissions of VAT tax refund claims by August).

- ***Revised installment schemes.*** We remain committed to enforce collection of tax and social security contributions (SSC), and will not introduce any new amnesty schemes, nor extend any existing ones. We have made several changes, to strengthen our installment schemes:

    - **Basic installment plan**. The key features of this permanent scheme will include: (i) tightened eligibility (proof of viability and tax compliance will be required); (ii) payment of market interest rates plus a premium on outstanding balances; (iii) enforced collection upon default on a payment; and (iv) a maximum of 12 monthly installments (except for a specific list of taxes of a non-current or extraordinary nature for which installments of up to 24 months would be allowed).

    - **Fresh start plan.** On a one-time basis, in parallel to the normalization of the economic situation, we have made our framework for granting tax debt and SSC payment arrangements more flexible. Two key changes will be made. First, taxpayers will be allowed to pay pre-existing tax and SSC debts (not already subject to an installment arrangement), and to consolidate debt from other schemes. Payments will be in equal monthly installments not extending beyond June 2017. There will be a reduction in the surcharge by at most 50 percent upon full payment of the debt. This will accommodate viable taxpayers whose capacity to pay is temporarily affected by the current business cycle. Second, reduced documentation requirements will apply for tax and SSC debts below €75,000. Under this scheme, compliance with current tax and SSC obligations is mandatory, full collateral will be

required for large rescheduled amounts (over €300,000), and enforced collection upon default will apply.

- To implement these arrangements, as a **prior action** for this review we will adopt legislation that regulates the conditions of these installment schemes. The legislation will set the date of opening application into the new scheme no later than July 1, 2013. Entry into existing tax and SSC debt instalment schemes that do not extend past June 30, 2017 and do not offer more generous terms and conditions than the fresh start scheme (concerning the effective interest rate and the surcharge reduction), will be allowed up until June 30, 2013. The law will specify which schemes remain open until June 30, 2013. Entry into all other schemes will be discontinued upon submission of this legislation to parliament. Entry into these two installment schemes will be disallowed for debtors who are in default on another scheme after the submission of the law to parliament. We will include the provisions for the basic installment plan regarding taxes in the tax procedural code by end-June 2013. There will be no further changes in the terms and conditions of installment schemes, and no new special schemes will be introduced. To ascertain compliance with the agreed principles, by end-December 2013 we will conduct an audit of the implementation of installment schemes by the revenue administration.

7. **We will continue to strengthen collection capacity in social security funds.** We have established a special working group to examine the arrears stock across the four largest SSFs, to assess collectability, and identify collectible arrears for transferring them to the new single collection entity by end-June 2013. Subsequently, the working group will develop a framework for coordination and integration of tax and SSC arrears collection. To help reduce noncompliance we will introduce a revised surcharge regime for late payment of SSC by June 2013 that combines a penalty and an above market interest rate. We will repeal the application of the Code for Collection of Public Revenue for collection of SSC, and enact a new legal framework for public revenue collections in line with international best practice by end-February 2014.

8. **We will continue to monitor and measure the results of our reform efforts and strengthen accountability to the public:**

- We will establish a process within the SGPR to monitor and report on administrative and operational requirements set out in the MEFP.
- We have set monthly targets for the key performance indicators (KPIs) on debt collection and audit of large taxpayers and high-wealth individuals, to help ensure that our reforms translate into concrete results. Meeting these KPI targets for end-April will be a **prior action** for the review (Annex I). Regarding our full set of KPIs, we propose going forward to eliminate the target on the number of tax cases submitted to the state prosecutor, revise the amount of old debt for end-June, and revise the number of completed risk-based full-scope audits for large taxpayers and audits for HWI for end-June and end-December (Annex II).

- We have launched a website easily accessible to the public where we will publish statistics on KPIs, including on tax evasion cases sent to the FIU. This will help ensure public accountability.

Public Financial Management

9. We will continue to advance our public financial management reform agenda, in support of stronger controls and improved transparency:

- ***Budgeting.*** By August 2013, we will modify the organic budget law to strengthen medium-term budgeting (the MTFS), including by: (i) establishing three-year expenditure ceilings for line ministries and the health care sector (on a rolling basis and binding for the first two years); (ii) establishing binding annual budget balance targets for local governments; (iii) identifying performance targets for state enterprises; (iv) requiring that in future budgets 10 percent of discretionary state budget appropriations be frozen ex-ante (and released in the second half of the year provided general government fiscal targets are met), and (v) strengthening the functioning of commitment registers, including their treatment of carryover of end-year outstanding commitments. By end-June, we will issue a Joint Ministerial Decision indicating a common methodology for local government budget preparation and budget adoption by year-end and establishing a clear review process of local government budgets by the Observatory of Local Authorities, in order to ensure consistency with the MTFS targets.

- ***Spending controls.*** We continue to take steps that will limit the possibility of accumulation of arrears, including by: (i) expanding the number of entities with functioning commitment registers (focusing on all 41 social security funds) and expanding the registers to public investment budgets; (ii) finalizing by end-June 2013 with a joint ministerial decree the organizational structures of the General Directorates of Financial Services (GDFS) (as the next step, we will fully staff the GDFSs in all line ministries); and (iii) filling accounting officer positions that have recently become vacant. Furthermore, to strengthen commitment controls and maintenance of and reporting from commitment registers, by October we will issue a new circular to clarify issues and provide guidance on functioning of the system, including carry-over of end-year outstanding commitments to the following year.

- ***Fiscal reporting.*** We aim to strengthen fiscal reporting for the social budget and arrears. We are developing a social budget monitoring framework, which covers EOPYY, SSFs, hospitals, and the Manpower Agency. We will roll out the detailed fiscal reporting system to the SSFs by end-September and EOPYY by end-2013 to ensure GFSM- and ESA95-consistent fiscal reporting. In the area of arrears, from May, we will publish in the monthly general government budget execution bulletin the amount of disbursed tax refunds and payments on expenditure arrears as cash payments within the fiscal balance. In the third quarter of 2013 we will begin reporting to the EC/ECB/IMF (on accrual basis) all existing tax refund claims according to the date in which they were incurred.

10. We are committed to timely clearance of the existing stock of arrears and to prevent their re-emergence (Table 1b). Despite the provision of significant financing to general government entities by the Ministry of Finance (€3.2 billion), we missed our end-March indicative target specifying a ceiling for domestic arrears. To bring the program back on track, we will take several targeted measures to accelerate clearance processes in lagging entities. First, we will directly disburse funds to hospitals once their arrears claims are cleared for payment. Second, we will accelerate efforts to help spending agencies meet the conditions for arrears clearance (as noted above, we are committed to ensure that SSF commitment registers are functioning, and to encourage better uptake, we will activate legislation to sanction SSFs (and other general government entities) that do not utilize commitment registers and do not report on the e-portal). Third, we have established a working group that will report in close consultation with the IMF and TFGR technical advisors on options to streamline the arrears payment processes, so as to accelerate arrears clearance and help us achieve conformity with the EU directive on combating late payments (Directive 2011/7/EU). On the basis of the findings of this group, by June 2013 we will identify actions that will immediately shorten some procedures, and by October 2013 we will draw medium-term recommendations, including accompanying legislation (where required) to implement it. Finally, to ensure that nothing is being omitted, the Ministry of Finance will conduct an audit of commitment registers and health related arrears records maintained by EOPYY and the SSFs by August, 2013, and will launch a tender for an independent external auditor by September 2013 to complete an audit of EOPYY's outstanding stock of accounts payable towards third parties by end-March 2014 (including those of predecessor SSF's before the creation of EOPYY on January 2012).

11. To monitor progress towards our public financial management reforms, we have extended our key performance indicators. As a **prior action** for the review, we have set KPIs for end-March for the percentage of government entities reporting on the e-portal (to ensure implementation of controls and reporting) and the discrepancy between arrears reported on the e-portal and through monthly surveys (to verify complete and accurate reporting); these end-March KPI targets have been met (Annex III). We will continue to monitor implementation of PFM reforms through structural benchmarks for end-June and end-December 2013 (Annex IV).

Fiscal Policy

12. We are taking steps to ensure full implementation of our fiscal strategy for 2013–14:

- We will adopt, as **prior action,** legislation to extend collection of the real estate tax through 2013 via PPC. The legislation will introduce four changes: (i) a reduction of 15 percent in the rate; (ii) imposition of the tax on buildings not legally exempted from municipal duties; (iii) calculation of tax on buildings outside urban planning zones on a different basis (based on average legal value for the relevant municipality); and (iv) implementation of the tax on all buildings which are leased to the state by non-exempted private owners. Separately, a new law on taxation of real estate will be adopted by end-June. The new real estate taxation regime, which will consolidate a number of now separate taxes, will be designed to deliver revenue consistent with real estate tax projections in the adopted medium-term fiscal strategy.

- We are committed to fully implement all other agreed fiscal measures for 2013–14 not yet in place (such as the solidarity contribution for the self employed in 2014), or to fully offset them if agreed during program reviews. In this context, we will remove all remaining ineligible pensioners from the pension rolls by end-June 2013.

- We will consider reduction in certain tax rates (e.g., VAT on food and catering), provided that over-performance generates sustainable fiscal space. The fiscal space for this measure will be assessed in the context of the next program review.

13. We remain committed to public administration reforms, in support of our medium term fiscal targets, and of a more effective civil service. We did not observe the end-February structural benchmark related to staffing plans and establishing targets for mandatory exits, but our work is progressing, and we have taken actions to bring it back on track:

- As a **prior action** for the review, we will: (i) adopt consistent staffing plans for government entities covering 206,000 employees; (ii) approve quarterly plans for 15,000 mandatory exits cumulative through end-2014, including 4,000 by end-2013 (with a significant fraction frontloaded); (iii) approve annual overall employment ceilings for the general government through 2016 (consistent with the already approved MTFS); (iv) vote the necessary legislative changes in order to streamline and accelerate the disciplinary procedure to show the commitment of the government; (v) implement a permanent monitoring mechanism for the disciplinary procedure and provide data regarding the pending cases and the pace of dealing with the stock of cases; and (vi) eliminate any existing legal provision forcing the state to put personnel of legal entities of private law, whose positions are abolished, in the mobility scheme.

- Evaluation, rational reallocation of personnel through mobility, and quality renewal through exits are the tools in our efforts to improve the effectiveness of the public sector. Exits will be the result of (i) disciplinary cases; (ii) due diligence evaluation of legal entities of public and private law leading to mergers and abolishment; (iii) evaluation of the personnel using the mobility scheme, including before any reallocation to a new position, to remove unmotivated or less qualified personnel; (iv) voluntary exits from the mobility scheme (excluding personnel within 3 years of retirement); and (v) the lapse of a 12-month period in the mobility scheme.

- To further advance our reform agenda during 2013, we will; (i) ensure that cumulatively 12,500 employees have been placed in the mobility scheme by end-June 2013; (ii) complete staffing plans for 450,000 employees (cumulative) by end-June; (iii) complete staffing plans for all general government entities by end-December 2013; and (iv) complete assessment of individual employees by end-2013. The quarterly targets for exits and entries into the mobility scheme are proposed to become **indicative targets** under the program (Table 1b).

- Our exit program will make room to hire new staff, and we will use this room to address areas where we face deficits of skilled staff. We will hire one new employee for each mandatory exit through the various channels noted above. If our assessment at any point shows that we are no longer on track to achieve our aggregate targets, we will reduce this hiring ratio. For all other

attrition, our hiring ratio will remain 1:5, as envisioned in the program. By end-June 2013, we will define detailed hiring plans for 2013, in consultation with the EC/ECB/IMF.

14. We will continue to strengthen the social safety net, to cushion the crisis impact on the most vulnerable segments of our society:

- **Employment programs.** We remain committed to expand public and social work programs and training programs to fight long-term and youth unemployment and support jobless households. We will both leverage EU funding and involve the private sector to the extent possible. Thus we introduced in April a youth internship and employment voucher program under the Youth Action Plan. The program, with €180 million co-funded by the European Social Fund, will support vocational training and internships for 45,000 individuals up to 29 years of age over a six-month period. In addition, we aim to increase the number of entrants into the apprenticeship and vocational training programs, such as the professional schools for apprenticeship of the Manpower Employment Organization (OAED).

- **Social protection.** We have passed legislation to launch two pilot programs, which will be implemented no later than 2014—an income-tested program that targets long-term unemployed and provides income payable for a year, and a minimum income guarantee scheme for families in areas with a difficult socioeconomic profile. We will implement the new child benefit law, and make the first payments no later than end-June 2013. We will launch in July 2013 a Health Voucher Program that will provide 100,000 long-term uninsured citizens with access to primary healthcare services, and, with funding from the European Social Fund, we plan to extend the program to more beneficiaries while expanding the coverage of healthcare services. We commit to fill any other gaps in social safety nets that become apparent, within the existing overall budget envelope, and to identify additional resources to frontload and expand the various programs.

15. We remain committed to strong safeguards to limit fiscal risks from quasi-fiscal activities:

- ***Tax investment incentives.*** We will streamline tax investment incentives, fold them into the income tax law through an amendment by September 2013, and incorporate their cost in the medium term fiscal framework. To this end, by end-July 2013, we will catalog and quantify all tax incentives currently existing in legislation and private contracts.

- ***Subsidies.*** We will establish sunset provisions for all earlier subsidy commitments if they have not been claimed within three years of approval, and put limits on the overall envelope of future subsidies.

- ***Renewable energy.*** While we have taken actions to reform our renewable energy policies (RES), costs are escalating faster than we had expected. To help eliminate the projected debt of €1.7 billion in the RES account by end-2014, as a **prior action**, we will adopt legislation to: (i) a reduce the feed in tariffs for photovoltaic renewables by at least 45 percent, (ii) increase the

solidarity contribution by an average of 7 percent for new projects; (iii) introduce new feed in tariffs for CHP systems (relevant MD to be issued by July 2013; (iv) introduce mandatory letters of guarantee (relevant MD to be issued by March 2014); (v) allow investors to receive back their letters of guarantee when they withdraw projects; and (vi) levy a fee on production licenses (relevant MD to be issued by April 2014). We will also increase on July 1, 2013 the RES Special Levy consistent with the provisions of the law requiring RES debt to be eliminated by end-2014. Separately, to improve liquidity in the electricity system, reduce arrears, and cut subsidies, we will fully liberalize low voltage end-user tariffs by July 1, as already agreed.

Financial Sector Policies

16. To finalize the framework for recapitalization, we have aligned our capital metrics to a minimum core tier I ratio of 9 percent of risk-weighted assets, which has become binding from end-March 2013. As part of the recapitalization exercise, the share of deferred tax assets (which can count as core capital on the basis of expected future profits) will be limited to 20 percent of CT1 as calculated using EBA methodology. Banks initiated in April 2013 a new round of liability management exercises conducted in respect of the remaining subordinated instruments, as we committed last November to the Eurogroup. Through these means we will seek to provide additional private capital, which will not count as part of the minimum 10 percent of private sector capital subscription required to maintain private control.

17. We are nearing completion of recapitalization of the core banks. This will ensure that the banking system is solidly anchored on four pillar banks that have been assessed as viable by the Bank of Greece**:**

- Each of the four core banks sent an invitation in April for its shareholders to join extraordinary general meetings, the purpose of which was to increase their capital separately in the amount notified by the Bank of Greece in December 2012 and within the other parameters of the existing recapitalization framework. All four meetings with quorum of shareholder attendance have taken place. Following the relevant approvals, the subscription period of 15 calendar days as prescribed by law will start.

- Two of the four core banks have informed the BoG that they expect to be able to raise 10 percent of the capital in the form of common shares from private sources, which will allow them to remain under private management per our recapitalization framework. A third one informed the authorities they would require the HFSF to fully subscribe the capital share increase. The private sector participation in the capital increase of the fourth core bank remains uncertain until the subscription period concludes. The management of all core banks has been informed by the BoG that they should henceforth focus on the finalization of the recapitalization process, and day-to-day management, until their recapitalization is finalized.

18. The next steps will be defined on the basis of a comprehensive financial sector strategy. As soon as feasible, and in any case no later than July 15, a comprehensive banking sector strategy (**structural benchmark**) will be developed by the HFSF, the BoG, and the MoF, in

cooperation with the EC/ECB/IMF. In the meantime, all four pillar banks will be able to continue to act as integrators of smaller domestic banks as appropriate. Only upon finalization of this banking sector strategy could any consolidation in the form of merger among the four pillar banks be considered. The strategy will include options and operational steps for the HFSF to promptly proceed with the disposal of the shares to the private sector of the core banks that will not have been able to remain under private control.

19. The resolution of undercapitalized noncore financial institutions is proceeding as envisaged under the program:

- **HFSF-controlled bridge banks**. In January 2013, we established a second bridge bank, the New Hellenic Postbank, with the HFSF being its sole shareholder. The HFSF is currently taking actions to make major reductions in the operational costs of the bank including through a significant reduction in the number of employees, and to restructure its loan portfolio, with the objective of making the bank attractive to potential purchasers and concluding its sale by July 15, 2013 (rephased **structural benchmark** from end-January 2013). Concerning the sale of Nea Proton bank, with the core banks currently focused on completing their recapitalization, we are shifting the sale deadline from May to July 15, 2013 to increase chances that it is acquired through an open bid process.

- **Other undercapitalized noncore banks.** Our timeline for resolution of undercapitalized non-core banks remains unchanged. Specifically, for those noncore banks that have not met their capital requirement, the Bank of Greece will take appropriate measures in coordination with the HFSF. They will assess options to minimize the cost to taxpayers, including purchase and assumption transactions by any of the four core banks, while guaranteeing the security of depositors.

- **Cooperative banks**. To support our strategy in this sector, by end-September 2013 we will revise our legal and regulatory frameworks for cooperative banks to align it with the best international practices.

20. We will take no fiscal policy actions that would undermine the solvency of banks. Law 3723/2008 has been amended to ensure that banks will not be required to pay any dividends on preference shares, or fees in lieu of this, unless the banks are profitable.

21. The BoG will continue with enhanced supervision of banks. This will also apply to resolved banks and those that have been placed under public control, including any core banks that fail to show their ability to receive sufficient private investment to remain under private control. In addition, we will ensure that banks will not take any discretionary corporate action that would increase their capital needs.

22. We are preparing for the stress testing envisaged to be completed by end-2013 under the program. To that end, we will finalize by end-July a new stress testing methodology,

determined in consultation with the EC/ECB/IMF, with specific focus on the adequacy of loan loss provisioning.

23. We are committed to preserve sufficient banking system liquidity in line with Eurosystem rules:

- The BoG, following the procedures and rules of the Eurosystem, stands ready to continue disbursing adequate and appropriate emergency liquidity support in a timely manner if needed.

- The BoG will request banks to provide standardized quarterly balance sheet forecasts (funding plans). The banks' funding plans will be based on the program macroeconomic forecasts. Banks shall set out a path towards achieving a sustainable funding model by means of broadening their funding base and reducing over time their reliance on extraordinary central bank liquidity support. Funding plans will serve as a tool for the BoG to monitor this process and assess whether the banking system's plans at the aggregate level are consistent with the program's macroeconomic framework.

24. We will improve the management of assets in liquidation. To facilitate effective management of bad assets, we will by May 2013 revise the regulatory framework and remove the operational restrictions identified in the end-February 2013 assessment report of Bain&Company, published by the BoG. To ensure an effective implementation of this strategy, we will adopt by June 2013 amendments to the existing special liquidation laws, following consultation with the EC/ECB/IMF staff. We will widen the range of options that could facilitate a timely, cost effective disposal and/or restructuring of these assets. To assess progress in this area, the BoG will adopt a reporting framework with quarterly updates on progress made starting in June 2013.

25. We will enhance the legal regime for household insolvency to provide for more effective resolution of bad debts while protecting the payment culture and avoiding unnecessary losses. We will, in consultation with EC/ECB/IMF staff, establish a framework to assist distressed borrowers by end-June 2013. It will take effect as soon as the necessary regulations to implement it can be put in place (at the latest by end-August 2013). We will also, in consultation with EC/ECB/IMF staff and as soon as possible, introduce measures aimed at deterring applications for court cases under Law 3869/2010, and borrowers who are subject to the provisions of laws 3869/2010 and 4128/2013 will be subject to the new framework for distressed borrowers, once it has been implemented. Specifically, to enhance the legal framework we will:

- By end-June 2013, pass legislation to introduce a new "Facilitation Program" targeted at low-income individuals in deep financial distress to facilitate the resolution of unsustainable household debt. Key features of this new scheme will include: (i) eligibility criteria that take into account the debtor's income and assets (supported by verification procedures); (ii) oversight of the facilitation program by the BoG; (iii) borrower repayment defined using criteria based on affordability; (iv) periodic review of the financial conditions of participating debtors to assess their continued eligibility and proper level of payments; (v) a clear timetable to close the window

of the program. The BoG will assess the implementation of this program within six months of its adoption.

- By end-June 2013, revise law 3869/2010 to address the implementation shortfalls identified during its first three years of enactment. In particular, we will introduce a definition of acceptable living expenses for use as guidance by the judiciary, mediators, and the banks and a standard definition of cooperating borrowers, which will be used to provide protection only to those borrowers who are fully cooperating in the resolution process.

- By end-June 2013, adopt enabling legislation to establish a framework, consistent with the recapitalization framework for banks that will provide long-term solutions for over-indebted borrowers (including for those viable borrowers who are not eligible to participate in the facilitation program). It will include initiatives (to be specified further in regulations by end-August) to: (i) address shortfalls in existing laws that limit the effectiveness of debt resolution activities; (ii) standardize the assessment procedure for borrower cases; (iii) introduce a standard list of loan restructuring tools to be used by banks; (iv) enhance access to free budgeting and legal advice services for citizens; and (v) encourage borrowers and lenders to participate in debt resolutions through non-judicial means. We shall also introduce steps to reduce excessive court waiting times, and to ensure that eligible debtors will choose to participate in the facilitation program.

26. We will step up our measures to minimize the significant risks associated with the rapid deterioration of bank loan portfolios. The BoG will, in cooperation with the HFSF (and in accordance with their memorandum of understanding), and in consultation with the EC/ECB/IMF: (i) assess by end-September 2013, with the assistance of an independent third party, the effectiveness of established frameworks and policies to deal with troubled assets; and (ii) establish key performance indicators (KPIs) covering the troubled assets portfolio status, the operational response by banks, and follow-up resolution actions (KPI definitions will be set no later than August 2013 and bank reporting will start by October 2013 on a quarterly-basis) and (iii) closely monitor banks' NPL resolution strategy, policy and operational targets, and intervene where necessary, in order to ensure that distressed borrowers receive prompt and sustainable long-term solutions.

27. Strengthening our financial institutions governance framework will ensure their continued viability and protect taxpayers:

- **HFSF governance structure.** The authorities support the HFSF in its efforts for an ambitious and swift operational restructuring of all banks in which it has a significant stake, with the aim to reduce operational costs and increase profitability, thereby fulfilling its mandate to minimize costs for the taxpayer. HFSF governance reforms have been adopted by parliament to add 2 independent members to the HFSF General Council, increasing the number of its members from 5 to 7 (**prior action**). In addition, the HFSF internal regulations will be amended to rationalize the division of tasks and responsibilities between the General Council and the Executive Board. Furthermore, in order to strengthen HFSF independence, the legislation will be amended to clarify the non-public nature of the Fund.

- **Relationship frameworks between the HFSF and banks.** We will publish the relationship frameworks between the HFSF and banks that have received capital infusion from the HFSF, as soon as the amount of the injection will be known, upon completion of the subscription period, and in any case no later than May 31st. The frameworks define the role of HFSF as a shareholder on the basis of best international practices. They ensure that the HFSF has limited influence in the bank's commercial decisions, and clearly define the responsibilities of managers and the HFSF's veto rights. For banks that do not remain under private management, the relationship frameworks aim at ensuring that each bank remains a separate economic unit with independent powers of decision.

- **Clarifying competencies and responsibilities.** We will develop and publish no later than end-May 2013 a memorandum of understanding governing the relationship of the HFSF as a shareholder and the BoG's role regarding the oversight of banks that have received state aid.

- **Due diligence.** The BoG will adopt measures to address the governance weaknesses identified in the due diligence of core banks. Banks will submit to the BoG in end-May 2013 plans to address identified operational governance weaknesses—including safeguards on loans to related parties and risk concentration. These plans will include clear timetables for full implementation by end-December 2013. In the event plans are inadequate, the BoG will take measures that may include the removal of board members and managers, and/or suspension of private shareholders (which would prevent them from participating in bank recapitalization).

Structural Reforms

28. We will continue to adjust our labor market policies to increase flexibility, reduce administrative burdens, and reduce unemployment. We will adopt before end-May a framework for future statutory minimum wage setting, in line with program commitments. Looking forward, to reduce the administrative burden on businesses we will significantly streamline labor reporting requirements by end-September, following a comprehensive review to be completed by end-July. In the context of this work we will adjust sanctions for violations of labor law by end-July, by better linking punishments to the severity of violations, and will focus detection on more severe cases. Finally, in light of the many recent labor reforms introduced during the program, we will compile a Labor Code by end-2013, which will eliminate possible inconsistencies and increase transparency.

29. Building on earlier product and service market liberalization reforms, we will take further steps to reduce frictions and improve productivity:

- ***Regulated professions*.** We made substantial additional progress towards meeting the end-2012 structural benchmark on regulated professions. We have eliminated in this context restrictions including minimum fees, specific entry restrictions, and the mandatory use of services, for several important professions and economic activities (including for bake-off installations, welfare units, outdoor trading, and tourist guides). In addition, we will adopt by end-June 2013 a new Code of Lawyers, which will include a removal of the reference to "exclusivity" for the research of mortgage books and land registry, and liberalize trading

petroleum; as well as by mid-July issue secondary legislation to liberalize chartered valuers and actuaries. During the second half of 2013 we will also take steps to liberalize the engineering professions. The government will not introduce additional restrictions in regulated professions, and will guard against any decisions by the public administration that effectively restores them. We remain committed to complete by July 2013 a study of the 20 largest professions examining the degree to which they have been liberalized, including results with respect to new entrants and price changes.

- ***Transportation services.*** This is a key service sector for Greece in light of the country's large shipping fleet, and large tourism industry. To assist the shipping sector, we will clarify by end-June in a circular that individual labor contracts can be negotiated freely, once the collective agreement has expired. To help strengthen the competitiveness of our tourism sectors, for domestic ferry services we have increased the flexibility of routing, reduced manning obligations, and by end-June will reduce and limit to fewer categories mandatory ticket discounts. By end-October, we will assess the impact of these reforms, and adopt further steps to increase the competitiveness of the sector. In addition, as part of our national airport strategy, we have placed a cap on the airport fees for the regional airports that are slated for privatization, to keep their fees in line with regional competitors. We will continue to work on improving the effectiveness of Athens airport.

- ***Retail trade.*** By end-June we will: (i) adopt a new law that will further liberalize the retail market, including by removing restrictions against discounts outside sale periods, and increasing flexibility in retailers' opening days; and (ii) for over-the-counter (OTC) products, replace the current system of fixed margins with maximum ones. In addition, by end-September 2013, we will allow the sales of selected products (e.g., vitamins) in other points than pharmacies.

- ***Reducing red tape.*** To address border-related red-tape, on a pilot basis we have increased working shifts in the Athens airport to 24/7 and expanded service in Piraeus port to two shifts for exports, and will do the same for imports in July 2013. We have simplified export and custom procedures, utilizing risk based audits in line with EU best practices, and will extend the risk based audits to imports in November. Also, the e-customs system already supports the electronic submission of all export declarations, for which we will now introduce e-signature, and we will also implement the same system for imports by November 2013. We will also continue our effort to reduce regulatory barriers to competition, and based on an OECD assessment, will prepare in parallel draft legislative amendments by end-September 2013 covering construction materials, retail and food processing industries, as well as the tourism sector. In addition, based on the results of the application of the Standard Cost Model (SCM) by the OECD in 13 key sectors, we will propose by end-October 2013 the needed legislative amendments to reduce administrative burdens.

30. Reforms to strengthen market-supporting institutions will focus on the following:

- ***Judicial reforms.*** We have made progress in this area including by reducing the administrative case backlog at the Council of State (including tax cases), publishing quarterly information on

court performance, and rationalizing the system of magistrate courts to improve efficiency. We are also preparing draft amendments to the Code of Civil Procedure aimed at streamlining the judicial process, which we will present to EC/IMF/ECB by end-May 2013. We will reallocate by end-September 2013 judges to the administrative courts with the highest backlog, as well as adopt an action plan to reduce civil and commercial cases backlogs, including draft legislation providing for compulsory mediation for small claims. By end-July 2013, we will present to EC/IMF/ECB a first assessment of the operation of the magistrates' courts.

- ***Anti-corruption.*** We are determined to aggressively tackle corruption, which undermines public trust, the business environment, and the efficiency of government operations. In line with program commitments, we have published an anti-corruption action plan. In this context, as a first step, the Government will by end-June 2013 (i) submit draft legislation to bring the anti-corruption legal framework in line with relevant international standards; and (ii) initiate under the National Anti-Corruption coordinator the implementation of the relevant actions contained in the above action plan.

31. We have taken steps to ensure that the privatization program remains on track:

- The government has made progress in preparing assets for sale, including by finalizing the regulatory frameworks for airports and water, and transferring a further 250 real estate plots to the Fund. As next steps, the government will aim to complete the state aid clearance for the ports, and DEFSA. Further, we have adopted a plan for the full ownership unbundling of ADMIE and PPC, the creation and privatization of a new electricity company based on some PPC assets, and the privatization of PPC itself with a view to starting the process within 2013 and completing it by January 1, 2016. In addition, the HRADF will tender the 40 real estate assets that were transferred to the Fund in early 2013.

- To compensate for delays in finalizing some envisaged transactions, the HRADF will: (i) accelerate other sales (which could include buildings and certain land plots, as well as moving forward some of the tenders, e.g. small ports and marinas); and (ii) take steps to expedite approvals by working with the Court of Auditors, Council of State, and Competition Committee to reduce required time.

- We will examine the scope for raising private sector funds by targeting international investors through the securitization of real estate assets. The assets examined for such operations will fall outside the universe of those foreseen for privatization through 2020. Moreover, it will be ensured that such securitizations do not in any way slow down the privatization process foreseen in the current program.

- To increase transparency in the privatization process, we have published the quarterly financial statement of the HRADF together with its balance sheet.

Table 1a. Greece: Quantitative Performance Criteria

(Billions of euros, unless otherwise indicated)

	2012		2013	
	Dec-12		Mar-13	
	Progr.	Actual	Progr.	Actual
Performance criteria				
1. Floor on the modified general government primary cash balance 1/	-3.8	-2.8	1.5	1.7
2. Ceiling on state budget primary spending 1/	56.8	55.4	13.9	11.8
3. Ceiling on the overall stock of central government debt	340	311	347	313.3
4. Ceiling on the new guarantees granted by the central government 2/	0.2	0.1	0.2	0.2
5. Ceiling on the accumulation of new external payments arrears on external debt contracted or guaranteed by general government 3/	0.0	0.0	0.0	0.0
6. Ceiling on the Stock of Domestic Arrears (narrow definition)	3.6	2.9	3.0	2.6
Indicative targets				
7. Ceiling on the Stock of Domestic Arrears (General Government Definition)	8.0	7.6	4.5	7.0
8. Floor on privatization receipts 4/	3.20	0.00	0.1	0.1

1/ Applies cumulatively from start of the target's calendar year.
2/ Applies cumulatively from Oct 1, 2012.
3/ Applies on a continuous basis from program approval.
4/ For 2012, cumulative from program approval. For 2013, cumulative January 1, 2013.

Table 1b. Greece: Program Quantitative Performance Criteria

(Billions of euros, unless otherwise indicated)

	2013			2014	2015
	Jun-13	Sep-13	Dec-13	Dec-14	Dec-15
Performance criteria					
1. Floor on the modified general government primary cash balance 1/	-1.2	-0.8	-0.3	...	...
2. Ceiling on state budget primary spending 1/	26.0	38.8	53.2	...	...
3. Ceiling on the overall stock of central government debt	347	335.0	335.0	...	...
4. Ceiling on the new guarantees granted by the central government 2/	0.0	0.0	0.0	...	...
5. Ceiling on the accumulation of new external payments arrears on external debt contracted or guaranteed by general government 3/	0.0	0.0	0.0	...	...
6. Ceiling on the stock of domestic arrears (narrow definition)	2.0	1.0	0.0	...	...
7. Floor on Privatization Receipts 4/	...	1.8	...	...	...
Indicative targets					
1. Floor on the modified general government primary cash balance 1/	...	...	...	2.0	3.6
2. Ceiling on state budget primary spending 1/	...	...	...	49.4	46.3
3. Ceiling on the overall stock of central government debt	...	...	...	330	330
4. Ceiling on the new guarantees granted by the central government 2/	...	...	...	0.0	0.0
5. Ceiling on the accumulation of new external payments arrears on external debt contracted or guaranteed by general government 3/	...	...	...	0.0	0.0
6. Ceiling on the stock of domestic arrears (narrow definition)	...	...	...	0.0	0.0
7. Ceiling on the stock of domestic arrears of the general government	3.0	1.5	0.0	0.0	0.0
8. Floor on privatization receipts 4/	1.1	...	2.5	4.3	6.3
9. Mandatory Exits (head count, in thousands) 4/ 5/	...	2.0	4.0	15.0	...
10. Transfers to the Mobility Scheme (head count, in thousands) 4/	12.5	...	25.0	...	...

1/ Applies cumulatively from start of the target's calendar year.
2/ Cumulative from April 1, 2013.
3/ Applied on a continuous basis since program approval.
4/ Cumulative from January 1, 2013.
5/ For the Mandatory Exits, quarterly targets have also been set for 2014 (cumulative from April 1, 2013): Q1: 5000; Q2: 9,000; Q3: 11,000, and Q4: 15,000.

Table 2. Greece: Structural Benchmarks, December 2012 – April 2013

Measure	Status
End-December 2012	
1. Government to meet quantified quarterly performance indicators for revenue administration.	Not observed. See prior action (Table 3).
2. Government to meet quantified quarterly performance indicators for public financial management.	Not observed. See prior action (Table 3).
3. Government to complete the screening and cleaning of existing legislation covering the list of professions and economic activities covered in Annex II of KEPE's "Second Report on the Impact of Liberalizing Regulated Professions."	Not observed. A few actions pending for engineers, lawyers, pharmacies and petroleum traders.
4. Government to reform the governance of the BoG, to provide for collegial decision-making at the level of executives (Governor and Deputy Governor) and expanded internal oversight by nonexecutive of the exiting General Council and to revise the structure and rights of BoG shareholders to eliminate possible conflicts of interest in the Bank of Greece's public policy role.	Observed.
End-January 2013	
5. Hellenic Postbank to be resolved with the transfer of its good assets, all deposits and ECB/ELA financing to a core bank (via a P&A), and weak assets to be left in a bad bank.	Not observed. Structural benchmark reset (See Table 4 and ¶19).
End-February 2013	
6. Adopt a law establishing a new semi-autonomous tax agency, which will specify the degree of autonomy, the governance framework, accountability, and initial staffing of the organization.	Not observed. See prior action (Table 3)
7. Government to complete staffing plans for line ministries and utilize these to identify redundant positions and employees, and on this basis to set quarterly targets for mandatory exits through end-2014.	Not observed. See prior action (Table 3)
8. All four core banks to meet the capital requirements set by the Bank of Greece. (IMF country report No 13/20, MEFP ¶19).	Not observed (due to technical/legal requirements). Completion expected before 4th review.

Table 3. Greece: Prior Actions

Measure	Macro critical relevance
Fiscal institutional reforms	
1. Government to meet end-April quantified key performance indicators for revenue administration (Annex I).	• Fiscal sustainability (revenue)
2. Government to meet end-March quantified key performance indicators for public financial management (Annex III).	• Fiscal sustainability (budget)
3. Adopt legislation on key tax administration procedural reforms to: suspend collection activities on uncollectable debt, remove the legal requirement to audit all tax declarations for the previous 10 years; and implement indirect audit methods (¶4).	• Fiscal sustainability (revenue)
4. Issue a ministerial decision that regulates the conditions of the existing basic and a new transitional installment scheme for tax and social security contributions debt (¶6).	• Fiscal sustainability (revenue)
5. Adopt legislation to achieve a semi-autonomous revenue administration (¶3, TMU¶27).	• Fiscal sustainability (revenue)
Fiscal measures	
6. Adopt legislation to extend collection of the real estate tax through 2013 via PPC (¶12)	• Fiscal sustainability
7. Government to adopt staffing plans, approve quarterly targets on mandatory exits, approve annual overall employment ceilings for the general government through 2016; and adoption of legislation to streamline and accelerate the disciplinary procedure, and remove restrictions for placing in the mobility scheme personnel of legal entities of private law whose positions are abolished (¶13).	• Fiscal sustainability (spending) and government efficiency
8. Adopt legislation to introduce measures to eliminate by end-2014 the debt in the RES account (¶15).	• Fiscal sustainability (contingent liabilities)
Financial sector	
9. Add 2 independent members to the HFSF General Council (¶27).	• Financial stability

Table 4. Greece: Existing and Proposed Structural Benchmarks

Measure	Macro critical relevance
End-June 2013	
1. Government to meet quarterly performance indicators for revenue administration (¶8 and Annex II).	• Fiscal sustainability (revenue)
2. Government to meet quarterly performance indicators for public financial management (IMF country report No. 13/20, MEFP ¶41).	• Fiscal sustainability (budget)
3. Adopt a new Tax Procedures Code and simplify income tax legislation (IMF country report No. 13/20, MEFP ¶35). Proposed to be rephased from end-May 2013.	• Fiscal sustainability (revenue)
4. Complete resolution of all undercapitalized or insolvent non–core banks (IMF country report No 13/20, MEFP ¶20).	• Financial sustainability (revenue)
July 15, 2013	
5. Complete a comprehensive banking sector strategy (¶18). Proposed.	• Financial stability
6. Hellenic Postbank to be resolved with the transfer of its good assets, all deposits and ECB/ELA financing to a core bank (via a P&A), and weak assets to be left in a bad bank (¶19). Proposed to be re-phased from end-January 2013.	• Financial stability
End-July 2013	
7. Banks to update their restructuring plans and submit them for validation by DG-Competition (IMF country report No 13/20, MEFP ¶23).	• Financial stability

Table 4. Greece: Existing and Proposed Structural Benchmarks (concluded)	
Measure	**Macro critical relevance**
End-September 2013	
8. Ministry of Finance to produce a comprehensive list of nuisance taxes and levies, and eliminate them or transfer them (and the associated spending) to the central government budget (IMF country report No 13/20, MEFP ¶9).	• Growth/competitiveness (business environment)
End-October 2013	
9. Approve the new organizational structure of the Revenue Administration, staffing numbers, grading system, and classification, and qualification and appointment processes of the revenue administration (¶3). Proposed.	• Fiscal sustainability (revenue)
End-November 2013	
10. Adopt legislation to reform the system of social security contributions to: (i) broaden the contribution base; (ii) simplify the contribution schedule across the various funds; and (iii) reduce contribution rates by 3.9 percentage points. The reforms will be fully phased in by January 1, 2016 and will be revenue neutral and preserve the actuarial balance of the various funds (IMF country report No 13/20, MEFP ¶10).	• Growth/competitiveness (business environment)
End-December 2013	
11. Government to meet quarterly performance indicators for revenue administration (¶8, Annex II).	• Fiscal sustainability (revenue)
12. Government to meet quarterly performance indicators for public financial management (IMF country report No. 13/20, MEFP ¶41).	• Fiscal sustainability (budget)
13. Bank of Greece to complete a follow-up stress test for banks based on end-June 2013 data, using a methodology designed in consultation with the EC, ECB, and the IMF, and to update banks' capital needs on this basis (IMF country report No. 13/20, MEFP ¶23).	• Financial sustainability
14. Ministry of Finance to complete a targeted audit of general government accounts payable, to verify whether any arrears remain, and to review compliance with the conditions set for clearing arrears (IMF country report No. 13/20, MEFP ¶39).	• Fiscal sustainability (debt)

Table 5. Greece: Schedule of Proposed Purchases Under the Extended Arrangement, 2012–16

Review	Availability Date	Action	Purchases		Total Disbursements
			Millions of SDRs	Percent of quota	Billions of euros 1/
	March 15, 2012	Board approval of EA	1,399.1	127.0	1.6
First Review	May 31, 2012	Observance of end-December 2012 performance criteria, completion of first and second reviews 3/	...	...	...
Second Review 2/	August 31, 2012	Observance of end-December 2012 performance criteria, completion of first and second reviews 3/	2,798.2	254.0	3.3
Third Review	February 28, 2013	Observance of end-2012 performance criteria, completion of third review 4/	1,506.8	136.8	1.8
Fourth Review	July 25, 2013	Observance of end-June 2013 performance criteria, completion of fourth review	1,506.8	136.8	1.8
Fifth Review	September 29, 2013	Observance of end-June 2013 performance criteria, completion of fifth review	1,506.8	136.8	1.8
Sixth Review	November 30, 2013	Observance of end-September 2013 performance criteria, completion of sixth review	1,506.8	136.8	1.8
Seventh Review	February 28, 2014	Observance of end-December 2013 performance criteria, completion of seventh review	1,506.8	136.8	1.8
Eighth Review	May 31, 2014	Observance of end-March 2014 performance criteria, completion of eighth review	1,506.8	136.8	1.8
Ninth Review	August 31, 2014	Observance of end-June 2014 performance criteria, completion of ninth review	1,506.8	136.8	1.8
Tenth Review	November 30, 2014	Observance of end-September 2014 performance criteria, completion of tenth review	1,506.8	136.8	1.8
Eleventh Review	February 15, 2015	Observance of end-December 2014 performance criteria, completion of eleventh review	1,506.8	136.8	1.8
Twelfth Review	May 31, 2015	Observance of end-March 2015 performance criteria, completion of twelfth review	1,506.8	136.8	1.8
Thirteenth Review	August 31, 2015	Observance of end-June 2015 performance criteria, completion of thirteenth review	1,506.8	136.8	1.8
Fourteenth Review	November 30, 2015	Observance of end-September 2015 performance criteria, completion of fourteenth review	1,506.8	136.8	1.8
Fiftheenth Review	February 29, 2016	Observance of end-December 2015 performance criteria, completion of fifteenth review	1,506.4	136.8	1.8
Total			23,785.3	2,158.8	28.0

Source: IMF staff projections.

1/ Exchange rate of January 5, 2012.

2/ Purchases and disbursements sum the total available upon completion of the first and second reviews.

3/ End-December 2012 performance criteria became controlling for the purchase that was made upon completion of the first and second reviews in January, 2013. A waiver of applicability of these performance criteria was requested due to the lack of information on performance as of end-December.

4/ End-March 2013 performance criteria have now become controlling for the purchase that would be made upon completion of the third review in May 2013.

Annex I. Prior Action: Key Performance Indicators on Tax Administration

Indicator	Target 1/
	End-April 2013
Debt collection	
Collection of new debts in the current year (percent of new debt in the year)	11.0%
Tax audits and collection of large tax payers	
Number of risk-based full scope audits in the year	66
Number of risk based temporary audits in the year	134
Audits and collection of high wealth individuals	
Number of completed risk-based audits in the year	146

Source: IMF staff.

1/ Cumulative audits from end-2012.

Annex II. Key Performance Indicators on Tax Administration

Indicator	2012 Target 1/	2012 Actual 1/	2013 Target 1/	
	End-Dec.	End-Dec.	End-Jun.	End-Dec.
Debt collection				
Collection of tax debts as of the end of the previous year	2,000	1,099	1140	1,900
Collection of new debts in the current year (percent of new debt in the year)	20.0%	10.5%	14.0%	24.5%
Tax audits and collection of large tax payers				
Number of risk-based full scope audits in the year 2/	300	76	176	596
Number of risk based temporary audits in the year 3/	325	271	260	680
Of which : field audits	100	188		
Collection full scope audits in the year (percent of assessed tax and penalties)	50.0%	64.5%	65.0%	75.0%
Collection temporary audits in the year (percent of assessed tax and penalties)	50.0%	49.2%	45.0%	55.0%
Audits and collection of high wealth individuals				
Number of completed risk-based audits in the year 4/	1,300	444	280	910
Collection of assessed audits in the year (percent of assessed tax and penalties)	50.0%	78.4%	40.0%	65.0%
Internal control and human resource integrity				
MoF audit of assets of managers of local tax offices 5/			50	110
MoF audit of assets of auditors 5/			50	130

Source: Ministry of Finance; and IMF staff.

1/ Cumulative audits from January of each year.
2/ If the actual amount of tax and penalty assessed is less than €107 million in April, the targeted number of audits in June will be increased to ensure achievement of overall annual amount of tax and penalty assessed of at least €668 million.
3/ If the actual amount of tax and penalty assessed is less than €40 million in April, the targeted number of audits in June will be increased to ensure achievement of overall annual amount of tax and penalty assessed of at least €313 million.
4/ If the actual amount of tax and penalty assessed is less than €28 million in April, the targeted number of audits in June will be increased to ensure achievement of overall annual amount of tax and penalty assessed of at least €187 million.
5/ The audit is performed by the Internal Affairs Directorate of the MoF.

Annex III. Prior Action: Key Performance Indicators on Public Financial Management Reforms

Indicator	Target
	End-March 2013
a. Percent of institutional units (State and general government entities) reporting on the E-portal of GAO total budget allocations (including any revisions), pending outstanding commitments, unpaid commitments, and arrears data (for both ordinary and investment) at the end of each month, based on data from their commitment registers, is above the target.	
2012 entity coverage 1/	91%
New entities 2/	55%
b. Discrepancy between the total arrears to third parties of non-state general government entities reported under the E-Portal of GAO using data from commitment registers and the total arrears reported through monthly surveys, i.e. the sum across all entities of the absolute value of (arrears monthly survey less arrears E-portal) divided by total arrears multiplied by 100, is below target.	
2012 entity coverage 1/	2%
New entities 2/	30%

Source: IMF staff.

1/ Includes old entities with 2011 spending above €1 million.
2/ Includes new entities in the end-Septemeber 2012 ELSTAT register with spending above €1 million.

Annex IV. Key Performance Indicators on Public Financial Management

Indicator	2012 Target	2012 Actual	2013 Target	
	End-Dec.	End-Dec.	End-Jun.	End-Dec.
a. Percent of institutional units (State and general government entities) reporting on the E-portal of GAO total budget allocations (including any revisions), pending outstanding commitments, unpaid commitments, and arrears data (for both ordinary and investment) at the end of each month, based on data from their commitment registers, is above the target.				
2012 entity coverage 1/	90%	85%		
2013 entity coverage 2/			80%	97%
b. Discrepancy between the total arrears to third parties of non-state general government entities reported under the E-Portal of GAO using data from commitment registers and the total arrears reported through monthly surveys, i.e. the sum across all entities of the absolute value of (arrears monthly survey less arrears E-portal) divided by total arrears multiplied by 100, is below target.				
2012 entity coverage 1/	1%	4%		
2013 entity coverage 2/			10%	1%
c. Percentage of institutional units (State and general government entities) reporting on the E-portal of GAO all the prescribed items with financial information of the circular on commitment registers at the end of each month, based on data from their commitment registers, is above the target.				
2013 entity coverage 2/			65%	93%

Source: Ministry of Finance; and IMF staff.

1/ Includes old entities with 2011 spending above €1 million.

2/ Includes new entities in the end-Septemeber 2012 ELSTAT register with spending above €1 million.

Appendix V. Technical Memorandum of Understanding

May 20, 2013

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 provide the European Commission, ECB and the International Monetary 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 January 31, 2012. In particular, the exchange rates for the purposes of the program are set: €1 = 1.3176 U.S. dollar, €1 = 100.63 Japanese yen, and €1.1772= 1 SDR.

General Government

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

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

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

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

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

- This definition of general (central) government also includes any new funds, or other special budgetary and extra budgetary programs that may be created during the program period to carry out operations of a fiscal nature. The government will inform IMF, European Commission and ECB staff of the creation of any such new funds, programs, or entities immediately.

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

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

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

4. **Definition**: The modified general government primary cash balance (MGGPCB) is defined as the modified general government cash balance (MGGCB) minus interest payments by the state budget. The MGGCB is defined as the sum of the cash balances of the ordinary state budget, the cash balance of the public investment budget, the change in net financial assets of local government, the change in net financial assets of social security, the change in net financial

assets of the Green Fund, the change in net financial assets of reclassified public enterprises (RPEs) minus guarantees called to entities within the general government. Privatization receipts, as defined below and the proceeds from the sale of land and buildings will be excluded from cash receipts. Net lending operations by the state budget will be recorded as cash expenditures.

- **The cash balance of the ordinary state budget.** The cash balance of the ordinary state budget will be measured from above the line, based on: (i) gross ordinary budget revenues (recurrent revenue plus non-recurrent revenue, minus tax refunds (excluding any payments for the clearance of tax refunds in arrears); minus (ii) ordinary budget expenditures 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. Ordinary budget expenditures will exclude amortization payments, but include: salaries and pensions; grants to social security funds, medical care and social protection; operational and other expenditure; returned resources; payments in exchange of claims of insurance fund for the personnel working in the Public Electricity Company; the reserve, interest payments; transfers for the settlement of past debt, payments for military equipment procurement on a cash basis; NATO expenses, capital transfers to social security funds or other entities by bonds; and called guarantees where the state or central government assumes payments on behalf of entities outside of the general government.

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

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

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

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

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

- Financial assets include
    - Deposits of social security funds in the Bank of Greece and deposits of social security funds in the domestic credit institutions and deposits held either directly or indirectly through the IKA mutual fund. Deposits are measured at face value excluding accrued interest, consistent with reporting requirements for monetary survey data.
        - Holdings of shares quoted on the Athens Stock Exchange held by social security funds either directly or indirectly through the IKA mutual fund.
        - Direct or indirect holdings of Mutual Fund units issued by Greek management companies (other than the IKA mutual fund).
        - Holdings of central government bonds, including short and long-term securities issued domestically, long-term securities issued abroad operated from Bank of Greece accounts, and indirect holdings through the IKA mutual fund. Holdings will be measured at nominal value.
        - Holdings of bonds issued abroad and other foreign assets.
            - Financial liabilities include the short and long term loans from domestic credit institutions to the social security funds, measured consistently with monetary survey data.

- **The change in net financial assets of the Green Fund** is defined on a transactions basis, as the change in the total of financial assets minus financial liabilities of the Green Fund, adjusted for valuation changes by the Bank of Greece.
    - Financial assets include
        - Deposits of the Green Fund in the Bank of Greece and 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 the Green Fund, quoted on the Athens stock exchange.
        - Holdings of Mutual Fund units issued by Greek management companies.
        - Holdings of central government bonds.
        - Holdings of other bonds issued abroad.
    - Financial liabilities include the short and long term loans from the domestic credit institutions to the Green Fund, measured consistently with monetary survey data, or other lending from the Bank of Greece.

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

  - Financial assets include

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

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

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

    - Holdings of central government bonds.

    - Holdings of other bonds issued abroad.

  - Financial liabilities include the short and long term loans from the domestic credit institutions to RPEs, measured consistently with monetary survey data. They also include short and long term loans from the foreign banking system, as well as loans from the EIB or other official lenders, as measured by the difference between new loans granted to these entities (as approved by the GAO in line with the Fiscal Responsibility Act) and amortization of these loans through called guarantees of the government or amortization of these loans made by actual payments by the companies themselves, upon monitoring and information provided by the General Accounting Office (D25).

5. Other provisions for the purposes of the program.

- The MGGPCB will also exclude all transfers related to the Eurogroup decisions of February 21, 2012 and November 26, 2012 in regards to income of euro area national central banks, including the BoG, stemming from their investment portfolio holdings of Greek government bonds.

- Receipts from privatization are excluded from cash general government revenue receipts. However, for the entire program period where this is applicable, sales of those gaming licenses, telecom licenses, sales of aircrafts, and extension of the airport concession that were established in the context of the May 2010 SBA program or the 2011 budget (Second Review) discussions will be recorded as cash revenue receipts and taken into account for the

MGGPCB criterion, irrespective of whether the realized proceeds accrue to the privatization agency or not.

- The primary expenditure of the central government excludes payments related to bank support. 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. Any financial operation by central government to support banks, including the issuance of guarantees or provision of liquidity, will be immediately reported to IMF, European Commission, and ECB staff.

- The primary revenue of the central government will exclude any cash payments from loss-making banks beyond those which would accrue from the ELA guarantee fee structure existing on November 30, 2012 (25 basis points).

- 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.

Supporting material.

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

- Data on net financial assets of local authorities and social security funds, extra-budgetary funds including the Green Fund, 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.

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

6. 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, minus any arrears payments made. Ordinary state budget spending includes called guarantees to entities inside the general government (as opposed to the definition of the modified general government primary cash balance criterion above that excludes this spending item). 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.

7. 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.

F. Ceiling on the Stock of Domestic Arrears (narrow definition) (Performance Criterion)

8. Definition. For the purpose of the program, domestic arrears (narrow definition) are defined as: (i) unpaid invoices of line ministries and hospitals that are 90 days past their due date; plus (ii) tax refunds for which a refund document "AFEK" has been issued and cleared but have not been repaid to the taxpayer. 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. The stock of arrears excludes hospital arrears to pharmaceutical companies which were incurred by end-2009 (€113 million as of November 30, 2012). Beginning July 1, 2013, the definition will include the change in the stock of tax refund claims that have not been assessed within 90 days (cumulative from July 1); and beginning January 1, 2014, it will include all tax refund claims that have not been assessed within 90 days. In both cases refund claims that are under legal dispute will be excluded.

9. Supporting material. Monthly data on arrears of public hospitals (NHS hospitals) will be provided by the Ministry of Health, and arrears of line ministries by the Ministry of Finance within four weeks after the end of each month. The Ministry of Finance will publish this information on the Ministry of Finance website. The expenditure arrears data will be based on survey data, until data from commitment registers are assessed by the IMF, European Commission, and ECB staff to provide comprehensive and reliable information. These reports will also include data on accounts payable overdue by 0–30, 31–60, and 61–90 days for the central government (line ministries and Decentralized Prefectures) based on the commitment registers. Tax refund arrears data will be based on information provided by General Secretariat for Information Systems and General Secretariat for Tax and Customs. The Ministry of Finance will also provide a monthly table on tax refund arrears as defined above (with AFEK issued) as well as on full tax refund accounts payable that include any refund claims for which AFEK has not been issued (and showing those that have not been assessed after 90 days).

G. Ceiling on the Stock of Domestic Arrears of the General Government (Indicative Target)

10. Definition. For the purpose of the program, domestic arrears of the general government are defined as: (i) unpaid invoices of general government entities that are 90 days past their due date; plus (ii) tax refunds for which a refund document "AFEK" has been issued and cleared but have not been repaid to the taxpayer. 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. The stock of all general government arrears excludes: (i) the arrears accumulated by the Civil Servants' Welfare Fund; and (ii) hospital arrears to pharmaceutical companies which were incurred by end-2009 (€113 million as of November 30, 2012). Beginning July 1, 2013, the definition will include the change in the stock of tax refund claims that have not been assessed within 90 days (cumulative from July 1); and beginning January 1, 2014, it will include all tax refund claims that have not been assessed within 90 days. In both cases refund claims that are under legal dispute will be excluded.

11. Supporting material. The Ministry of Finance will provide consistent data on monthly expenditure and tax refund arrears of the general government, as defined above within four weeks after the end of each month, and publish this information on the Ministry of Finance website. The expenditure arrears data will be based on survey data, until data from commitment registers are assessed by the IMF, European Commission, and ECB staff to provide comprehensive and reliable information. These reports will also include data on accounts payable overdue by 0–30, 31–60, and 61–90 days for the central government (line ministries and Decentralized Prefectures), based on the commitment registers. Tax refund arrears data will be based on information provided by General Secretariat for Information Systems and General Secretariat for Tax and Customs.

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

12. Definition. The overall stock of central government debt will refer to ESA95 central government debt, which includes the state debt, debts of extra budgetary funds and public enterprises that are consolidated into the central government, and other ESA 95 adjustments. Holdings of intra-government debt will be netted out. 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 rates 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.

13. Adjusters. 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 2012 ESA95 central government debt of €311.4 billion.

14. 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.

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

15. 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 15. The ceiling shall exclude: (i) guarantees to support banks; (ii) guarantees related to EIB financed loans; (iii) guarantees granted by ETEAN (up to a total amount of €50 million provided these are fully backed by an equivalent amount of bank deposits); and (iv) guarantees granted under a risk sharing instrument of the EU structural funds (see COM (2011) 655 final) that do not create contingent liabilities for the Greek State. New guarantees are guarantees extended during the current fiscal year, but for those for which the maturity is being extended beyond the initial contractual provisions, only 50 percent of the full value will be counted. Modification of existing guarantees (without changing the maturity, amount of guarantees, and beneficiaries of the loan) will not be treated as new guarantees.

16. 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.

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

17. Definition. For the purposes of the program, an external debt payment arrear will be defined as a payment on debt to non-residents contracted or guaranteed by the general government, which has not been made within seven days after falling due. For purposes of this program, the term "falling due" means the date in which external debt payments are due according to the relevant contractual agreement, including any contractual grace periods. The performance criterion will apply on a continuous basis throughout the program period.

18. 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.

K. Floor on Privatization Proceeds (Indicative Target and Performance Criterion)

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

government sales, and cash receipts from the eventual sale of any bank participations through the HFSF, the HRADF, or from the government directly. These will include, but not be limited to, the sale of equity of listed or non-listed companies and banks, shareholdings in public infrastructure, shareholdings in SPVs, leasehold in commercial real estate and publicly held land, sale-lease back operations, securitization of asset-related cash streams, or other assets incorporated in the authorities' privatization program, as well as sale of rights and concessions (including securitization of the proceeds of concessions). Proceeds will be valued in euro and reported on a gross basis, excluding any associated capital expenditure or other restructuring costs as well as the operating costs of the HRADF including the fees of advisors related to the specific privatization. Proceeds will be measured as the inflows of cash received by the HRADF as deposited in the Segregated Account at the Bank of Greece within 10 days after the settlement of the transaction.

20. Supporting material. Quarterly information on the cash receipts from asset sales, quarterly balances of the privatization account, inflows to the account (by project), and outflows to the state budget, will be made available by the Minister of Finance, in collaboration with the HRADF, no later than 60 days after the end of each quarter.

21. Other. The privatization agency will provide GAO, analytical data on the gross receipts and expenditures of the above mentioned sources, on a monthly basis–by the end of the 20th of every next month.

L. ESA "Program" Deficit and Overall Monitoring and Reporting Requirements

22. **ESA program deficit.** For the purposes of the program, the ESA deficit (EDP B.9) will have the following adjustments (i) the sale of non-financial assets such as land, buildings, and other concessions or licenses will be excluded, unless these have been agreed in the context of the program; (ii) costs related to banking support as defined in MGGPCB above will be excluded; (iii) all payments relating to tax refund claims made before September 2012 will be excluded; (iv) the accrual revenue from the PPC levy of a given year will include cash receipts within the year plus amounts pertaining to the given year received through March of the following year; and (v) all transfers related to the Eurogroup decisions of February 21, 2012 and November 26, 2012 in regard to income of euro zone national central banks will be excluded, including the BoG, stemming from their investment portfolio holdings of Greek government bonds (schedule B provides the latest estimates).

Schedule B: Indicative Amounts to be Transferred to the Greek Government by Eurosystem National Central Banks

(Billions of euros)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total 12-20
ANFA	349.0	636.0	518.0	500.0	557.0	464.0	367.0	306.0	253.0	3,950.0
SMP		2,098.0	1,941.0	1,503.0	1,134.0	898.0	729.0	580.0	422.0	9,305.0

Source: Greek authorities, ECB, IMF staff estimates.

23. ESA primary balance. For the purpose of the program, the ESA primary balance is defined as general government ESA95 balance (EDP B.9) minus ESA 95 general government consolidated interest payable (EDP D.41).

24. Overall monitoring and reporting requirements. Performance under the program will be monitored from data supplied to the EC, ECB, and IMF by ELSTAT, 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.

M. Floor on Mandatory Exits (Indicative target)

25. Definition: Employees counted as mandatory exits to the private sector will originate from those that: (i) are employed by the general government (ESA95 definition) on a permanent employment contract or on a contract of indefinite duration; and (ii) have no entitlement to early retirement within the next 3 years. Mandatory exit means that the employee leaves the public sector on an involuntary basis, but includes exits from the mobility scheme to the private sector. Mandatory exits are not entitled to severance pay or any other form of compensation (if not provided for under current legislation). The count of mandatory exits will exclude those employees that leave the public sector because the entity they belong to is being privatized or that leave as part of a restructuring ahead of a privatization. Further, employees that are separated from the public sector for outsourcing will not qualify to be replaced under the 1:1 re-hiring rule. Mandatory exits cannot be rehired into the public sector except via a merit-based selection procedure by ASEP, open to external candidates.

Annual Overall Employment Ceilings for the General Government

(persons)

	2012	2013	2014	2015	2016
General Government	**727,458**	**691,493**	**664,950**	**643,367**	**624,000**
Ordinary staff	628,412	608,383	588,174	569,502	552,854
Other staff	71,503	56,089	50,398	48,122	46,074
Chapter A entities	24,914	24,392	23,749	23,114	22,443
Chapter A fixed term contracts	2,629	2,629	2,629	2,629	2,629

Source: MAREG.

Note 1. The number of employees in Chapter A entities will be adjusted for any privatizations.

Note 2. The number of employees in Chapter A entities will be adjusted for the inclusion of employees of municipal private law legal entities. These employees are already in the wage bill but not yet counted in the Census Data Base.

Note 3. Some small private law legal entities are being verified whether they belong in the general government. If so and their employees are already in the wage bill, the above ceilings will be adjusted accordingly.

Note 4. The above ceilings are based on GAO projections and reflect the measures of the MTFS 2013-2016 as well as other assumptions that may be updated in cooperation with the EC/ECB/IMF.

Mobility and Exit Scheme (Quarterly Targets)			
	Staffing Plans total personnel covered	Into Mobility Scheme	Exits from government
2013			
Q1			
Q2	455,895	12,500	
Q3	109,105		2,000
Q4	85,787	12,500	2,000
Total	**650,787**	**25,000**	**4,000**
2014			
Q1			1,000
Q2			4,000
Q3			2,000
Q4			4,000
Total			**11,000**
Sum total	**650,787**	**25,000**	**15,000**

Source: MAREG.

N. Floor on Entrants to the Mobility Scheme (Indicative Target)

26. Definition: Employees counted as transferred to the mobility scheme will originate from those that are employed by the general government (ESA95 definition) on a permanent employment contract or on a contract of indefinite duration. Entrance into the labor mobility scheme is defined when the employee's payment is reduced to 75 percent of the remuneration in the case of "availability," or to one-third of the remuneration in the case of "disciplinary suspension." It does not include employees that belong to entities that are in the process of being privatized or that are part of a restructuring ahead of a privatization.

27. Supporting material. The Ministry of Public Administration Reform (MAREG) will report on a monthly basis (15 days after the closing of each month) for the mobility scheme on entrants (number, entity they previously belonged to, reason for entry) and departures (number, reasons for departure, new entity transferred to/exits), and the stock of employees currently in the scheme. Further, MAREG will report monthly (15 days after the closing of the month) on exits, the number, the general government entity they came from, the reason for the exit, , if any. MAREG will report on a monthly basis (15 days after the closing of the month) the stock of general government employees defined as in the Census Data Base.

O. Prior Actions

28. Adopt legislation to achieve a semi-autonomous revenue administration (defined as the entire remit of the General Secretariat of Public Revenue), including the following steps:

- Transfer to the revenue administration the following units:
  - Ministry of Finance internal affairs department.
  - All functions, personnel, and budgets allocations associated with the following departments of GSIS: Directorate 30, including (i) the department for taxation, income, capital and vehicles, including transfers taxation, inheritances, donations and property taxation (Department A); (ii) the department for VAT and special taxes (Department B); (iii) the customs department (Department C); (iv) all revenue-related functions of the department for general application (Department F); and all departments of the directorate for inputs and control of computer data (Directorate 32).
  - All the tax and customs administrative functions, personnel, and budget allocations necessary to exert the competences specified in case β' par. 2 and cases α' and δ' of par. 5, article 30 of L. 3296/2004, including: (i) preemptive checks and temporary tax audits, especially for withholding and imposed taxes, focusing on Value Added Tax (VAT); (ii) checks of transit, imports and exports, trading, supply and distribution of products subject to Special Consumption Tax (Excise Duty); (iii) checks in customs warehouses; (iv) checks the goods under special duty-suspension procedures and implementation of customs legislation in general; (v) checks in means of transportation, shops, warehouses, etc; and (vi) Confiscation of books, documents, goods, means of transportation and other evidence.
- Create a five member advisory board comprised of high level experts to be appointed by the Minister of Finance (two of which will be selected among persons with significant international work experience in revenue administration). The SGPR will be an ex-officio member of the board. The advisory board will report to the Minister of Finance, give advice on major matters of revenue administration strategy including human resource issues, monitor performance of the revenue administration against plans and targets, support the revenue administration in managing external stakeholders, and provide assurance that the SGPR is exercising powers appropriately. The Board will have no role in taxpayer specific issues, and will not have access to any specific taxpayer information. A ministerial decision will determine the qualifications, duration of appointment and compensation for the board members and will specify the rules for dealing with conflict of interest, reporting to the Minister, and administrative support for the board. The Board members term will be three years.
- Provide that any advice of MAREG to the revenue administration on organizational matters has to be given within a 14-day time frame.

- Enable the SGPR to determine the conditions for hiring under the control of ASEP.
- Create a budget code for budget approval by parliament that encompasses all organizational units of the revenue administration (to enable a separate and unified budget allocation starting in.
- Establish a small financial management unit in the revenue administration that manages its budget (while maintaining the role of the GDFS as overall budget coordinator and financial controller for the Ministry of Finance's aggregate budget appropriation) and has the following functions: (i) coordinates the preparation of the revenue administration's budget; (ii) follows up its implementation; and (iii) proposes reallocations of non-wage recurrent spending in line the organic budget law.
- Authorize the SGPR to determine a grading and promotion system for the revenue administration subject to approval by the Minister of Finance.
- The MoF will restart the institutional reform working group (IRWG), which will be chaired by the SGPR, and whose reports will be shared with the Minister and Troika. The IRWG will analyze and map the constraints to the operational and administrative autonomy of the SGPR and propose immediate solutions. Though not limited to the following matters the IRWG examination will incorporate any limits to autonomy within:
    - Revenue laws (income tax, VAT, property tax, customs and excise and other taxes administered by the SGPR).
    - Other general laws related to human resources and financial management within the civil service.
    - Powers delegated to the SGPR.

  The IRWG will also determine whether additional changes to law are required to authorize SGPR competence for tax administration beyond singular decisions affecting taxpayers.

Monitoring of Structural Benchmarks

29. Benchmark on progress in revenue administration, 2012–13. Progress in revenue administration in 2012 and 2013 will be defined as reaching or exceeding the targets set in Table 1.

30. Definitions:

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

  - Audit reports which are brought to the Tax Dispute Administration Resolution Committee (Article 70A Committee) for settlement after 1 January 2013 are defined as a completed audit when the case is submitted to the committee.

  - High Wealth Individual (HWI) audits carried out on a legal person owned or controlled by the high wealth individual will also be regarded as an HWI audit case if the audit is carried out by the auditor(s) who carry out the audit of the relevant high wealth individual.

- The **assessment amounts** from the audit reports submitted to the Article 70A committee are included when reporting on the assessment performance for HWI and Large Taxpayer Unit (LTU) audits. The assessment amount is only included for reporting on the LTU and HWI audit case collection performance when the final assessment is issued following the decision of the committee. These amounts shall be adjusted for any difference between the audit report assessment amount and the final assessment amount.

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

- **Collection** on HWI and LTU full scope audits and temporary audits are amounts collected in the year from such LTU and HWI audits completed during the year or previous years.

- **Collection of tax debt** does not include debts such as calls on loan guarantees, fines, etc., of non-tax nature for which the tax authority is responsible for collecting on behalf of other public sector entities.

- In 2013, **new tax debt collection** includes collection of debt accrued in the month of December, 2012.

- An **audit of assets of a manager, director or auditor** includes an audit of all assets, both movable and immovable, including those of his/her spouse. This will include but will not be limited to an examination of all his/her financial accounts for a period of up to 10 years from a current date, all immovable assets compared against information from State registries and of the acquisition of all moveable assets. The purpose of this audit will be to trace and justify the legal acquisition of these assets. These audits will be conducted annually by the Internal Affairs Directorate of the MoF.

31. Supporting material. Monthly information on risk-based full-scope audits and temporary audits of large taxpayers, self employed and high wealth individuals, and VAT non-

filers, collection of assessed taxes and penalties, collection of tax debt, and audits of asset declarations from auditors and managers of local tax offices will be made available by the Minister of Finance no later than two weeks after the end of each month. The monthly submission will also include, for each local tax office and special unit, the number of audits, hours spent on audits, assessed tax specified for income tax and VAT, assessed penalties and surcharges, collected tax amount from assessments, collected penalties and surcharges from assessments, specified for temporary and full scope audits.

32. Benchmark on progress in public financial management, 2012. Progress in implementing public financial management reforms in 2012 will be defined as reaching or exceeding the targets set in MEFP Table 2.

33. Definition. For the purpose of the 2012 target, the reporting institutional units (State and general government entities) include any unit under the general government as defined in paragraph 32 of the March 2012 TMU. For the purpose of subsequent target, the reporting institutional units (state and general government entities) include any unit under the general government as defined by ELSTAT as of end-September 2012 whose overall annual spending exceeded €1 million in 2011. From March 2013, entries under the e-portal will include all fields with financial information as prescribed in the GAO circular of Dec 29, 2010 (protocol number 2/91118/0026); this includes inter alia cumulative appropriations released, commitments made, the sum of invoices received, and payments made.

34. Supporting material. Monthly summary information from the e-portal, surveys, and other sources on performance against the above indicators will be published by the General Accounting Office of the Ministry of Finance on their website no later than four weeks after the end of each month. Data submission will include data back to end-2011. Survey information will continue to be provided after June 2013 unless discrepancies between survey and e-portal data are fully eliminated. An authoritative list of entities included under general government as defined by ELSTAT (including their share of overall annual spending in 2011) will be made available by ELSTAT by June 30, 2013.

Appendix VI. Letter of Intent to the European Commission and the European Central Bank

HELLENIC REPUBLIC

Athens, 10 May 2013

Mr. Jeroen Dijsselbloem,
President,
Eurogroup,
Brussels.

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

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

Dear Messrs Dijsselbloem, Rehn and Draghi,

In the attached update to the Memoranda of Economic and Financial Policies (MEFP) and Memorandum of Understanding on Economic Policy Conditionality (MoU) from 9 March and 7 December, 2012, we describe progress and policy steps towards meeting the objectives of the economic adjustment programme of the Greek government.

Economic sentiment in Greece has improved since the review in December 2012, although significant challenges remain. The government believes that steadfast program implementation would further strengthen market confidence, and help secure an early return to growth and employment.

The programme is back on track, as evidenced by the fact that we met all end-March 2013 quantitative performance criteria, although two indicative targets were missed. We have stepped up program implementation, adopting key reforms, including as prior actions for this review.

- Regarding fiscal policy, we over-performed on the cash fiscal deficit target for 2012 and the first quarter of 2013. Indeed, for 2012 in ESA-1995 terms, we over-performed the program fiscal deficit target by 0.2 percent of GDP despite the deep recession. As prior action for this review, we have taken a number of steps to ensure that we continue to meet our fiscal targets for 2013 and 2014. While we experienced delays in putting our domestic arrears clearance program in place, and missed the end-March 2013 indicative target, we have taken

several measures to support accelerating their clearance, and remain committed to achieve the program schedule of eliminating the stock of arrears by end-2013.

- Concerning our fiscal-institutional reform efforts, while we did not achieve several end-2012 key performance indicators, we have stepped up reforms to bring revenue administration and public financial management reforms back on track. As a prior action for this review, we have passed legislation to move towards a semi-autonomous revenue administration, adopted key tax administration procedural reforms, reformed instalment schemes for taxes and social security contributions to bring them in line with international best practices; and met key performance indicators on public financial management and revenue administration for end-March and end-April respectively.

- We have further advanced in our efforts to restore a viable and well-capitalized banking system that will support the economic recovery and maintain the protection of depositors. In particular, the recapitalization of each of the four core banks is at an advanced stage (and we are committed to implement a comprehensive banking sector strategy aimed at promptly returning core banks to the private sector), the resolution of undercapitalized noncore banks is proceeding apace, we are strengthening the banks' governance framework (including appointment of monitoring trustees in all four core banks and additional independent board members in the HFSF), and we will soon finalize a new framework to restructure debts of financially distressed households, while remaining within our recapitalization envelope.

- Regarding structural reforms to improve Greek competitiveness, we have made further progress with liberalizing the economy and advancing privatization. Our reforms in recent months in this area have focused on completing the liberalization of the closed professions, and preparing assets for sale in the context of the privatization program.

- While the reforms outlined above will support growth and employment, there is a need to assist the most vulnerable groups in the society to cushion the crisis impact. To that end, we are stepping up efforts to leverage EU structural funds to facilitate employment creation, especially among the young. In addition, we plan to expand the support programs for unemployed, within the existing overall budget envelope.

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

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

On this basis, we request the disbursement of the amount of EUR 7.5 billion stemming out of the financing arrangements by the EFSF supporting the Second Adjustment Program for Greece. This letter is being copied to Ms Lagarde.

/s/
Antonis Samaras
Prime Minister

/s/
Yannis Stournaras
Minister of Finance

/s/
George Provopoulos
Governor of the Bank of Greece

Appendix VII. Memorandum of Understanding on Specific Economic Policy Conditionality

GREECE

Memorandum of Understanding
on
Specific Economic Policy Conditionality

The disbursements of financial assistance to Greece, by the European Financial Stability Facility (EFSF), are subject to quarterly reviews of conditionality for the duration of the arrangement. The release of the tranches is based on observance of quantitative performance criteria and a positive evaluation of progress made with respect to policy criteria in Council Decision 2011/734/EU of 12 July 2011 (as amended; hereinafter the Council Decision), the memorandum of economic and financial policies (MEFP) and in this Memorandum of Understanding.

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

Greece commits to consult with the European Commission, the ECB and the IMF staff on the adoption of policies falling within the scope of this Memorandum allowing sufficient time for review. The Government publishes a quarterly report in line with Article 4 of the Council Decision.

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

The ownership of the programme and all executive responsibilities in the programme implementation remain with the Greek Government.

GREECE

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1 Achieving sound public finances

The primary deficit in 2012 was around 1.3% of GDP, lower than the targeted 1.5% of GDP thanks to under-execution of discretionary expenditures and stronger than expected outturn in local governments, state-owned enterprises and extra budgetary funds, which more than offset weak revenue performance and collection of social security contributions.

The mission identified fiscal shortfalls that threatened the achievement of the targets in 2013-14. The revenue shortfalls arose mainly in social security contribution collection and from lower than expected receipts from the equalisation in the tax rates on diesel oil. Furthermore, although the vast majority of the very large and highly front-loaded package of fiscal consolidation measures for 2013 and 2014 agreed in the previous review had been implemented, a few measures were not fully implemented (progressive pensions cuts; the new wage grid for parliamentary staff and in some SOEs; and the levy on ship owners fell short of the envisaged amount). Furthermore, some measures which were scheduled to come into force in 2013 and 2014 that had been agreed in the context of the previous MTFS 2011-14 were not implemented.

The authorities committed to implement offsetting measures to avoid the emergence of a fiscal gap in 2013 and 2014. The Government decided to offset with the new measures in the same sectors in order to minimise the operational risks. Accordingly, the solidarity contribution for self-employed scheduled - which has not been implemented for 2013 - has been replaced by a tightening of pension requirements for uninsured individuals and through audits of pension entitlements. The increase in public transportation ticket prices has been substituted by a reduction in transfers to entities outside the General Government and the rationalisation of public services. The government will secure revenues of EUR 1.9 billion in 2013 by extending the property tax collected via the electricity bill, compensating the envisaged reduction of the rate by 15% with a broadening of the tax base. For 2014, the Government has committed to fully implement the solidarity contribution for self-employed. Additionally, the new real estate tax, which is expected to succeed the PPC levy, is supposed to be budget-neutral ensuring the annual revenue already envisaged in the MTFS.

Several one-off factors also play a role in closing the budget gap. First, transfers of income from the Bank of Greece to the state are expected to be extraordinarily high on account of exceptional profits. Second, the newly devised settlement schemes are expected to facilitate the repayment of recently accumulated debt and recover some portion of lost revenues for the state. Finally, savings have also been made on the heating oil subsidies, where budget appropriations were found to be too high.

Overall, the programme targets for the primary deficit are expected to be met in both 2013 and 2014, while the headline primary deficit is likely to be higher in 2013 as it includes the effect of the further bank recapitalisation and resolutions operations which will take place in 2013. Their recording in the fiscal accounts depends on the exact timing and nature of these transactions.

Fiscal consolidation

The adjustment path towards the correction of the excessive deficit shall aim to achieve general government primary surpluses in programme terms of at least EUR 0 million (0.0% of GDP) in 2013, EUR 2,750 million (1.5% of GDP) in 2014, EUR 5,700 million (3.0% of GDP) in 2015 and EUR 8,975 million (4.5% of GDP) in 2016. These targets for the primary surpluses imply an overall government deficit of 4.1% of GDP in 2013, 3.3% of GDP in 2014, 2.1% of GDP in 2015 and 0.8% of GDP in 2016.

These numbers could be estimated to translate into an improvement in the cyclically-adjusted primary balance to GDP ratio from 4.5% in 2012 to 6.2% in 2013 and an average of about 5½% of GDP in 2014-16 and into a cyclically-adjusted government deficit to GDP ratio at -½% in 2012, 2.1% in 2013, 1.5% in 2014, 0.5% in 2015 and -0.4% in 2016, reflecting the profile of interest payments.

Proceeds from the privatisation of financial and non-financial assets, transactions related to bank recapitalisation and other bank support measures, as well as all transfers related to the Eurogroup decision of 21 February 2012 in regard to income of euro zone national central banks, including the Bank of Greece (BoG), stemming from their investment portfolio holdings of Greek government bonds shall not reduce the required fiscal consolidation effort and shall not be counted in the assessment of these targets.

The adjustment path referred to in the previous paragraphs, taking into account the impact of the debt-reducing measures to be implemented in December 2012, would be consistent with a general government consolidated debt ratio to GDP of below 160% in 2016.

The Government has put in place a number of measures to strengthen the underlying policies with the aim of catching any possible slippages. Specifically, regarding the solidarity contribution for the self-employed, the Government confirmed its commitment in implementing this measure in 2014, especially given the expected recovery of the economy which will mitigate its any negative impact of this measure on Greece's adjustment process.

Prior to the disbursement the Government will:

a. adopt legislation to extend collection of the real estate tax through 2013 via PPC. The legislation will introduce four changes: (i) a reduction of 15 percent in the rate; (ii) imposition of the tax on buildings not legally exempted from municipal duties; (iii) calculation of tax on buildings outside urban planning zones on a different basis (based on average legal value for the relevant municipality); and (iv) implementation of the tax on all buildings which are leased to the state by non-exempted private owners. Separately, a new law on taxation of real estate will be adopted by end-June for 2014 onwards. The new real estate taxation regime, which will consolidate a number of now separate taxes, will be designed to be budget neutral ensuring a annual revenue of at least EUR 2.7 billion.

b. fully implement all other agreed fiscal measures for 2013 not yet in place.

Additional Measures:

1. Following a decision on the final details of the planned direct income tax reforms, the authorities will review the fiscal outlook for 2014 and agree with the EC/ECB/IMF on measures needed to close any residual gap for 2014, **in the context of the next review of the programme**.

2. To the extent that a fiscal gap in 2015-16 remains, the authorities could pursue several strategies to close this, including improving revenue by broadening the tax base through further reduction in exemptions and deductions; extending measures that are expiring; and targeted cuts in current expenditure. There are also opportunities to refocus the investment programme for more effective support to growth. The authorities will specify concrete plans for 2015 no later than **end-August 2013**, when they will formulate a detailed fiscal programme for 2014-2015 consistent with a primary surplus of 3% by 2015.

2 Structural reforms with budgetary relevance

2.1 Privatising to boost efficiency in the economy and reduce public debt

The privatisation of public companies contributes to the reduction of public debt, as well as to the reduction of subsidies, other transfers or state guarantees to state-owned enterprises. It also aims at increasing the efficiency of companies and, by extension, the competitiveness of the economy as a whole, while attracting foreign direct investment. This is why the Greek authorities have committed to proceed swiftly and efficiently with the Privatisation Plan even if the sale of assets goes beyond the duration of the Economic Adjustment Programme. Within this context, the Government is committed to continue to insulate the privatisation process from political pressures.

The provision of basic public goods and services by privatized industries will be fully safeguarded, in line with the national policy goals and in compliance with the EU Treaty and appropriate secondary legislation rules.

Actions to be taken by the Government include the following:

1. Rapid adoption of necessary primary and secondary legislation and implementation decisions, in consistency with the required actions for implementing the Privatisation Plan. The Authorities must proceed swiftly to establish the regulatory framework in those areas which are necessary for the privatisation process (airports, ports, water, lotteries), consistent with EU legislation, taking into account international best practises. Transferring of assets to the HRADF quickly will facilitate the privatisation process and will signal the clear intention of the authorities to bring the privatisation process forward. The authorities should take immediate actions to address the state-aid related issues pending, which is a pre-condition for proceeding with the privatisation of these assets. All government actions pending in these three areas are listed in Annex 9.1.

2. Privatisation of real estate assets is of outmost importance in this process. High priority should be given in the preparation of assets (title clearance, licencing etc.) given the time lags involved in such a process and the need to secure a sufficient number of assets in the privatisation pipeline. Hence, the authorities should proceed with:

    i. The transfer of full and direct ownership of 1000 commercially viable real estate assets to the HRADF **(by end-2013)**.

    ii. The transfer will be done in four phases, based on concrete interim targets of 250 real estate assets per quarter **(counting from January 2013).**

3. Currently some 80,000 public properties are under the management of ETAD. Additional properties are under management by different ministries. The status of these properties in many instances is unknown, or unverifiable. This implies waste and limits possibilities for developing public property and deriving income from it. In order to enhance of asset management capacity of Hellenic Republic, the Authorities:

    i. propose a plan to prepare the remaining (not in the privatisation pipeline) real estate assets owned by the Hellenic Republic, and managed by ETAD, for securitisation or direct privatisation. Other properties under the management of other ministries (Agriculture, Defence etc.) should be brought under the scope of this work. This plan should contain analysis of the status of properties and the steps needed to quickly prepare properties for exploitation by the State. (**November 2013**).

ii. In view of this plan, ETAD will present proposals to improve its governance, effectiveness and ability to carry out these tasks to be completed in stages and according to plan **by November 2013**.

4. The Authorities will bring all remaining (non-operational) properties (e.g., those under the Ministry of Defence, Agriculture) under the management of ETAD in steps, to be completed by **December 2013**; a first progress report to be prepared by **June 2013** on the numbers of properties by Ministry/Public Entity, the nature, state and of these properties and providing detailed information, where applicable, to its current use; a second progress report with the number already transferred to ETAD by **August 2013**; a third progress report with the number already transferred to ETAD by **October 2013**; and a final report by **December 2013**.

5. The Authorities will ensure that there will be no transfer or withholding of any real estate assets, without prior consultation and agreement with the HRADF and the EC/IMF/ECB, to entities other than the HRADF, including to municipalities and the recently established pension fund SPV or other dedicated legal entities, or until such time as the assets necessary to supply the privatisation plan have been secured **(Continuous)**.

6. The HRADF, drawing in particular from a report to be prepared by the ESM, will assess the possibility of raising additional revenues from the private sector, with a focus on international investors, by means of securitisation of assets, through the exploitation of assets not yet included in its privatisation plan and specified in paragraph 2.1.9 (**continuous**)

7. The HRADF will continue to be tasked with selling assets as quickly and effectively as possible. In particular, there will be no further political review once an asset has been transferred to the HRADF **(Continuous)**.

8. The HRADF will publish quarterly reports on its steps to facilitate privatisations, financial accounts, including a profit and loss statement, a cash flow statement, and a balance sheet, no later than 60 days after the conclusion of every calendar quarter **(Continuous)**.

9. Securing privatisation receipts which, cumulatively since June 2011, should be at least EUR 1.6 billion by **end-2012**, EUR 4.2 billion by **end-2013**, EUR 6.5 billion by **end-2014**, EUR 7.7 billion **by end-2015**, EUR 11.1 billion by **end-2016**.

2.2 Tax policy reform

1. By **June 2013**, the Government makes fully operational a standard procedure for revision of legal values of real estate to better align them with market prices that will be in place for the purposes of capital taxation for the fiscal year 2014.

2. The Authorities will adopt a unified and simplified income tax code (**June 2013**).

3. The Authorities will develop the tax policy capacity in the policy unit of the Ministry of Finance with appropriate and adequate legal and economic expertise for the development, economic impact, and revenue assessment of new tax policy initiatives (**September 2013**).

2.3 Revenue administration reforms

A strong and focused reform programme undertaken in the coming months must continue to address all the weaknesses in the existing system and support the fight against tax evasion and corruption. The Government will continue to reform the current institutional framework in line with that in many other

EU and OECD economies to ensure more autonomy for the tax administration department, especially for day-to-day operations, while leaving policy matters in the hands of the Government. The reform must be undertaken in a gradual way after assessing carefully the impact of each step undertaken:

- The re-organisation of tax offices must continue to take place to increase the efficiency of audits and tax collection.
- Methods must continue to be improved, using risk assessment techniques, to increase focused audits on high yield targets, and on substantial issues in order to detect tax evasion. This requires a second phase of improvement of the Code of Books and Records, and the creation of a new single tax procedure code.
- Collection of taxes should continue to be reinforced. The debt collection function should be consolidated into a small number of offices and conducted by a full time work force of specialized collection staff, and where possible integrated with the collection of debt related to social security contribution and local government.
- The management will be improved, under the leadership of a Secretary General for Public Revenue (SGPR) with increased powers. Managers and auditors should be subject to performance targets and regular assessment. The SGPR must have the capacity to replace non-performing managers and auditors. Besides, managers must rotate regularly.
- The structure of the Secretariat General for Public Revenue has to be reorganized to include other functions related to the implementation of the tax and customs legislation and which are not at the moment integrated in the Revenue Administration, including audit, controls, information systems and internal audits.
- Fighting tax evasion and corruption is a priority in this effort.
- The current administrative review process has to be replaced by a cost effective compulsory pre-settlement administrative procedure, in order to significantly reduce the number of unnecessary tax litigation, so as to lighten the burden of courts and ensure a timely settlement of the cases.

To deal with all these challenges, full use should be made of technical assistance provided in this sector. This implies a structured process involving technical assistance advice working on an on-going basis with the administration on new legislation and implementing decision, with enough time to guarantee proper consultation and with a constant effort to keep rules simple and in line with current administrative capacity.

With the aim of strengthening the Revenue Administration, as part of the reform programme, the Government**, prior to the disbursement**:

a. Enacts the legal framework necessary to transfer to the revenue administration the Ministry of Finance internal affairs department, and all tax and customs administration related functions within the General Secretariat for Information Systems (GSIS) and within the Corps for the Prosecution of Financial Crimes (SDOE);

b. Simplify the procedure to classify debt as uncollectable, and suspend collection activities on uncollectable debt (subject to a joint decision with the Court of Audit for amounts more than €1.5 million);

c. Abolish the requirement that all tax declarations for the previous 10 years must be audited while retaining the right to continue to audit earlier years and the discretion to audit any amount of declarations from these earlier years.

The Government undertakes the following reforms:

2.3.1 Organization

1. Increase autonomy of the revenue administration by the following actions:

    i. Transfer all personnel functions and budget allocations of the Internal affairs department and the revenue-related departments of GSIS to the revenue administration, and draft and implement the service-level agreement between the SGPR and the GSIS (**July 2013**)

    ii. Transfer of the revenue-related functions, personnel, and budget allocation of SDOE under the revenue administration is completed (**October 2013)**

    iii. Provide that any advice of MAREG to the revenue administration on organizational matters has to be given within a 14 day time frame (**May 2013**);

    iv. Enable the Secretary General for Public Revenue Administration (SGPR) to determine the conditions for hiring under the control of ASEP (**May 2013**);

    v. Create a budget code that encompasses all organizational units of the revenue administration (to enable a separate and unified budget allocation for approval by parliament starting with the 2014 budget) (**May 2013**);

    vi. Establish a small financial management unit in the revenue administration to coordinate the preparation and implementation of the revenue administration's budget (while maintaining the role of the General Directorate for Financial Services (GDFS) as overall budget coordinator and financial controller for the Ministry of Finance's aggregate budget appropriation) (**May 2013**);

    vii. Review the delegation of competencies to the SGPR and GDFS in the Ministry of Finance, and if necessary assign the authority to the SGPR to reallocate expenditures across budget lines in accordance with the general rules set out in Organic Budget Law 2362/1995 (**July 2013**);

    viii. Authorize the SGPR to determine a grading and promotion system for the revenue administration, subject to the approval of the Minister of Finance (**May 2013**);

2. Continues to centralise and merge local tax offices leaving:

    i. about 140 functioning offices (**June 2013**);

    ii. 120 when payment through banks is operational all over the territory (**September 2013**).

2.3.2 Fight against tax evasion, money laundering and corruption

1. The Authorities submit proposals for further simplification and improvement of the Code of Tax Recording of Transactions (formerly code of books and records) and corresponding amendments required in the commercial and accounting legislation (**October 2013**);

2. The revised Code of Tax Recording of Transactions will come into effect by **1/1/2014**.

3. Reduce payment requirement to file a VAT return to a minimum (**May 2013**).

4. Take all appropriate measures to complete the certification of 2000 tax auditors by **July 2013**.

5. The SGPR provides a plan, including training, for the integration of new staff in the administration (**May 2013**).

6. Complete the external hiring of the additional 200 auditors (**July 2013**).

7. Ensure that all staff are assessed for their performance on a bi-annual basis under the new assessment system (**Continuous**).

8. Ensure an adequate number of supervisors in the High Wealth Individual and High Income Self Employed (HWI-HISE) and Large Tax Payers Unit (LTU), including through reallocation from other activities (**Continuous, starting June 2013**).

9. The SGPR issues a decision to enhance targeted auditing based on risk assessment techniques (**May 2013**).

10. The Authorities implement indirect audit methods and allow their application to any open tax audit (which will bring wealth and expenditures into the determination of taxable income) (May 2013);

11. The SGPR issues a circular introducing the modern code of conduct concerning conflicts of interests and declaration of interests and a system for protecting whistle-blowers who report corruption (May 2013).

12. Appoint the national coordinator for anti-corruption, the coordination committee and its chairman, and the advisory committee, and second the eight staff provided for by the law. (**May 2013**).

13. The Authorities revise legislation to enable prosecution for major tax evasion regardless of the tax payer paying the tax assessment in cases of settlement (**May 2013**).

14. The authorities complete the development of an IT system allowing immediate access to information about existence of bank accounts held by taxpayers, and about the current balance on the account, which will be implemented on a pilot basis. (**July 2013**)

15. A full implementation of the action specified in (2.3.3.16) (**September 2013**).

16. Ministries and State Owned Enterprises (SOEs) which have a fiscal relationship with taxpayers and beneficiaries utilize their tax identification number for financial transactions with them (**June 2013**).

17. The Authorities make compulsory the use of tax identification numbers for all official transaction with the whole public administration (**December 2013**)

18. The Authorities introduce a system to consolidate and link all of the different identification numbers now used across various government agencies (**June 2014**).

2.3.3 Tax and revenue collection

1. The SGPR completes the consolidation of debt collection in the largest tax offices (DOYs) by (**September 2013**)

2. The Authorities will present a plan for providing a compulsory professional training programme for debt management staff (**May 2013**).

3. The SGPR completes a review of the policy and procedures to write off tax debts (**June 2013**).

4. The Authorities introduces the possibility of direct debiting of bank accounts for taxpayers in arrears (**September 2013**).

5. The Authorities take necessary steps to replace payments in cash and cheque in tax offices with bank transfers (**June 2013).**

6. The Authorities Commit not to adopt new tax amnesties, or extend existing amnesties for the collection of taxes and social contributions during the years covered by the economic adjustment programme (**Continuous**).

7. The Authorities will establish a special working group to examine the arrears stock across the four largest Social Security Funds (SSFs), to assess collectability, and identify collectible arrears for transferring them to the new single collection entity by (**June 2013**).

8. The working group will develop a framework for coordination and integration of tax and social security contributions (SSC) arrears collection (**September 2013**).

9. The Authorities will introduce a revised surcharge regime for late payment of SSC by **June 2013** that combines a penalty and an above market interest rate.

10. The Authorities repeal the application of the Code for Collection of Public Revenue for collection of social security contributions, and enact a new legal framework for public revenue collections in line with international best practice (**February 2014**).

11. The Authorities enact the new legal framework for instalment schemes for debt related to tax and for social security contributions **(June 2013)**:

    i. The legislation will set the date of opening application into the new scheme no later than **July 1, 2013**. Entry into existing tax and SSC debt instalment schemes that do not extend past June 30, 2017 and do not offer more generous terms and conditions than the fresh start scheme (concerning the effective interest rate and the surcharge reduction), will be allowed up until June 30, 2013. The law will specify which schemes remain open until June 30, 2013. Entry into all other schemes will be discontinued upon submission of this legislation to parliament. Entry into these two installment schemes will be disallowed for debtors who are in default on another scheme after the submission of the law to parliament.

    ii. The key features of the basic permanent instalment scheme will include: (i) tightened eligibility (proof of viability and tax compliance will be required); (ii) payment of market interest rates plus a premium on outstanding balances; (iii) enforced collection upon default on a payment; and (iv) a maximum of 12 monthly instalments (except for a specific list of taxes of a non-current or extraordinary nature for which instalments of up to 24 months would be allowed.

    iii. However, on a one-time basis, in parallel to the normalization of the economic situation, the framework for granting tax debt and SSC payment arrangements will be temporarily made more flexible through the adoption of a "Fresh start scheme" open to settle debt existing at end 2013 for debtors current in 2013 payments. Two key changes will be made. First, taxpayers will be allowed to pay pre-existing tax

and SSC debts (not already subject to an instalment arrangement), and to consolidate debt from other schemes. Payments will be in equal monthly instalments not extending beyond June 2017. There will be a reduction in the surcharge by at most 50 percent upon full payment of the debt. This will accommodate viable taxpayers whose capacity to pay is temporarily affected by the current business cycle. Second, reduced documentation requirements will apply for tax and SSC debts below €75,000. Under this scheme, compliance with current tax and SSC obligations is mandatory, full collateral will be required for large rescheduled amounts (over €300,000), and enforced collection upon default will apply.

2.3.4 Tax dispute

1. The Internal Review Unit will be operational by (**August 2013**)

2.3.5 Management of the State Revenue Service

1. The SGPR replaces managers who do not meet performance targets (**Continuous)**;

2. The Authorities launch an easily accessible website to enforce accountability to the public through publication of summary statistics on key performance indicators, the number of tax evasion cases sent to the FIU and to prosecution by the tax administration (**May 2013)**.

2.3.6 Tools

1. The Authorities adopt a new Single Tax Procedures Code (**June 2013**). This code should aim to reduce the costs of administration and compliance and will incorporate procedural reforms in all major administrative areas that are necessary to support modern tax administration (e.g., tax filing, audit and penalties, enforcement powers and debt collection.)

2. The SGPR ensure the use of a number of functions in ELENXIS (tax payer profile) for all tax units that perform audits and full use in certain key offices (LTU, HWI-HISE). (**June 2013**).

3. The new ELENXIS system will be operational in major tax offices and audit centres by (**December 2013)**. The National Centre for Public Administration and Local Government (EKDAA) will provide the necessary support.

4. The new TAXIS system is operational in tax offices as follows:

    i. In 50 tax offices covering 70% of revenues by **June 2013**;

    ii. in all tax offices by **October 2013**.

2.4 Public Financial Management Reforms

Developing a solid public financial management framework is key in controlling expenditures and thus being able to achieve fiscal targets. The Government is committed to enacting targeted reforms for strengthening the framework both within the General Accounting Office (GAO) and line ministries.

In this area, the Authorities undertake to implement important reforms which include monitoring expenditure across different public entities, as well as in local governments and state-owned enterprises, and putting in place triggers for ensuring that the budget is executed in an orderly manner and expenditure is kept under control.

One important area where significant progress must be made is in preventing the build-up of arrears, both on the tax and expenditure sides. The significance of a timely transposition and implementation of the Late Payment Directive has been highlighted in the Communication on Action for Stability, Growth and Jobs that reflects the role of the Directive in restoring normal lending to the economy: 96% of bankruptcies are due to late payments or other objective problems. In the current economic situation it is ever more relevant that the problem of late payment is addressed; implementation of the Directive requires payment of invoices within 30 days in principle, or 60 days in exceptional cases. In Greece the transposition and implementation of the Directive is particularly challenging as late payment, both in business-to-business (B2B) transactions and in transactions between public authorities and businesses (PA2B), ranks amongst the highest in Europe, according to the European Late Payment Index of Intrum Justitia. A timely and precise transposition and implementation of Directive 2011/7/EU will correct also some current discrepancies between European and Greek legislation closing two pending cases of infringements if article 1 of Law 3068/2004, as amended by Article 20 of Law 3301/2004 (which implies that a title which in Greek law is formally called "enforceable title" is not enforceable against Greek "State bodies and bodies governed by public law") and Article 27 of Law 2867/2010 (which obliges suppliers to public hospital to surrender any claims for statutory interest due to late payment in order to be paid) are amended and/or repealed as part of the Greek transposing measures for Directive 2011/7/EU.

Given the economic sanctions included in the Directive for late payment, this requires a further strengthening of the public finance management to cope with the implementation of the payment delays envisioned by the late payment directive (30 days in principle, 60 days in exceptional cases).

Prior to the next disbursement the Government will:

a. Transpose the Directive 2011/7/EU on combating late payment in commercial transactions.

Other actions to be taken by the Government include the following:

1. In order to fully comply with the late payment directive, notably compliance with the deadlines set in this Directive, the Government will propose by **June 2013** a realistic action plan and a timetable for progressing with reforms in Public Finance Management with a view to streamline payment processes and shorten payment periods. The action plan shall contain:

    i. the different steps that need to be accomplished by the Greek government in order to simplify the processes related to payments in the public sector.

    ii. It shall provide for specific deliverables within set deadlines in order to allow for monitoring of progress made in its completion.

    iii. It shall contain proposals in order to reduce significantly the number of parties involved at each step of the process, and provide for the concrete deadlines that need to be respected for each step to be completed.

    In producing the action plan the Greek government shall take into account the technical assistance already received and further assistance made available by TFGR and other

experts and the timetable already outlined for the completion of the Enterprise Resource Planning (ERP) project.

2. In parallel with the ERP project GAO will engage in discussions with the Hellenic Court of Audit (HCA) on further streamlining the pre-audit process by the HCA. GAO will propose to the HCA an increase in the ceilings for mandatory pre-audits, and below the ceiling the introduction of risk-based pre-audits rather than 100% pre-audit. GAO will ask the HCA to develop an action plan for inclusion in the economic adjustment program (**June 2013**)

3. To address problems still lying in the extra-budgetary funds and in the social security sector, especially in relation to the transfer of competencies from SSFs to EOPPY, despite the progress in the setting-up of the commitment/co-payment registries, the Government will:
   i. ensure that commitment registers are in operation in 80 per cent of general government entities based on 2013 entity coverage **(June 2013)**.
   ii. monitor the effectiveness of the commitment registers by conducting regular targeted inspections in the public entities covered by the system (**Continuous)**.
   iii. enforce the obligation of accounting officers to report commitments by enacting sanctions to entities not submitting needed data, though disciplinary action for accounting officers, and by strengthening the role of GAO in providing support and guidance to Accounting Officers (**Continuous)**
   iv. take actions as soon as significant deviations from yearly targets of EOPYY become evident (**Continuous**).
   v. Ensure that all the 41 SSFs report on the e-portal (**June 2013**).

4. To address other problems still lying in the central government sector the Government will:
   i. will adopt a Ministerial Decision to ensure that any change to the projects decided by the Regional authorities is timely recorded in the MIS database (**May 2013**). This Decision provides for a fully-fledged monitoring system for implementation of the PIB. Until then, the modifications of the financial data of the projects will continue to be entered to the existing monitoring information system under the responsibility of the Directorate of Public Investments (**May 2013)**.
   ii. The Government ensures that the responsibility of the functioning of PIB commitment registers is always linked to the responsibilities of allocating the available resources among projects (**continuous**)
   iii. completes the reorganization of the GDFS through the adoption of a Joint Ministerial Decision (**June 2013**).
   iv. establishes procedures for identifying fully qualified senior financial managers for the Accounting Office positions (**June 2013**).
   v. Appoints the Accounting Officers based on these new procedures. (**September 2013**).
   vi. The MoF/GAO and MAREG, in consultation with the Accounting Officers of the Ministries, ensure adequate staffing for the financial functions in line ministries and develop training material and a training scheme for GDFS staff (**continuous**).

5. To clear expenditure arrears and tax refunds, the conditions for a government unit to meet to allow funds for arrears clearance to be disbursed will include, for expenditure arrears: (i) establishment by the unit of a fully functioning commitment register and (ii) reporting of at least three months of consistent data on commitments, payments, and arrears (2 months for EOPYY); and, for both expenditure arrears and tax refunds: (iii) verification of claims.

Subvented agencies which meet these conditions can clear their arrears even if their parent agency does not meet the conditions. Arrears should not delay the execution of the pharmaceutical spending clawback or any related measure. The Government will:

i. Ensure the administrative capacity to make the clearance of arrears effective by staffing the necessary units (**June 2013**)

6. Once the clearance of all verified arrears is achieved, the Government ensures that no new arrears are accumulated (**Continuous**).
7. Start reporting (on accrual basis) of all existing tax refund claims in fiscal accounts according to the year in which they were incurred. Furthermore, the monthly General Government budget execution bulletin starting in April will report the amount of disbursed tax refunds and payments on expenditure arrears as cash spending (**Continuous**).

2.5 Safeguards for the delivery of fiscal commitments

Enhancing credibility is essential to the success of the Adjustment Programme for Greece. One way is through the early implementation of the EU's Fiscal Compact. Greece has already signed and ratified the intergovernmental Treaty on Stability, Coordination and Governance in the EMU. A key part of the Treaty is the fiscal compact that introduces national budgetary rules as well as enhanced enforcement mechanisms at European level. Within a comprehensive approach, key steps to safeguard the delivery of fiscal commitments are necessary in the areas of: Budget preparation and implementation, monitoring and reporting, corrective and sanctioning mechanisms, transparency, accountability and oversight, debt servicing.

2.5.1 Enhancing national budgetary rules in line with the EU's Fiscal Compact

1. The Government will adopt the necessary legislation to transpose the Fiscal Compact provisions with a view to introducing a structural budget balance rule with an automatic correction mechanism (**August 2013**)

2.5.2 Budget preparation and implementation

The Government will:

1. Adopt an administrative calendar for the preparation of the medium-term fiscal strategy (MTFS) (**May 2013**).
2. Modify the organic budget law by **August 2013** to introduce:

   i. The MTFS will set fixed expenditure ceilings for line ministries and the health care sector and every year a ceiling for an additional year will be added while the already set ceilings (i.e. for the first two years of the rolling three-year period covered by the ceilings) would remain as previously fixed. ;

   ii. Establish binding annual budget balance targets for local governments;

   iii. identify performance targets for SOEs;

   iv. Provisions to freeze ex-ante 10% of discretionary appropriations per budget line as part of the MTFS. The frozen appropriations would be released in the second half of the year conditional upon meeting the fiscal targets. The first application should concern the 2014 budget.

   v. A revenue rule for the general government, according to which at least 30% of windfall revenues in excess of the target will be devoted to debt repayment while up to 70% could be used the following year by the Government to support temporary policies aiming to boost growth and social cohesion automatically, conditional to the achievement of the fiscal targets.

2.5.3 Monitoring and reporting

The Government will:

1. Identify other areas of operational expenditure where real time monitoring mechanisms could be introduced or strengthened (**June 2013**).

2.5.4 Corrective and sanctioning mechanisms

The Government will:

1. Ensure a continuous balance between pension contributions and benefits, by bringing forward to June 2014 the entry in force of the binding mechanism (for auxiliary pensions) already legislated to enter in force as of 2015. (**September 2013**)
2. Strengthen HRADF's governance and independence and implement an automatic correction mechanism, should there be any difficulties in the privatisation process or slippages in the targets, by (**quarterly)**:
    i. Reviewing the functioning of the recently amended privatisation law, through specific QPCs to be enforced the moment the privatisation plan derails.
    ii. Taking, in cooperation with EC/ECB/IMF, appropriate steps, including changes in existing legislation and/or in the composition of the Board, to safeguard and strengthen the independence and the functioning of the HRADF, if targets for the sale of assets to be privatised were missed substantially for two consecutive quarters. In all circumstances, the HRADF remains fully accountable to parliament on an ex-post basis for the integrity of every privatisation sale.
    iii. Increasing automatically the primary surplus target, should there be a shortfall of privatisation proceeds due to the delay in sales of specific assets compared to programme targets for two consecutive quarters. Any shortfall in privatisation proceeds ceteris paribus increases the financing need and the debt ratio. To mitigate this undesirable outcome, unless other adjustments are agreed with the EC/ECB/IMF, the primary surplus target would be raised with immediate effect by 50 percent of the shortfall in proceeds, and should be achieved by means of current expenditure cuts in the general government. The adjustment within any year would be capped at €1 billion.
3. Enhance the corrective mechanism for local governments by:
    i. Issuing Joint Ministerial Decision providing guidelines for the Observatory's assessment of the local government's budgets (**May 2013)**;
    ii. Establishing a review process of LG's budgets by the Observatory of local authorities, in order to ensure consistency with the overall MTFS targets for LGS to be completed. (**June 2013**)

2.5.5 Transparency, accountability and oversight

The Government will:

1. Increase transparency and accountability to the public/parliament, by e.g. releasing status reports on the implementation of the legislated fiscal measures, publication of hiring numbers, proper fiscal impact assessment of legislation, statement of the main sources of fiscal risks related to changes in key economic assumptions in the forecast, as well as an assessment of the fiscal impact of the main sources of fiscal risk including government guarantees and other contingent liabilities, etc. (**June 2013**)

2. Take steps to strengthen the reputation of the existing Parliamentary Budget Office, independence and technical competence towards a fully-fledged fiscal council (e.g. provision/endorsement of forecasts for the budget preparation, monitoring of compliance with budgetary targets and fiscal rules, provision of independent assessments of fiscal developments and challenges, etc.), building on best international practices. (**December 2013**)

2.5.6 Debt servicing account

1. The Government will ensure an effective implementation of the debt servicing account to monitor cash flows, avoid diversion of official financing and secure a timely debt servicing. Law 4063/2012 established a segregated account in the Bank of Greece. By law, disbursements to this account cannot be used for any other purposes than debt servicing. Via this account the amortization and interest payment costs of all HR's loans, debt management transactions and derivatives, as well as any parallel cost (fees and other expenses) related to debt servicing and in general to Public Debt Management are paid. The proceeds of this account are the disbursement of EFSF's loans, subject to an EFSF acceptance notice, as well as the Hellenic Republic's contributions to debt servicing, including all revenues from the privatisation of State assets and at least 30% of windfall revenues. All payments from this account will be subject to prior detailed reporting to the EFSF/ESM and ex-post confirmation by the account holder. (**Continuous**)

2.6 Other institutional requirements

1. Central State Aid Unit (CSAU):

   i. The Government adopts the law creating a Central State Aid Unit CSAU and setting the general principles concerning State aid (**May 2013**).

   ii. The Government launches the call for interest in order to appoint the Director, and relevant officials of the CSAU. The Central State Aid Unit is responsible for screening all measures, from across the Government, for their compliance with State aid rules, before they are implemented. The Central State Aid Unit will be the only contact point for the Commission on all State aid matters, including for notifications. The aim is to ensure a timely and effective clearance of state aid issues. (**June 2013**)

   iii. The Government amends the law concerning recovery of illegal State aid with a view to clearly excluding any possibility of recovery in instalments. Indeed, Article 22.1.b of the law 4002/2011 currently states that recovery may take place in instalments and refers to the Code of Collection of Public Revenues, which also foresees this possibility. The updated law should exclude the possibility of recovery in instalments while, possibly, maintaining reference to the above-mentioned Code for other procedural aspects (**May 2013**).

2. All actions attributable to public authorities should be in compliance with the rules on free movement of capital (TFEU, Article 63) **(Continuous)**.

2.7 Making the public administration more efficient and effective

Reforming the public sector constitutes an essential step for the reduction in waste, the containment of public wages and the increase in efficiency and productivity levels. As a prerequisite, the following actions will be taken in the next months.

2.7.1 Reforming the public administration

In order to achieve a leaner and more efficient state, the Government initiates a rigorous evaluation of administrative structures and personnel, in order to maintain the right skill mix of employees over time. Entity closures are pursued and employees are either transferred to the mobility scheme or dismissed. This reform process is extended to extra budgetary funds and regional and local administrations in 2013.

Rational reallocation of personnel, through evaluation, mobility and qualitative renewal through exits are the tools in the Government's efforts to improve the effectiveness of the public sector, since exits are an important channel for hiring new, fresh, highly qualified employees through fair, objective and transparent procedures managed by the recruitment agency (ASEP).

Prior to disbursement the Authorities:

a. adopt consistent staffing plans for government entities covering at least 206,000 employees;
b. approve quarterly plans for 15,000 exits cumulative through end-2014, including 4,000 by end-2013 (with a significant fraction frontloaded);
c. approve annual overall employment targets for the general government through 2016 (consistent with the already approved MTFS);
d. vote the necessary legislative changes in order to streamline and accelerate the disciplinary procedure to show the commitment of the government;
e. implement a permanent monitoring mechanism for the disciplinary procedure and provide data regarding the pending cases and the pace of dealing with the stock of cases; and
f. eliminate any existing legal provision forcing the state to put personnel of legal entities of private law, whose positions are abolished, in the mobility scheme.

1. To further advance the reform agenda **during 2013**, the Authorities will:

    i. ensure that cumulatively 12,500 employees have been placed in the labor mobility scheme by end-June 2013 and 25,000 employees by **December 2013**;

    ii. complete staffing plans for 450,000 employees (cumulative) by **June 2013**;

    iii. complete staffing plans for all general government entities by **December 2013**;

    iv. involve the Commission services with respect to the assessment of structures and staffing linked with the implementation of the Cohesion Policy (NSRF Operation Programmes) and will seek its agreement when taking related decisions (**continuous**);

    v. complete assessment of individual employees by **December 2013**.

    vi. the quarterly targets exits and entries into the mobility scheme will become indicative targets under the program. Overall, this should help reduce the public sector workforce by 150,000 **by 2015**, relative to the end-2010 level.

2. The consolidation program will make room to hire new staff, and this room will be used to address areas where we face deficits of skilled staff.

    i. The Government will hire one new employee for each exit as a result of (i) disciplinary cases; (ii) due diligence evaluation of legal entities of public and private law leading to mergers and abolishment; (iii) evaluation of the personnel using the mobility scheme, including before any reallocation to a new position; (iv) voluntary exits from the mobility scheme (excluding personnel within 3 years of

retirement); and (v) the elapse of a 12-month period in the mobility scheme. (**continuous**).

ii. If the assessment (to be provided to EC/IMF/ECB **monthly**) at any point shows that the plans are no longer on track to achieve our aggregate targets, the authorities commit to reduce the 1:1 hiring ratio for exits mentioned under (i.) (**continuous, monthly**).

iii. For all other exits than those mentioned under (i.), the hiring ratio will remain 1:5, as envisioned in the program (**continuous**).

iv. By **June 2013**, we will define detailed hiring plans for 2013, in consultation with the EC/ECB/IMF.

3. The Authorities will define a human resources strategy in order to: (i) identify the weaknesses of the public service management of human resources; (ii) identify the best possible way to modify recruitment procedures, appointments, trainings, as well as mobility. This strategy is reflected in legislation (**June 2013**). This legal act will provide a basis for evaluating the competences of the senior management.
4. The Authorities will assesses the mandate, roles and responsibilities of all senior managers, including the politically appointed and the senior public service management (**June 2013**). This assessment will lead to an amendment of the current legislation, by clarifying and framing the relationship between the political level, the management positions and the services. Within this framework, the number of advisors will be reduced and constrained, and each advisor will have a specific job description. The aim is to ensure institutional continuity and higher levels of efficiency in the public administration (**June 2013**).

2.7.2 Fighting corruption

1. The Government will by **June 2013**:

i. present draft legislation to bring the anti-corruption legal framework in line with relevant international standards;

ii. initiate the implementation of the relevant actions contained in the action plan

2.8 Avoiding waste and increasing quality through sound public procurement

Important fiscal savings and higher quality purchases can be realised by sound public procurement processes. The reforms aim at i) making the Single Public Procurement Authority, the newly created procurement watchdog, fully operational; ii) establishing an e-procurement platform and mandating gradually its use by the public administration; iii) increasing the share of supplies and services tendered through Central Purchasing Bodies, including by the use of framework contracts and iv) at codifying and simplifying all public procurement legislation.

2.8.1.1 To make the Single Public Procurement Authority (SPPA) operational

The Government:

1. The SPPA ensures coordination and coherence of the functioning of the Central Purchasing Bodies, of the reform of the Greek public procurement regulations and of the e-procurement framework with the overall public procurement system and strategy. **(Continuous)**

2.8.1.2 To increase the efficiency of procurement processes:

The Government moves towards more centralised procurement, especially in the field of health procurement, services and supplies (including civil supplies and services for defence not falling under the scope of Directive 2009/81 on procurement in the fields of defence and security). It also starts building a system of statistics in the field of procurement, uses framework contracts and reviews the public procurement legislation including works, supplies and services. In particular, the Government:

Agora portal

1. Following the adoption of the JMD on the Agora Portal for contract transparency:
    i. publishes data on contract notices on supplies, services and works and on the number of contracting authorities uploading information on the AGORA portal starting with contracts above €30,000. (**June 2013**)
    ii. facilitates compliance, by reviewing standard documents and providing support to contracting authorities. (**Continuous**)

Central Purchasing Bodies (CPB):

2. Adopts decisions leading to the creation of a Central Purchasing Body at the General Directorate for the procurement of goods and services. In particular, the Government:
    i. draws a list of supplies and services where the requirements of multiple contracting authorities can be standardised into a limited number of alternatives. The list includes items, such as, office equipment, furniture, supplies and stationery, IT equipment, telecommunications, transport vehicles, travel services, etc. (**May 2013**)
    ii. draws framework contracts for the procurement of the abovementioned standardised supplies and services through the CPB. (**Continuous**)
    iii. issues legislation mandating the purchase of the identified standard supplies and services through the CPB for all central government entities, with no monetary thresholds and with transitory periods agreed with the Commission services. Military purchases of standardised civil supplies and services (not falling under the scope of Directive 2009/81 on procurement in the fields of defence and security) are also carried out through the CPB. (**June 2013**)
    iv. tenders at least three framework contracts used in frequently purchased supplies or services at central government level through the CPB. (**December 2013**)

Framework contracts:

    v. Mandates the relevant administrations to source via the framework contracts submitted to the Commission services (**June 2013**)

Reform of public procurement legislation:

3. Undertakes to adopt **by December 2013** a reform of the public procurement system including works, supplies and services under the coordination of the SPPA with a view to:
    i. simplifying, streamlining and consolidating the body of public procurement legislation;
    ii. rationalising the administrative structures and processes in public procurement to desired procurement results in terms of efficiency and efficacy;

iii. improving national review procedures, including the reduction of delays triggered by the redress system and assessing the role to confer to the SPPA in the area of redress (remedies and judicial protection).

4. Proceeds with the reform of the public procurement legislation, in accordance with the action plan submitted to the Commission services in February 2013. The drafts of all legislative and organisational measures implementing the above-mentioned Action Plan are presented to the European Commission by **September 2013**.

2.8.1.3 To run public procurement procedures by electronic means (i.e., E-procurement):

The Government:

1. Refines, in consultation with the European Commission, the existing *plan* for the development of the e-procurement platform by (**May 2013**) including, among others, measures and deadlines for:
   i. the operation of supplies, services and public works procurement contracts through the e-procurement platform;
   ii. the availably of functionalities such as e-notification and e-tendering;
   iii. the mandatory use of the platform by the central government, regional government and other public sector entities;
   iv. the communication and training programmes for users of the platform;
   v. the periodic monitoring mechanisms for the take-up of e-procurement platform by its users and the specification of target usage levels;
   vi. the interaction of the platform with the planned simplification of procurement legislation;
   vii. the means to facilitate access and use to the platform by users, including easy to use e-signature and e-ID solutions.

2. In the *development* of the e-procurement platform, commits to:
   i. run supplies and services contracts for the Central Government on a pilot basis through the e-procurement platform throughout the **1st half of 2013**.
   ii. ensure that the e-procurement platform is fully operational and ready for use by the Central Public Administration for supplies and services contracts in **July 2013**.

3. Ensures the use of the platform as follows:
   i. the Central Purchasing Bodies (CPBs) manage the e-procurement platform for all their tendering procedures. (**June 2014**)
   ii. the whole public sector in Greece uses the e-procurement platform for commonly bought supplies and services by **December 2015**.

4. Submits to the Commission services the data of the *monitoring* activities covering year 2013 against the target user levels. (**1st half of January 2014**) In addition, it presents data on:
   i. the number of calls for tender published electronically (in absolute terms and as a percentage of total number of published calls for tender);
   ii. the number of tenders with specifications published online;
   iii. the number of contracts carried out electronically relative to the total number of contracts.
   iv. the types of purchases carried out with the e-procurement platform.
   v. the number of contracting authorities using e-procurement.

2.9 Completing the pension reform to secure sustainability

The Government:

1. Esnures that all social security contributions to ETEA will be recorded electronically by (**June 2013**).

2. Ensures that the new single fund ETEA sets up, in a cost effective way, a computerised system of individual pension accounts; starting in **March 2013** and to be finalised by **December 2013.**

3. Produces a regular quarterly report of the activities of the Health Committee, aimed at monitoring and revising the disability status and ensure that disability pensions correspond to not more than 10 percent of the overall number of pensions. (Continuous, **next report, June 2013**)

2.10 Modernising the health care system

The Government continues to implement the comprehensive health sector reform with the objective of stabilising public health expenditure at, or below, 6 percent of GDP, while maintaining universal access and improving the quality of care delivery. Policy measures include reducing the fragmented governance structure, reinforcing and integrating the primary healthcare network, streamlining the hospital network, strengthening central procurement and developing a strong monitoring and assessment capability and e-health capacity.

The programme measures aim at achieving savings in the purchasing (accrual basis) of outpatient medicines to reach spending of about EUR 2.440 billion and inpatient to reach spending of about EUR 0.66 billion in 2013 (accrual basis). The goal is to bring public spending on outpatient pharmaceuticals to about 1 percent of GDP i.e. around EUR 2 billion euro (in line with the EU average) in 2014. Total (outpatient plus inpatient) public expenditure on pharmaceuticals should be no more than 1.5 per cent in 2013 and 1.3 per cent in 2014.

2.10.1 Governance

To strengthen health system governance, improve health policy coherence, reduce fragmentation in the purchasing of health services and reduce administrative costs, the Government (i) ensures the effective concentration of all health insurance funds, without exception, into EOPYY, monitoring the transfer of staff and assets; (ii) ensures the effective transfer of all health-related decision making procedures and responsibilities (including payroll expenditures) under the Ministry of Health.

1. From **January 2014,** hospital services will be purchased directly by EOPYY through prospective budgets based on KEN-DRGs costing procedure (and payroll costs, should be at least reported).
2. EOPYY ensures that the number of doctors is reduced in headcount by a further 10% **in 2013**.

2.10.2 Controlling pharmaceutical spending

In order to reach the 1 percent of GDP target in 2014, the Government steps up its efforts, and further develops the set of incentives and obligations for all participants along the medicines supply chain (including producers, wholesalers, pharmacies, doctors and patients) to promote the use of generic medicines and the cost-effective use of medicines more generally.

2.10.2.1 Contingency measures to deliver the overall targets

1. The government applies an automatic claw-back mechanism (every six months) to pharmaceutical producers which guarantees that the outpatient pharmaceutical expenditure (EOPYY budget) does not exceed the above targets (**Continuous).** A note on the collection of claw back for 2013 for the first half of 2013 is submitted by **September 2013**.

2. Activates contingency measures (including e.g. across-the-board cut in prices or entry fee for the positive list), if, for any reason, the claw-back is not able to achieve the target. Such measures produce an equivalent amount of savings. (**October 2013**).

3. In addition and if necessary, EOPYY introduces additional incentives and mechanisms, including a prescription quota system for physicians, to ensure generic substitution (**September 2013**).

2.10.2.2 Pricing of medicines

The Government:

1. Revises downward the price of medicines, based on the three EU countries with the lowest prices **(quarterly update** of price list in line with the provisions of Council Directive 89/105/EEC, next list to be published **by June 2013).**

2. On the basis of the report on the impact of the new profit margins of pharmacies, reduce the profit margins down to 15% by **June 2013**.

3. Ensures that EOPYY negotiates a 5% discount through price-volume agreements on expensive medicines (200 medicines) sold in EOPYY pharmacies (**Continuous for 2013 and 2014).**

2.10.2.3 Prescribing and monitoring

The Government will,

1. Update the positive list of reimbursed medicines and the list of OTC medicines. These lists must be updated at least twice a year **(next update June 2013).**
2. Ensures full coverage of e-prescription to doctors, outpatient facilities and providers contracted by EOPYY and to all NHS facilities (health centres and hospitals) by **June 2013**. E-prescribing is made compulsory and must include at least 90 percent of all outpatient medical acts covered by public funds (medicines, referrals, diagnostics).
3. Finalise the implementation of the system (API) whereby pharmacies electronically register any residual manual prescriptions from doctors into the e-prescription application established by IDIKA. **(December 2012**, **New Deadline May 2013).**
4. Continue publishing prescription guidelines/protocols for physicians, with priority for the most expensive and/or mostly used medicines, and makes them compulsory (**Continuous**).
5. Enforce the application of prescription guidelines through the e-prescription system starting with at least 5 therapeutic groups by **June 2013.**
6. Further develop the e-prescription system by introducing compulsory ICD-10 by May 2013 and SPC filters in the e-prescription system **(October 2013).**
7. Enhance monitoring and assessment through:
    i. detailed monthly auditing reports on the use of e-prescription in NHS facilities and by providers contracted by EOPYY. These reports are shared with the European Commission, ECB and IMF staff teams. **(Continuous)**;
    ii. regular assessment of the information obtained through the e-prescribing system. **(Continuous);**
    iii. detailed quarterly reports on pharmaceutical prescription and expenditure which include information on the volume and value of medicines, on the use of generics and the use of off-patent medicines, and on the rebate received from pharmacies and from pharmaceutical companies. These reports are shared with the European Commission, ECB and IMF staff teams. **(Continuous, Quarterly, new report July 2013);**
    iv. detailed reporting on individual prescription behaviour to each physician relative to the average of comparable (specialty, patient workload) physicians (both in NHS facilities and contracted by EOPYY and other social security funds until they merge) and signals when they breach prescription guidelines. This feedback is provided at least every month and a yearly report is published covering: 1) the volume and value of the doctor's prescription in comparison to their peers and in comparison to prescription guidelines; 2) the doctor's prescription of generic medicines vis-à-vis branded and patent medicines and 3) the prescription of antibiotics. **(Continuous)**;

8. Enforce sanctions and penalties as a follow-up to the assessment and reporting of misconduct and conflict of interest in prescription behaviour and non-compliance with the EOF prescription guidelines **(Continuous)**;
9. Electronic monitoring and the introduction of cancelation mechanisms to barcodes of pharmaceutical products should be finalized by collaboration of EOF and IDIKA (**September 2013**).

2.10.2.4 Increasing use of generic medicines

Prior to the disbursement, the Government:

a. Ensures the application of compulsory prescription by international non- proprietary name (INN) for an active substance notably by putting in place an automatic blockage mechanism once prescription by branded name reaches 15% of the overall prescription value of each doctor in real time.
b. Prices the large backlog of generic medicines waiting for a price in compliance with EU Transparency Directive at a pace of 400 per month, with 400 medicines priced prior to disbursement.

The Government also:

1. Increases the share of the generic medicines in total outpatient and reimbursed medicines to reach 60 percent (in volume) by **December 2013**. This will be achieved by:
   i. automatically reducing the maximum price of originator medicines when their patent (exclusivity period) expires (off-patent branded medicines) to 50 percent of its price at the time of the patent expiry. Further reduction will be achieved by linking off-patent products to the average of the three lowest prices in the EU, to be revised periodically with price list. Producers can offer lower prices, thus allowing an increased competition in the market. (**September 2013**);
   ii. setting the maximum price of the generic to 40 percent of the price of the originator patented medicine with same active substance at the time its patent (exclusivity period) expired. After this first reduction, the price of the generic medicine is set to 80% of the downward revised price of the off-patient products (when the exclusivity period expires) which is to be set on the basis of the average of the three lowest prices in the EU as defined in point i. Producers are allowed to offer lower prices, thus allowing an increased competition in the market. (**September 2013**);
   iii. ensuring dynamic competition in the market for generic medicines through a) speeding up administrative and legal procedures, in line with EU legal frameworks; b) applying price reductions of at least 10 percent of the maximum price of each three new generic producer entering the market, according to existing regulation (**May 2013)**
   iv. deciding about the reimbursement of newly patented medicines (i.e. new molecules) on the basis of objective and strict medical and cost-effective criteria and, until internal capacity is in place, by relying on best practice health technology assessment of their cost-effectiveness carried out in other member states, while complying with Council Directive 89/105/EEC. (**Continuous);**
   v. excluding from the list of reimbursed medicines those which are not effective or cost-effective on the basis of objective criteria. **(Continuous);**
   vi. in the frame of the Administrative Reform process of EOF, set up scientific capacity in order to include cost effectiveness criteria in the reimbursement and licensing process.

2. Takes further measures to ensure that at least 50 percent of the volume of medicines used by public hospitals for inpatients is made up of generics with a price below that of similar branded products and off-patent medicines. (**Continuous**)
3. Ensures that all public hospitals to procure at least 2/3 of pharmaceutical products by active substance, using the centralised tenders procedures developed by EPY and by enforcing compliance with therapeutic protocols and prescription guidelines. (**Continuous**)

2.10.3 Reviewing the provision of medical services contracted by EOPYY

1. The government monitors the implementation of the various policies introduced in late 2012 to improve the current financial situation of EOPYY and ensure that the budgetary execution is closer to a balanced budget in 2013. Measures to monitor include: changes in OGA contributions, in the benefit package, in cost-sharing for private care and in the fees for diagnostic and physiotherapy services, as well as the use of price-volume agreements and case-mix agreements with private providers and the use of a reference price system for reimbursement of medical devices. **(Continuous)**

2. The government publishes a quarterly report on the prescription and expenditure of diagnostic tests. **(Continuous, quarterly, next report July 2013)**

2.10.4 National Health System (NHS) service provision

2.10.4.1 Reorganisation and management of the health care sector

The Government:

1. Implements the plan for the reorganisation and restructuring, as set in Law 4052 / March 2012, with a view to reducing existing inefficiencies, utilising economies of scale and scope, and improving quality of care for patients, thus contributing to better aligning working organisation with Directive 2003/88/EC. This implies reducing hospital operating costs by an additional 5% **in 2013** and reducing beds substantially, as legislated by MD OG1681/B (28-7-2011). This is to be achieved through:
   i. increasing the mobility of healthcare staff (including doctors) within and across health facilities and health regions;
   ii. adjusting public hospital provision within and between hospitals within the same district and health region;
   iii. revising the activity of small hospitals towards specialisation in areas such as rehabilitation, cancer treatment or terminal care where relevant;
   iv. revising emergency and on-call;
   v. optimising and balancing the resource allocation of heavy medical equipment (e.g. scanners, radiotherapy facilities, etc.) on the basis of need.
   vi. reducing administrative costs notably by removing deputy managers posts;
   vii. reducing cost with outsourcing services such as IT services, laboratory services and hospital servicing costs (e.g. cleaning services).

2. Produces an annual report comparing hospitals performance on the basis of the defined set of benchmarking indicators (**Continuous; next report 1st June 2013)**

3. Updates a report on human resources for the whole health care sector annually and uses it as a human resource planning instrument. (**Continuous; next report 1st June 2013**)

2.10.4.2 Accounting, costing, control, IT and monitoring systems

The Government ensures that:

1. The allocation of internal controllers to all hospitals is finalised and that all hospitals adopt commitment registers. (**December 2012, New deadline May 2013)**

2. EOPYY publishes a monthly report with analysis and description of detailed data on healthcare expenditure with a lag of three weeks after the end of the respective month. This report will make possible the more detailed monitoring of budget execution, by including both expenditure commitments/purchases (accrual basis) and actual payments (cash basis). The report will also (1) describe performance on the execution of budget and accumulation of arrears, and (2) recommend remedial actions to be taken. (**Continuous**)

3. Further measures are taken to improve the accounting, book-keeping of medical supplies and billing systems, through:
   i. the introduction of analytical cost accounting systems, with the implementation of the respective action plan, due to be finalised, with complete hospital coverage, by **November 2013**;
   ii. the regular annual publication of balance sheets in all hospitals. **(June 2013);**
   iii. the introduction of the uniform coding system for medical supplies developed by the Health Procurement Commission (EPY) and the National Centre for Medical Technology (EKEVYL) and the use of the observe.net system to monitor the procurement and use of tenders for medical supplies. **(Continuous);**
   iv. the introduction of inbound hospital logistics and warehouse management systems using barcode scanning systems for pharmaceuticals and medical consumables. **(December 2013);**
   v. implement necessary action to ensure timely invoicing of full treatment costs (including staff payroll costs) - i.e. no later than 2 months to other EU countries and private health insurers for the treatment of non-nationals/non-residents. **(Continuous);**
   vi. enforcing the collection of co-payments and implementing mechanisms that fight corruption and eliminate informal payments in hospitals. **(Continuous).**

4. ELSTAT starts providing expenditure data in line with Eurostat, OECD and WHO databases i.e. in line with the System of Health Accounts (joint questionnaire collection exercise). (**May 2013**)

5. The programme of hospital computerisation allows for a measurement of financial and activity data in hospital and health centres. Moreover, the Minister of Health defines a core set of non-expenditure data (e.g. activity indicators) in line with Eurostat, OECD and WHO health databases, which takes account of the future roll-out of DRG (diagnostic-related groups) schemes in hospitals. (**Continuous**)

6. The government starts to develop a system of patient electronic medical records. (**May 2013**)

7. The Government, with technical assistance from experts across EU, continues to improve the existing KEN/DRG system, with a view to developing a modern hospital costing system for contracting (on the basis of prospective block contracts between EOPYY and NHS). The existing set of KEN/DRGs is used in all hospitals The KEN/DRG Management Institute is established by **June 2013**. DRGs will include a detailed item on costs of personnel. (**Continuous**)

8. A follow up analysis of how hospital accounting schemes integrate DRGs at hospital level in view of future activity-based cost reporting and prospective budgets payment for hospitals will be submitted by **September 2013**

2.10.5 Centralised procurement

1. The Government increases substantially the number of expenditure items and therefore the share of expenditure covered by centralised tender procedures through EPY up to 45% of all the expenditure in medicines and medical devices by 2014. This share goes up to 60% in 2015. The Government ensures the use of such tender procedures. **(Continuous)**
2. EPY will undertake tender procedures for framework contracts for the most expensive medicines sold in EOPYY pharmacies. **(Continuous)**

In compliance with EU procurement rules, the Government conducts the necessary tendering procedures to implement a comprehensive and uniform health care information system (e-health system) including the full and integrated system of hospitals' IT systems. **(Continuous)**

2.11 Upgrading the education system

1. The Government implements the Action Plan for the improvement of the effectiveness and efficiency of the education system and regularly reports on the progress of its implementation including on the results of the external evaluation of high education institutions (Continuous, **June and December of each year**).

2. On higher education: the provisions of the laws 4009/2011 and 4076/2012 are fully and promptly implemented including:
   i. The external evaluation of the higher education institutions by the Quality Assurance Authority is completed. (**December 2013**);
   ii. The organisation charts and internal regulations of the Higher Education Institutions are completed (**March 2014**);
   iii. Update on the progress of the on-going consolidation/merging of departments of universities and technological institutes (ATHINA Project) **(September 2013)**.

3. On primary and secondary education, the new policy of evaluation of schools (including the schools' self-assessment) and educational staff starts being implemented. **(September 2013**). The first cycle of evaluation of the educational staff according to the new policy is completed (**December 2013**).

3 Stabilising the financial system

The government ensures that:

1. By **end-June 2013**, the banks will also complete a new round of liability management exercises conducted in respect of the remaining subordinated instruments.

2. No state aid will be granted to banks before it is approved by the EC under state aid rules.

3. Except for the HFSF, no entity belonging to the general government purchases bank shares during the capital increase exercise of Greek banks or directly or indirectly supports third parties by providing loans/guarantees/subsidies to purchase bank shares.

The MoF and the BoG commit to:

4. Develop a comprehensive banking sector strategy in cooperation with the HFSF and the EC/ECB/IMF staff **by July 15 2013.** In the meantime, all four pillar banks will be able to continue to act as integrators of smaller domestic banks as appropriate. The strategy will include options and operational steps for the HFSF to promptly proceed with the disposal of the shares to the private sector of the core banks that will not have been able to remain under private control.

5. Only **upon finalisation** of this banking sector strategy any consolidation in the form of merger among the four pillar bank can be considered.

3.1 Framework for restructuring and strengthening of the banking system

The resolution of undercapitalised non-core financial institutions is proceeding as envisaged in the programme:

1. Regarding the New Hellenic PostBank, the HFSF is currently taking actions to make major reductions in the operational costs of the bank, including through a significant reduction in the number of employees, and to restructure its loan portfolio, with the objective of making the bank attractive to potential purchasers and concluding its sale by **July 15 2013**.

2. Concerning the sale of Nea Proton bank, the sale deadline is being shifted from May 2013 to **July 15 2013** in order to increase chances that it is acquired through an open bid process.

3. The BoG will apply appropriate measures to those non-core banks that have not met the capital requirements set by the supervisor, or earlier if there is evidence that the bank will not be able to raise the needed capital (June 2013).

4. The BoG, in coordination with the HFSF, will assess the alternatives aimed at minimising the cost to taxpayers, including a Purchase and Assumption transactions (P&A) with any of the four core banks, while guaranteeing the security of depositors (**June 2013**).

5. The BoG will revise the legal and regulatory frameworks for cooperative banks by **end-September 2013** in order to align it with international best practices.

3.2 Funding

The BoG commits to:

1. Request banks to provide standardised quarterly balance sheet forecasts (funding plans) (**continuous**). The banks' funding plans will be based on the programme macroeconomic forecasts. Banks shall set out a path towards achieving a sustainable funding model by means of broadening their funding base and reducing over time their reliance on extraordinary central bank liquidity support. Funding plans will serve as a tool for the BoG to monitor this process and assess whether the banking system's plans at the aggregate level are consistent with the programme's macroeconomic framework.

2. Stand ready, following the procedures and rules of the Eurosystem, to continue disbursing adequate and appropriate emergency liquidity support in a timely manner if needed (**continuous**).

3.3 State-owned preference shares of the banks

The Government commits to:

1. Not take any fiscal policy actions that would undermine the solvency of banks **(continuous)**.

- The Law 3723/2008 has been amended to ensure that the banks will not be required to pay any dividends on the preference shares, or fees in lieu of this, unless the banks are profitable.

3.4 Adaptation of banking supervision

The BoG commits to:

1. Continue with enhanced supervision of resolved banks and of those that have been placed under public control, including any core banks that fail to show their ability to receive sufficient private investment to remain under private control (**continuous**).

The Government will:

2. Ensure that banks will not take any discretionary corporate action that would increase their capital needs **(continuous)**.

3.5 Follow up stress testing

The BoG will:

1. Make the necessary preparations for stress testing to be completed by **end-2013.**

2. Finalize by **end-July 2013** a new stress testing methodology, determined in consultation with the EC/ECB/IMF staff.

3.6 Management of assets under liquidation

The BoG commits to:

1. Revise by **May 2013**, in consultation with the HFSF, the regulatory framework and remove the operational restrictions identified in the end-February 2013 assessment report of Bain&Company published by the BoG.

2. Adopt by **June 2013** amendments to the existing special liquidation laws, following consultation with the EC/ECB/IMF staff.

3. Adopt a reporting framework with quarterly updates on progress made **starting in June 2013.**

3.7 Review of legal insolvency frameworks

The Government commits to:

1. Enhance the legal regime for household insolvency to provide for more effective resolution of bad debts while protecting the payment culture and avoids unnecessary losses.

2. Establish, by **end-June 2013** and in consultation with EC/ECB/IMF staff, a framework to assist distressed borrowers. It will take effect as soon as the necessary regulations to implement it can be put in place (at the latest by end-August 2013).

3. Introduce, in consultation with the EC/ECB/IMF staff and **as soon as possible,** measures aimed at deterring applications for court cases under Law 3869/2010, and borrowers who are subject to the provisions of laws 3869/2010 and 4128/2013 will be subject to the new framework for distressed borrowers, once it has been implemented.

Specifically, to establish the legal framework, the Government will:

4. Pass legislation by **end-June 2013** to introduce a new "Facilitation Program"

   In respect of this new "Facilitation Program" the BoG will:

   - Assess the implementation of this framework **within six months of its adoption**.

5. Revise law 3869/2010 by **end-June 2013,** to address the implementation shortfalls identified during its first three years of enactment.

6. Adopt legislation to establish by **end-June 2013**, a framework consistent with the recapitalization framework for banks that will provide long-term solutions for over-indebted borrowers (including for those viable borrowers who are not eligible to participate in the facilitation program).

7. It will include initiatives (to be specified further in regulations by **end-August 2013**) to:

   (i) address shortfalls in existing laws that limit the effectiveness of debt resolution activities;

   (ii) standardize the assessment procedure for borrower cases;

   (iii) introduce a standard list of loan restructuring tools to be used by banks;

   (iv) enhance access to free budgeting and legal advice services for citizens; and

   (v) encourage borrowers and lenders to participate in debt resolutions through non-judicial means.

8. Introduce steps to reduce excessive court waiting times, and to ensure that eligible debtors will choose to participate in the facilitation program.

3.8 Minimisation of significant risks associated with the deterioration of banks loan portfolios

The BoG will in cooperation with the HFSF and in accordance with their Memorandum of Understanding:

1. Assess **by end-September 2013**, with the assistance of an independent third party and in consultation with the EC/ECB/IMF , the effectiveness of established frameworks and policies to deal with troubled assets.

2. Establish key performance indicators (KPIs) covering the troubled assets portfolio status, the operational response by banks and follow-up resolution actions. KPI definitions will be set no later than **August 2013** and bank reporting will start **by October 2013 and on a quarterly-basis**.

3. Closely monitor banks' NPL resolution strategy, policy and operational targets, and intervening where necessary, in order to ensure that distressed borrowers receive prompt and sustainable long-term solutions.

3.9 Governance of financial institutions

The authorities will:

1. Ensure banks' continued viability and protection of taxpayer interest by strengthening the governance framework of financial institutions.

2. **S**upport the HFSF in its efforts for an ambitious and swift operational restructuring of all banks in which it has a significant stake, with the aim to reduce operational costs and increase profitability, thereby fulfilling its mandate to minimize costs for the taxpayer **(continuous)**.

To this extent and **prior to disbursement,** the Government will:

a) Adopt a package of HFSF governance reforms that would among other things, add to two independent members to the HFSF General Council increasing the number of its members from 5 to 7.

The Government will also:

3. Invite the HFSF to amend their internal regulations in order to rationalise the division of tasks and responsibilities between the General Council and the Executive Board (**June 2013**).

4. Amend the legislation in order to clarify the non-public nature of the fund (**June 2013**).

The BoG will:

5. Develop, in coordination with the HFSF, and publish by **end-April 2013** a memorandum of understanding governing the relationship of the HFSF as a shareholder and the BoG's role regarding the oversight of banks that have received state aid.

6. Adopt measures to address the governance weaknesses identified in the due diligence of core banks. Banks will submit to the BoG by **end-May 2013** plans to address identified operational governance weaknesses—including safeguards on loans to related parties and risk concentration. These plans will include clear timetables for full implementation by **end-December 2013**.

The MoF will:

7. Invite the HFSF to publish on their website the relationship frameworks with each bank as soon as the amount of the injection will be known, upon completion of the subscription

period, and in any case by **end-May 2013.** The relationship frameworks with all banks define the role of the HFSF as a shareholder on the basis of best international practices.

3.10 Loan and Consignment Fund

The Government commits to:

1. Ensuring that the Loan and Consignment Fund is not crowding out competition in the financial sector. The commercial activities will continue to be in a gradual run-off and no more new business will be conducted **(continuous)**.

2. Agree with the EC by **end-May 2013** on the remit of activities of the reserved sector to ensure that they act only in case of market failure.

4 Strengthening labour market institutions and promoting employment

The Government will build upon the recent labour market reforms. To help restore cost-competitiveness and boost employment in the medium to long term, these reforms should support the on-going reduction in nominal unit labour costs in the economy by 15 per cent over the period 2012-14. Structural product market reforms will help improve the transmission of labour cost reductions into lower prices and improved competitiveness.

The Government will continue promoting an efficient wage-setting system, reducing non-wage labour costs, fighting undeclared work and informality, also by streamlining administrative burdens and increasing the transparency and enforceability of the labour law. Last but not least, the Government will enhance policies in order to help the unemployed remaining attached to the labour market and to improve affordable social safety nets. Reforms in labour legislation will be implemented in consultation with social partners, and in respect of EU Directives and Core Labour Standards.

4.1 Reforms in the wage-setting system

The reform of the statutory minimum wage framework at national level continues in order to help ensure that wage dynamics support employment while setting a floor for labour income. Thus, the Government:

1. presents a proposal for the decision making mechanism on the annual update of the statutory minimum wage rates that will prevail after the end of the Programme period once the current freezes cease. It will define how the economic and labour market situation and prospects will be factored into the decision process in order to ensure that the objectives of supporting employment and safeguarding labour income are achieved in a balanced way. It will also establish the role of consultation with social partners, other stakeholders and independent experts **by May 2013**.

2. Reviews the structure of the minimum wage system, taking stock of the present reform, with a view to possibly improve its simplicity and effectiveness to promote employability and fight unemployment and help the competitiveness of the economy **by March 2014**.

4.2 Reducing non-wage labour costs

With a view to dampen non-wage labour costs and thereby foster employment creation, the Government:

1. adopts legislation **by November 2013** reforming the system of social contributions in a revenue-neutral way, inter alia by broadening the base for contribution, simplifying the schedule across the various funds, shifting funds away from nuisance taxes and onto contributions, and reducing average contributions rates by 3.9 percentage points from their current levels, which will be phased in over 2014, 2015 and 2016.

2. As intermediate steps, studies of possible changes in the system of social contributions will be carried out and action plans proposed **by September 2013**.

3. Carries out studies of first-pillar pension schemes in companies where the contributions for such schemes exceed social contribution rates for private sector employees in comparable firms/industries covered in IKA and presents options for the reduction of social contribution rates **by September 2013**.

4. Based on these studies of first-pillar pension schemes, and together with the reform of the system of social contributions, reduces the rates mentioned in the previous entry that are found to be too high and adjusts benefits in a fiscally-neutral manner **by December 2013.**

4.3 Lowering compliance costs, fighting undeclared work and informality

To help formality in labour arrangements by reforming the Labour Inspectorate and streamlining the administrative burden to foster compliance, the Government:

1. starts implementing a detailed action plan aimed at strengthening the fight against undeclared work and raising the effectiveness of the Labour Inspectorate. Prioritising the activities of the Inspectorate and fostering the detection of the most severe cases of labour law violations are expected to be at the core of those changes (**Continuous**).
2. Streamlines the reporting by employers and employees by **September 2013**.
3. Revises the sanctions for violations of the labour law by **July 2013** at the latest in order to be incorporated in the Labour Code that is being compiled.

4.4 More transparent and enforceable labour law

To ease interpretation, reduce compliance costs with and increase the enforceability of labour law, the Government:

1. compiles **by December 2013** all existing legislation relevant for labour and industrial relations into a single Labour Code.

2. The Government shall prepare a report on the structure of the Labour Code (**May 2013)**.

4.5 Support to the unemployed

The Government steps up efforts to prevent unemployment becoming permanent and to mitigate the hardship of unemployment, by focusing on: promoting the integration of the long-term unemployed, young people and disabled to the labour market; easing labour market mismatches and facilitating the transition of workers across occupations and sectors; improving the quality of training policies; promoting the employability of the disadvantaged groups; targeting segments of the population at risk of poverty and with the strongest need of income support. In these efforts, the government will aim at involving the private sector to the maximum extent possible. The government will improve its ability to assess labour market needs and measure social impacts in order to strengthen the monitoring, evaluation, and co-ordination of labour market and social policies.

1. To this end, and in order to provide continuing support to the labour market policies, the Government adopts an Action Plan by **May 2013** focusing on:

    i. Expanding short-term public work programmes for the long-term unemployed and young people not in education, employment or training as a measure of emergency and temporary nature while labour demand remains sluggish (development by June 2013). Municipalities and other public authorities may participate directly in such public works programmes only under the full adequate and transparent control of such programmes (open calls, internet publication of projects with full details, and reporting helpline);

    ii. Preventing the erosion of the human capital of the unemployed and enhancing the effectiveness and adequacy of measures for training and re-skilling the unemployed and young people, including by promoting the training of the unemployed by potential future employers in the private sector through a youth voucher scheme;

    iii. Supporting job matching between the unemployed and potential employers and activation of the unemployed through the reform of the Public Employment Service, including by developing a wide range of partnerships to deliver quality training, mentoring and employment services;

    iv. Options on how to significantly improve and expand the current range and quality of apprenticeships and vocational training services and their linkage with employers. To be further developed in a position paper to be presented by June 2013;

    v. Strengthening social economy, e.g. in relation to childcare and care of the elderly.

    The Action Plan should provide a description of the programmes currently in force and plans for their rationalisation as well as inform on the financing of the forthcoming initiatives.

2. The Government will produce a position paper on social protection and policy by **June 2013**. It will enhance unemployment benefits to support the long-term unemployed and specific categories of workers without entitlement to unemployment insurance, notably by putting in place an unemployment assistance scheme for the long-term unemployed targeted to the poor by January 2014. A specific position paper on this scheme shall be prepared also by **June 2013**. That paper should also elaborate on the articulation of this scheme with the minimum income scheme that is also to be created on a pilot basis by January 2014 and with other active and passive policies labour market policies and social transfers. Such an integrated approach is necessary to foster fairness as well as effectiveness in supporting the needed. The early preparation will facilitate a front-loaded implementation of these scheme shall the fiscal space be found within the existing overall budget envelopes

3. To provide health insurance access to uninsured citizens, the Authorities prepare an action plan in cooperation with foreign experts (**to be finalized in the second half of 2013**), and work with the European Social Fund with the aim of extending the program's coverage to more beneficiaries and include more healthcare services (**continuous)**.

5 Creating favourable conditions for economic activity

The program places strong emphasis on implementing structural reforms that aim at improving the business and overall economic environment and contribute in enhancing competition and competitiveness. These include horizontal measures to reduce time and costs to i) create a company, ii) to get establishment and operating licenses for manufacturing activities, iii) to get permits for environmental projects and activities, iv) to export and import, combined with measures to improve the functioning of the judicial system.

5.1 Promoting an efficient and competitive business environment

5.1.1 Rationalising / eliminating quasi-fiscal charges

1. The Government eliminates in the 2014 budget the vast majority of the quasi fiscal charges identified in the list presented to the Commission services in November 2011 in a budget neutral way. (**October 2013)**

5.1.2 Reducing procedural and other administrative burden

1. To further reduce the time for and the cost of company creation, the Government, among others:
   i. Takes additional measures by **June 2013** at the latest, to reduce by 50% the cost of starting a business, as measured by the World Bank's *Starting a Business* sub-indicator. The results will be monitored in the World Bank's 2014 edition of Doing Business.

2. To implement law 3982/2011 on the **fast track licensing procedure** for technical professions, manufacturing activities and business parks and other provisions, the Government issues the Presidential Decrees provided for in:
   i. Art. 4.4, on preconditions for obtaining a licence for electricians, to reduce the number of specialisms, increase the mobility of electricians within the same level category and provide for the institution of private certification bodies. (**May 2013**)
   ii. Art. 24.5, laying down the requirements for Citizens Service Centres' (KEP) for integrated electronic application among licensing bodies and for modalities of processing demands through it. (**May 2013**)

3. **To implement Law 4014/2011 on** environmental licensing of projects and activities, the Government issues:
   i. the Ministerial Decision provided for in Art. 8.3, on environmental licensing of projects and activities (other than industrial activities), laying down the standard environmental commitments of projects and activities in category B. (**May 2013**)
   ii. a detailed timetable, including all intermediate steps and milestones for the remaining implementation legislation, including on Art 11.4 on the content of the Environmental Impact Assessment (EIA) reports, in consultation with the EC (**May 2013**).

4. To tackle the investment barriers caused by multiple and fragmented establishment and operating permits, the Government presents a strategic vision and an evaluation of investment licensing procedures in **June 2013**, followed by a roadmap in **September 2013**, with the objective of introducing more efficiency, transparency and clarity in investment licensing. The implementation of the strategy should lead to a large reduction in the number of licenses required by the public administration, with a view to replacing them, if needed, by less demanding instruments such as declarations or notifications, and to a rationalisation of the processes and responsibilities for issuing permits.

5. To simplify **export and import procedures**, the Government:

i. Launches a pilot enabling 24/7 customs operations for exports in the Athens airport and Piraeus Port (**May 2013**) and for imports by **July 2013**;
ii. The results of the pilot will be assessed in **November 2013** with a view of applying it permanently in the Athens airport and Piraeus Port and to all other customs offices by **December 2013**.
iii. Having reviewed the risk assessment system for exports, with recommendations for improvement in order to align it with best practices in EU Member States the level of controls converges to the average level of controls in the EU by **September 2013**.
iv. Reviews and streamlines pre-customs and customs procedures for selected pilot products (fresh vegetables fruits, white cheese) according to EU regulations and best practices and presents an approach for extending the simplification process to a wider set of frequently exported / imported products. (**May 2013**)
v. Ensures that the e-customs system supports the electronic submission of export declarations (DONE) and the submission of documents and electronic payments (**June 2013**). Ensures that the e-customs system supports the electronic submission of import declarations, including the submission of documents and electronic payments, at the pilot customs office by **July 2013** and in all custom offices by **November 2013**.
vi. Implements automatic clearance for low risk declarations, based on EU best practices. (**December 2013)**

6. To identify and eliminate unnecessary **reporting requirements** for businesses:
   i. The Government presents the results of the application of the Standard Cost Model (SCM) in 13 key sectors to identify administrative burdens for businesses (**June 2013**).
   ii. Following the identification of administrative burdens the Government completes the amendments to sector specific legislation (**September 2013)**.

7. To facilitate **spatial planning** including through an effective **land registry**, the Government:
   i. adopts legislation to:
      a. simplify and reduce the time needed for town planning processes (**June 2013**);
      b. update (**June 2013**) and;
      c. codify legislation on forests, forest lands and parks (**September 2014**);
      d. It also licenses at least two disposal sites for hazardous waste (**June 2013, and September 2013**).
   ii. completes the revision of the spatial plan for South Aegean to make it compatible with the sectoral plans on industry, tourism, aquaculture and renewable energy. The first phase of this revision is completed (September 2013)
   iii. Second wave of reforms. These will be followed by:
      a. a second phase for modifications (**May 2013**),
      b. a third phase for the formulation of proposals (**September 2013**) and
      c. a fourth phase for the legislation of the final proposal (**December 2013**).

8. In view to establish a modern complete cadastre by 2020 the Government should:
   i. Put in place a clear and streamlined single political authority to oversee and coordinate the completion and operation of a modern, efficient and fully accessible nationwide Cadastre by 2020 (**June 2013**).
   ii. Shorten the time of judicial referrals concerning the legal validation of the property rights in the cadastral projects to come from ten to maximum five years. (**June 2013**).
   iii. transfer to Ktimatologio SA the exclusive competence for all issues related to development, establishment and operation of the cadastre and cadastre offices (**June 2013**)
   iv. transform the temporary cadastre offices into final ones in the capital of the regions where cadastre is operational
   v. ensure that cadastre offices and notaries send electronically to the data base of Ktimatologio SA and the ministry of Finance all real estate acts they process on the basis of an IT platform provided by Ktimatologio SA (**June 2013**). Legally validate the forest maps and the coastal zone of the entire country on the basis of the respective maps of the Ktimatologion SA delivered in 2009 (**December 2015**).
   vi. Proceed with the awarding of the seven (7) million active property rights tendered since December 2011 (**March 2014**); tender out all remaining rights (ca. 15 million). (**June 2013**) and complete the unfinished cadastral projects in the 106 areas for which rights were tendered in 2008 (**December 2015**).
   vii. Make it compulsory to include the single Cadastre code number of each parcel in tax declarations (all E9) of real estate. (**March 2014**)
   viii. Establish a business plan to ensure the financial viability of the operation of the Cadastre. (**March 2014**)

5.1.3 Enhancing competition and promoting better regulation

1. The Government, assisted by the OECD, completes a preliminary assessment through the application of the Competition Assessment Toolkit in sectors such as food processing, retail trade, building materials and tourism to identify unnecessary restraints on these market activities and to develop alternative, less restrictive measures that still achieve the government policy objectives. (**June 2013**)

2. Following the completion of the analysis referred above, the Government will prepare the legislative amendments to remove disproportionate regulatory restrictions identified by the Competition Assessment Toolkit (**September 2013)**.

3. The new legislation will be enacted in **November 2013**.

4. To implement law 4048/ 2012 on regulatory governance: principles, procedures and tools of good law making, the Government issues the Presidential Decrees provided for in Art. 21 of that law, providing for the setting up of the better regulation structures (i.e., the Better Regulation Offices, the Legislative Initiative Offices of the Ministries and the Inter-ministerial Sector for Better Regulation). (**September 2013**)

5. The Government presents an annual better regulation plan (as provided for in Art. 15 of law 4048/2012) with measurable objectives to simplify legislation (including through codification) and to eliminate superfluous regulations. (**December 2013**)

5.1.4 Growth Strategy

1. The government will commission two reports analyzing the framework of a new growth model for Greece. One report should follow a microeconomic approach, providing for sectoral actions and legislation, based on the given funding possibilities and their optimal use. The second report should analyze the macroeconomic environment and identify any horizontal policies needed (**May 2013**).

5.2 Reforming the judicial system to support economic activity

To improve the functioning of the judicial system, which is essential for the proper and fair functioning of the economy, and without prejudice to the constitutional principles and the independence of justice, the Government: (i) ensures effective and timely enforcement of contracts, competition rules and judicial decisions; (ii) increases efficiency by adopting organisational changes to courts; (iii) speeds up the administration of justice by eliminating backlog of court cases and by facilitating out-of-court settlement mechanisms.

In designing and implementing the measures below, the Government consults the EC/IMF/ECB.

5.2.1 Review of the code of civil procedure

The Government commits to review the Code of Civil Procedure in accordance with the roadmap defined in section 9.3 of this Memorandum, which defines intermediate steps towards its completion by **March 2014**.

5.2.2 Judicial statistics

In order to facilitate the implementation of a performance and accountability framework for courts, the Government will compile and publish on its website the information indicated in Section 9.4 of this Memorandum. (**Quarterly**)

5.2.3 Tax case backlog reduction

Building on the 2012 Administrative Courts data reports and reports by the General Commission for the Administrative Courts, the Government by **June 2013**:

1. Prepares an assessment of the impact of all the past measures aimed at the reduction of the backlog in the administrative courts.

2. Prepares a study leading to the reallocation of the positions of administrative court judges, as from September 2013, to those administrative courts where the backlog is higher.

3. Presents an action plan with structural measures aiming at reducing the backlog of tax cases pending in courts.

5.2.4 Non-tax case backlog reduction

1. Based on the study on the backlog of non-tax cases in courts conducted by an external body of experts, the Government prepares by **July 2013** an Action Plan with specific measures aiming at continuously reducing the number of civil and commercial cases pending in Courts. This should include short term and longer term actions.

2. The Authorities prepare draft legislation providing for compulsory mediation for small claims (under 5.000,00 €) in civil cases; and Draft legislation providing for compulsory mediation in household insolvency cases (Law 3869/2010). The compulsory mediation to

be introduced, ensures that this measure is in accordance with the right of to an effective remedy and to a fair trial as provided for in the Charter of Fundamental Rights of the European Union. The new legislation is enacted by **June 2013**.

5.2.5 Development of e-justice applications in courts

1. The Government updates, further refines and operationalizes the e-justice Action Plan (**Continuous**, on a **quarterly basis**). Updated versions are to be submitted within 15 calendar days from the expiration of the relevant quarter.

2. The action plan will include additional actions as follows:

    i. An evaluation of the use of IT systems in courts (**March 2014**);

    ii. a timetable, including proposed deadlines, for the extension of case e-registration and e-tracking to all courts (**March 2014**).

3. Short term actions within the framework of the E-Justice Action Plan:

    b. By **June 2013,** the Government:

        i. announces a call for tenders for the creation of the E-docket at the Athens Court of First Instance.

        ii. presents draft legislation on the e-filing of judicial documents before the Council of State and the Administrative Courts.

        iii. presents draft legislation on the e-filing of the pleadings as well as of the evidence and the rest of the relevant file documents before the Civil Courts.

        iv. presents draft legislation on the use of videoconference before the Civil Courts.

    c. By **September 2013,** the Government ensures the full operation (for all types of civil procedures, except of those for which this is not feasible due to jurisdictional/procedural rules/reasons i.e. payment orders, interim measures, provisional orders) of the e-filing project at the Athens Court of First Instance

    d. By **December 2013,** the Government completes the pilot implementation of e-filing in the Piraeus and Thessaloniki Courts of First Instance (provided that the respective Bar Associations co-operate with the MoJ to meet the above deadline).

4. Implementation of integrated e-justice systems within the Framework of the E-justice Action Plan:

    e. **By December 2015**, the Government completes the implementation of integrated e-justice applications, enabling e-filing, e-registration and e-tracking for courts that cover the **majority** of the total in flow of cases in the country:

        i. the Magistrate Courts, Civil and Criminal Courts of First Instance & the Courts of Appeal of Athens, Piraeus, Thessaloniki & Chalkida, including the respective Prosecutors Offices

        ii. All the Administrative Courts

f. The Government completes the extension of the above applications to the other courts (**December 2017)**.

5. The Government ensures consistency of the e-Justice action plan with the national e-government strategy. (**Continuous**)

5.2.6 Promotion of pre-trial conciliation and mediation

1. By **September 2013**, the Government conducts an assessment of whether the enactment of Law 3898/2010 on mediation in civil and commercial matters has delivered the results which the legislation intended to achieve, and presents data and analyses concerning costs, time and success rates arising from alternative dispute resolution.

2. By **December 2013**, the Government presents a legislative proposal for the effective opening of the mediator's profession to non-lawyers.

3. The Ministry of Justice updates on a monthly basis the list of the Accredited Mediators and the Mediators' Training Centres on its website (**Continuous**).

5.2.7 Other measures on judicial reform

1. Assessment of the Law on fair trial and conciliation (4055/2012): The Government conducts an assessment whether the enactment of Law 4055/12 has delivered the results which the legislation intended to achieve, in particular as regards civil courts, improved case processing in multi-member first instance courts, the speeding-up of the issue of provisional measures, the strengthening of the institution of 'voluntary jurisdiction' in certain matters at the level of the magistrates' courts and efficiency gains in enforcement proceedings, and as regards administrative courts, the strengthening and general application of pilot proceedings in the Council of State and the speeding-up of the issue of provisional measures. An interim assessment is presented by **July 2013**, in order to assess the Law after a six-month regular operation of the courts1, and the final assessment is presented by **January 2014**, that is after a twelve month of regular operation of the courts.

2. Administrative review of cases: The Government prepares, in accordance with Law 4048/2012 on better regulation, draft legislation providing for, where appropriate, a compulsory administrative review before an independent committee before a case may be brought before the administrative courts and submits it to the Greek Parliament. (**September 2013**)

3. Study on the costs of civil litigation: the Government completes a study on the costs of civil litigation, its recent increase and its effects on workload of civil courts, together with recommendations. (**June 2013**)

[1] *Three months for the Magistrate Courts.*

6 Efficient Network Industries and Services

6.1 Energy policy

Designing an appropriate energy policy, given the country's needs and potential, is fundamental for economic growth. For this reason the Government must follow a holistic approach which maximises the benefits for market participants, protects consumers and vulnerable parts of the society and the rights of tax payers. The reforms below aim at bolstering competitiveness and efficiency in the electricity and gas market, to avert a repetition of the 2012 liquidity crisis and to position the energy sector as a potential contributor for prosperity.

Prior to the disbursement, the Government

a. Adopts and publishes a fully-fledged plan for the restructuring of PPC with a view to preparing the company for privatisation and thus create the conditions for a liberalised electricity market. The plan shall:
   i. provide a timeline for PPC to initiate the ownership unbundling of ADMIE through a sale of shares and/or a right issue subscribed by an investor and provide a timeline for its full exit. This timeline should include the steps for completing the process, with a view to complete ownership unbundling within 2013.
   ii. specify details of a new vertically integrated company to be created in terms of assets, human resources and customer base subject to regulatory and competition provisions in force. In particular, for the assets:
      1. to establish a viable competitor in the market, the new company shall be endowed with around 30% of PPC generation capacity, taking into account PPC's decommissioning and investment plans; it will also be endowed with a pro-rata amount of the supply business. Both the generation mix and the customer mix shall be similar to that of PPC;
      2. the plan shall include provisions for the divestment of lignite-fired, gas and hydro electricity generation capacity currently managed by PPC. It will also include provisions for the new company to access and control lignite resources on an equal basis as PPC. The proposed list of assets to be transferred to the new company will be assessed in the context of next review.
   iii. provide a timeline for the new company to be privatised through PPC with the assistance of the HRADF, with a view to begin operations in 2015. The timeline should include the steps for completing the process;
   iv. provide a plan and timeline for the privatisation of PPC. This timeline should include the steps for completing the process at the latest by 1st January 2016;

The execution of the plan will be made in strict adherence to the announced timetable, and in full agreement with the European Commission services so as to ensure consistency with the relevant EU legislation and best practice and with the current fiscal programme and financing targets.

6.1.1 Unbundling effectively network activities from supply activities

1. The unbundled gas TSO is certified by the Greek energy regulator. **(May 2013)**
2. The government commits to follow all steps outlined in the proposed plan for the unbundling of ADMIE, including all intermediate steps, with a target to complete the unbundling by **December 2013**.

6.1.2 Provisions regarding the privatisation of PPC and DESFA:

1. The Government undertakes that whichever the outcome of the privatisation process the gas industry and electricity industry structure will be fully compliant with Directive 2009/73/EC and 2009/72/EC. (**Continuous**)

6.1.3 Ensuring that electricity prices reflect costs

2. The Government takes measures for the gradual phasing out of regulated electricity prices for all but vulnerable customers by **June 2013**.

3. In addition, the Government assesses best practices with a view to charging royalties for the use of hydro and lignite and publishes its report. (**June 2013**)

6.1.4 Providing for a financially sustainable development of renewable energy sources

The Authorities commit to design and implement a comprehensive reform of renewable energy policies, also taking into account proposals in Ministry's "Plan to Reform the Sector of Renewable Energy Sources (RES)" and the view of industry, to provide long-term sustainability at zero average deficits.

New installations will receive a fixed, comprehensive, feed-in tariff based on the current status of technology, and taking into account the size of the plant. The feed-in tariff will be revised at least on a bi-annual basis to take into account the evolution of technology in order to reflect the declining costs and ensure a sustainable rate of return consistent with EU average, taking into account Greek country specific factors, with a view to grid parity. In this process the government will take into account the opinion of RAE.

Prior to disbursement, and to achieve sustainability of the incentives mechanism, the Government:

a. initiates negotiations with the industry to introduce permanent adjustments to existing power purchasing contracts, in particular for PV installations, with a view to align rates of return to sustainable EU average levels, considering Greek-specific conditions. The results of the negotiations will have to provide the financial sustainability of the RES account after the current provisions on a solidarity contribution on incentives will have expired;

b. publishes a detailed report on incentives to PV rooftops installations, stating inter alia average incentives per installation, average capacity, and average energy produced, and on this basis assesses the possibility to introduce permanent adjustments to existing power purchasing contracts, and align their rates of return to sustainable EU average levels, considering Greek-specific conditions;

c. assesses and reports on the effects on the revenues of the RES account of a possible increase in the levy imposed on electricity produced with lignite and of the introduction of a levy on electricity produced with large hydro;

d. corrects distortions in the current mechanism of contribution of suppliers to the RES account, that provides for a contribution based only on the system marginal price and not on the entire cost of energy paid by consumers, therefore ensuring the elimination of windfall profits;

e. passes new legislation to reduce the number of outstanding production permits, inter alia by introducing financial measures, in full compliance with EU legislation.

Other Actions

The Government:

1. Completes by **September 2013** the negotiations with the industry for introducing permanent adjustments to existing power purchasing contracts, in particular for PV installations

2. Completes an action plan for introducing possible adjustment to rooftop PV installations incentives in order to align their rates of return to sustainable, EU average levels, considering Greek-specific conditions (**July 2013**).

3. To ensure the financial sustainability of the RES account, and ensure that no excessive burdens are put on consumers, introduces constraints that will cap the newly-installed PV capacity receiving incentives, effective 1st of January 2014. Until then new sales contracts and connection contracts are suspended.

4. Ensures that LAGIE, RAE, and the Ministry of Energy, publish monthly data on the evolution of the RES account with projections over the following 24 months from the date of publication. (**Monthly**) These projections will have to provide a baseline and a normative scenario to bring the debt down to zero by end-2014.

5. Shall complete and make operational a comprehensive electronic registry of all RES installations (**June 2013**).

6. Adjusts the RES levy every six months (July 2013, January and July 2014) to eliminate the projected RES account debt by end-December 2014 (**continuous**).

7. Assesses and reports on the legal possibility to impose a validity period on outstanding production permits without an allocated capacity; and proceeds if possible to impose such validity period (**May 2013**).

8. With a view to a complete clearing of existing arrears in the energy markets, the Ministry of Energy, in close cooperation with ADMIE and LAGIE, will publish the (aggregate) gross debt and credit positions of all participants in such market on a monthly basis, starting from May 2013 (**continuous**).

9. The Ministry of Energy, in close cooperation with RAE, will promote, and facilitate through intermediation, the clearing of existing obligations among energy market participants, while encouraging them for a fair sharing of the outstanding debt (**continuous**).

10. Effective May 1st, RAE will implement and monitor adequate regulatory provisions for netting of credit and debt positions by all actors in the energy markets, including, inter alia, terms for clearance of debts and payment of interest and penalties in line with Directive 2011/7/EU on late payments, and Regulatory provisions will have to ensure equal treatment for all participants, avoiding any distortion or unjustified advantage coming from the belonging to vertically integrated companies (**continuous**).

6.1.5 Planning the development of the electricity market in the medium to long term

1. Building upon the report of RAE published in December 2012 and RAE recommendations, the authorities will present to the EU Commission Services by **May 2013** for consultation a detailed action plan with identified time bound steps and a date for its substantial completion, for the transition of the electricity market to the EU Target Model. This plan will establish competition, stimulate entry, reflect the reforms of PPC, and remove market distortions; and it will not entail State Aid. (**May 2013**). This plan will entail inter alia,

   i. fostering competition by stimulating entry through:

      - The auctioning of a significant amount of PPC produced electricity (at least 1600 MW) with characteristics reflecting PPCs generation portfolio;
      - Pricing of auctioned products will take into account the need to avoid a price squeeze at retail level;
      - To foster entry, eligible bidders in the auction will be electricity suppliers only;
      - The plan is to remain in place for a set duration. The plan will however include a mechanism for RAE to revise and/or extent it with a view to (i) ensure it remains in place until competitive conditions are satisfactory (ii) improve its continuing effectiveness in creating competitive conditions (iii) ensure that investment incentives are not unduly affected (iii) ensure it converges to the EU target model.

   ii. Removing market distortions through:

      - A review to modify/phase out the variable cost recovery mechanism (30% rule) ensuring that the most efficient power plants are dispatched at all times;
      - A review of the capacity reserve system with a view to create incentives to retire inefficient power plants and/or incentivise investments herein;
      - The development of a balancing market. Industrial users should participate to this system. Rewards must be based on their objective contribution to system stability.

2. The plan is adopted in **June 2013**, after incorporating any comments by the European Commission.

6.1.6 Fuel distribution

1. To remove regulatory restrictions that hinder competition in the *wholesale* fuel sector, the Government, as per Opinion no. 29/VII/2012 of the Hellenic Competition Commission:

i. assesses minimum capital requirements and adjusts them downwards in accordance with best practices and taking into account the relevant Opinion of the Hellenic Competition Commission (**June 2013**);

ii. mandates the conclusion of written contracts between fuel wholesalers and retailers, including the obligation to state the duration of the discounts offered on the payment documents (**June 2013**);

iii. provides in legislation for the installation of inflow-outflow systems throughout the refining and wholesale trading supply chain; new legislation to be put into force (**June 2013**);

iv. removes the restriction that a wholesaler's storage facility needs to be accessible by either the sea, railway network, or through a refinery(**June 2013**);

v. abolishes the mandatory storage of at least two categories of fuel products, as a condition to wholesale licensing issued by them. (**June 2013**)

2. To enhance competition in the *retail* fuel sector, the Government, as per the same opinion of the Hellenic Competition Commission:

i. mandates gas stations to state the price and quantity of liquid fuel on all receipts issued by **March 2014** (Athens-Thessaloniki August 2013, other urban areas by September, remaining March 2014) ;

ii. completes the installation of inflow-outflow systems by **March 2014** (Athens-Thessaloniki August 2013, other urban areas by September, remaining March 2014)

iii. abolishes the possibility to impose a minimum price on the sale of fuels to consumers. (**June 2013**)

6.2 Electronic communications

The switch-over from analogue to digital TV technology will release a significant amount of high quality radio spectrum which will be free for the deployment of new services and new technologies. This 'digital dividend' can boost both the broadcasting sector and the wireless communication industry, make a major impact on competitiveness and growth, and provide a wide range of social benefits. The items below provide a roadmap for the release of the digital dividend in Greece.

1. Regarding the **release of Digital Dividend**, the Government (and/or EETT) undertakes to:

i. Adopt necessary secondary legislation for the assignment of licenses for broadcasting and for the establishment of licensing procedures. (**June 2013**)

ii. launch the public consultation on the tender procedure for the assignment of the digital dividend (800 MHz band) allocating and authorising the use of the digital dividend to Electronic Communication Services, in line with EC Decision 2010/267/EU and in respect of the deadlines and procedures of the RSPP. (**March 2014**) *(*)*

iii. resolve cross-border coordination issues with neighbouring countries, if any. If difficulties on international coordination make this date unfeasible, the frequency and broadcasting plans might indicate alternative channels for re-location of broadcasters, while continuing negotiations with third countries in view of the final assignment of frequencies to broadcasters and mobile operators. (**Continuous**)

iv. Adopt secondary legislation that defines a mandatory date for the switch-off of analogue broadcasting and a technologically neutral utilisation of the 800MHz

band after the switch off, taking also into account the provisions of the draft Radio Spectrum Policy Programme (RSPP). (**June 2013**)

v. launch the tender for the assignment of rights of use for broadcasting transmission. (**June 2013**)

vi. proceed to the tender procedure for the assignment of frequencies of the digital dividend, allocating and authorising the use of the digital dividend (800 MHz band) to Electronic Communications Services in line with EC Decision 2010/267/EU and in respect of the deadlines and procedures of the RSPP. (**October 2014**). The obligation to ensure the 800 MHz band can actually be used for electronic communications other than broadcasting from 1 November 2014 *(*)*

(*) The deadlines for steps (ii) and (vi) might be amended according to the Decision of the European Commission on the request for derogation from the deadline provided by Art. 6.4 of the Radio Spectrum Policy Programme submitted by the Greek Government on 15 May 2012.

6.3 Transport

The opening of the road haulage and occasional passenger transport is completed. Therefore, priorities now shift to measures that will help promote tourism and investment, particularly with respect to road (limousines and shuttle services), maritime and port activities (domestic ferry and port services) and aviation. Specific actions are expected to lead to the reduction of operating costs of service providers, while increasing consumers' choice. The gradual restructuring of railways should also lead to its effective privatisation.

6.3.1 Road

1. Having completed the report on the functioning of the regular passenger services and the follow up strategy for the effective opening of the sector, the Government approves the required law (and necessary acts) that ensures equal conditions and access equity to all road passenger service operators **(May 2013).**

6.3.3 Aviation

1. Having submitted the National Airport Policy strategy, the Privatisation Fund (HRADF) carries out the appropriate process leading to the privatisation of regional airports. Any State Aid issues must be clarified. The concession agreements must take into account the current best practices, including capping levels for airport charges and imposed taxes, facilitating investment approval, and allowing for transparent and swift dispute resolution mechanisms (**Continuous**).

2. The Government ensures full implementation of EU Regulation (EU 691/2010) referring to the performance of air traffic management (**Continuous**).

3. The Government takes decisive measures to ensure that the Hellenic Slot Coordinator Authority (HSCA) is functionally and financially independent, sufficiently staffed, and able to carry out its functions (**December 2013**). To this end the government submits all necessary draft legislation (**June 2013**), adopts legislation (**September 2013)** and fully implements the relative legislation by **December 2013**.

6.3.4 Railways

1. The Government implements the spin-off of ROSCO (Maintenance Unit), GAIAOSE (Real Estate), and the transfer of the leasing of the rolling stock activities from the OSE Group to the State, and provides an updated TRAINOSE Business Plan (**June 2013**).

2. The function of award authority for public service contracts for rail passenger transport according to Regulation 1370/2007/EU, is integrated into the new authority for contracting land passenger (both intercity bus and rail) services. The new legislation:
   i. adopted by **May 2013** and,
   ii. for full implementation by **December 2013**.

3. The renewal of the current public service contract for rail passenger transport is to be completed by direct award by end April 2014 and should have a maximum duration of five years. Public service contracts concluded in 2014 or later will be awarded by means of competitive tender. The rent contracts concerning all rolling stock, employed in every public service contract are synchronized both in terms of their duration and to allow for any reallocation of rolling stock as it may become necessary when amending these public service contracts. (**continuous**). The rent contract between TRAINOSE and the State will be initially synchronized with the 5 year PSO contract including one additional renewal option of five year maximum duration. Contracts will be awarded at market prices.

4. OSE publishes its network statement for 2013 and 2014 in at least two official languages of the EU. It shall include full information on infrastructure as it is available and will be available, notably the rail link to Piraeus port. OSE concludes track access contracts with the railway undertakings using its network **(June 2013)**.

5. The State adopts legislation to allow the rail regulatory authority RAS to exert its right of imposing fines, notably (1) amending law L3891/2010 granting RAS the right to perform hearings, (2) granting RAS the right of adopting a hearing regulation and (3) granting RAS the right to adopt and publish in the Official Gazette regulatory acts and decisions on all matters of its competence. To this end, the government;
   iii. submits draft legislation by **May 2013** and
   iv. adopts it by **July 2013**.

6. The National Safety Authority establishes the examination of at least five examiners for train drivers according to the EU Regulation and publication of register of examiners on the web. The safety authority publishes the conditions and procedures to recognize drivers as well as all other accredited persons as required under Article 20.3 of the train driver Directive 2007/59/EC (**May 2013**).

7. The function of safety authority is transferred to an independent authority. (**May 2013**).

8. The HRADF launches tender procedure for Trainose (**June 2013**).

6.3.2 Maritime Activities and Ports

The Government:

1. An assessment of the impact of recent reforms will be completed by **October 2013** and additional measures will be agreed with the aim to further improve the competitiveness of the sector, including by increasing flexibility of labour arrangements.

2. On the basis of the new ports strategy and organisational model for ports, the Privatisation Fund (HRADF) defines a concrete privatisation strategy mainly through concessions (which also includes the sale of the master concessionaire port companies) with the objective of making the best use of the ports (**May 2013**) and launches the appropriate call(s) for tender (**June 2013**).

3. The government revises the legal framework governing port labour relations (see Annex 9.5 for a non-exhaustive list of labour regulations for ports).This revision provides, among others, for the training and certification of cargo-handling employees. The draft law proposal also foresees the integration into the scheme of the cargo-handling employees of Piraeus and Thessaloniki. To this end the government submits draft legislation by **May 2013** and adopts the new legal framework by **June 2013**.

6.4 The Retail Sector

On retail, the selected measures aim at allowing a wider class of goods to be sold by more efficient retailers, and reduce their operating costs. Measures not only look into retail specific regulations (such as rules on pricing, sales and labelling) but also, into the rules on licensing applicable to retail outlets. Combined, the measures should help contribute to lower prices and more choice for consumers.

The Government:

1. adopts a Ministerial Decision repealing Market Regulation 7/2009, following the results of the notification procedure provided for in Directive 98/34 one month after the end of the standstill period. (**June 2013**)

2. reviews and amends the Market Policing Code (Law 136 /1946) providing for various forms of public sector intervention in the production, distribution and consumption of goods in line with the simplifying recommendations of the Hellenic Competition Commission's opinion no. 24/VII/2012. In addition, this should include (i) removal of restrictions in order to permit more freely discounts, promotions, and offers outside and during sale periods, more sales periods combined with more flexibility in the duration of the sales, (ii) increased flexibility in retailers' opening hours by, inter alia, giving all shops the option to remain open at least seven Sundays per year, especially during holiday seasons. Trading on Sundays is likely to increase retail activity and competition and boost growth and employment, especially in small and medium enterprises. (**June 2013**)

3. reviews and simplifies the licensing procedure for the establishment and operation of retail outlets. This exercise should lead to a significant reduction in the number of authorisations requested by the public administration for the opening and operation of shops, which should be replaced, if needed, by less demanding instruments such as declarations or notifications. The results and recommendations of the review are presented in **June 2013**, and adopted before **December 2013**.

4. to enhance competition in the market for over-the-counter (OTC) products:
    i. replaces the current system of fixed margins with maximum ones (**June 2013**), and

    ii. allows the sales of selected products (e.g., vitamins) in other points than pharmacies **(September 2013**).

6.5 *Regulated professions, professional qualifications and provision of services*

6.5.1 Removing restrictions to the access to and exercise of regulated professions

1. For professions and economic activities included in Section 9.2, the Government prepares draft provisions amending sector specific legislation as per the opinions of the Hellenic Competition Commission and other specifications listed thereof. The legislation is adopted by **May 2013,** with the exception of 9.2.16 where the legislation will be set in force after period of four months and in accordance with the relevant HCC opinion**.**

2. A report on the implementation of Law 3919/2011 is published on the Government's website (**June 2013**). The report:
   - i. summarises the list of all professions/economic activities falling under the scope of that law and the restrictions and formalities eliminated as per Arts. 2 and 3 of the same law;
   - ii. specifies whether the access to and exercise of a regulated profession or economic activity is subject to an authorisation procedure, to a declaration or to the holding of a professional identity card;
   - iii. specifies whether access to a profession or economic activity requires the registration in a professional association and or to a professional registry;
   - iv. specifies whether the exercise of the profession is conditional on the periodic renewal of authorisations.

3. To reinforce **transparency** in the functioning of professional bodies: Legislation is adopted mandating the publication on the webpage of each professional association the following information **(May 2013)**:

   - i. the rules regarding incompatibility and any situation characterised by a conflict of interests involving the members of the Governing Boards.

4. To assess the proportionality and justification of **activities reserved** to specific regulated professions, the Government:

   - i. draws an exhaustive list of activities reserved (in exclusivity or not) to the different types of engineer, architect, geologist and land surveyor professions. (**June 2013**)
   - ii. organises a mutual evaluation exercise, whereby representatives of the abovementioned professions assess the justification and the proportionality of the requirements reserving certain activities to providers with specific professional qualifications. The assessment excludes the requirements applicable to their own profession. (**June 2013**)
   - iii. Presents a proposal of which activities could be reserved (in exclusivity) to specific professions. (**June 2013**)
   - iv. Sends draft legislation to Parliament amending unjustified or disproportionate requirements reserving certain activities to specific professions. (**December 2013**)

6.5.2 Additional measures

1. A draft code revising Legislative Decree 3026/1954 is adopted by **June 2013**. The new code should, among others:
   - i. ease the re-entry into the legal profession;

ii. repeal age limits to take the Bar examinations
iii. abolish total bans on commercial communications;
iv. provide for licenses of unlimited duration;
v. remove the reference to "exclusivity" for lawyers for the research of books of mortgage and land registry;
vi. clarify the nature of lawyers' fees provided for in current legislation. Fees are freely determined through a written agreement between lawyers and clients. In case there is no written agreement for court appearances, the fees shall be determined through reference fees;
vii. eliminate any kind of minimum wages for salaried lawyers working in the private sector.

2. The Government issues a Presidential Decree, which sets a system of prepaid fixed/contract sums for each procedural act or court appearance by a lawyer, which is not linked to a specific 'reference amount'. (**May 2013)**

3. It also de-links contributions paid by lawyers from lawyer's reference amounts for contracts and eliminates those reference amounts. (**June 2013**)

4. The Government takes additional measures by **June 2013** at the latest, to reduce by 50% the cost of registering property, as measured by the World Bank's *Registering Property* sub-indicator. The results will be monitored in the World Bank's 2014 edition of Doing Business. (**November 2013**)

5. To confirm progress in the area of regulated professions, the Government completes a study of the 20 largest professions examining the degree to which they have been liberalized, including results with respect to new entrants and price changes. (**July 2013**)

6.5.3 Easing the recognition of professional qualifications

Measures are taken to ensure the effective implementation of EU rules on the recognition of professional qualifications; including compliance with ECJ rulings. In particular, the Government:

1. continues to update the information on the number of pending applications for the recognition of professional qualifications, and sends it to the European Commission. (**Quarterly**)

2. ensures the implementation of PD 38/2010 (as amended by law 4093/2012) and the recognition of qualifications derived from franchised degrees from other Member States to access to or exercise of an economic activity and to ensure that holders of franchised degrees from other Member States have the right to work in Greece under the same conditions as holders of Greek diplomas. (**Continuous**)

6.5.4 Services Directive: exploiting the information benefits of the Point of Single Contact

The Government ensures:

1. that there is adequate connection between the PSC and other relevant authorities (including one-stop shops, professional associations and the recognition of professional qualifications) and that the submission of on-line applications as regards the recognition of professional qualifications is fully operational, through removal the obligation from legislation to present paper originals. (**June 2013)**

7 Increasing the impact of structural and cohesion funds

1. The 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.

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

	2013
European Regional Development Fund (ERDF) and Cohesion Fund	3,000
European Social Fund (ESF)	890
Target of first half of the year	1,284
Target of second half of the year	2,606
Total annual target	3,890

2. The Government submits complete applications for all remaining major projects for which a Commission decision under Article 41 of Regulation (EC) No 1083/2006 has to be adopted. (December 2013). Out of these applications, 6 applications are submitted by June 2013 and 6 applications **by September 2013** and the remaining **by December 2013**.

3. In deciding the "Public Investment Budget" allocation, the Government ensures that the necessary national contribution remains available in order to complete the unfinished ERDF, ESF and Cohesion Fund projects of the 2000-2006 programming period and to cover the required national contribution including non-eligible expenditure under the Structural Funds and Cohesion Fund rules in the framework of the 2007-2013 programming period.

4. The Government takes measures in order to accelerate the implementation of the projects which should be completed by December 2015, especially in particular those which are critical for the development of the country — as the functional review of the public administration, the "Elenxis" project for the tax control services, the land register, the solid waste management infrastructures, the railway projects, the e-prescription, the e procurement, the development of a social economy sector and the national registry. On top of the 24 priority projects, already finished and the 3 priority projects cancelled, the Government takes measures in order to ensure completion of 27 priority projects by end 2013, of 20 priority projects by end 2014 and of 70 priority projects by end 2015. The Greek authorities take necessary measures to limit the number of the priority projects that will be phased.

5. Within the review of the public procurement regulations (cfr. section 2.7.2.2.3), standardised tendering documents per category of works are set up in view to simplify procedures on contract awarding. (**September 2013**)

6. The monitoring tool for expropriations is completed and operational and the data are made accessible to the public. (**July 2013**)

7. The Government consolidates the simplification initiative by reviewing the "implementation trail" and the mapping of competences of the involved entities, permits and deadlines needed for the implementation of the main categories of projects supported by the Structural Funds and the Cohesion fund (e.g. transport, waste management, social infrastructure, entrepreneurship, ICT). It lifts the unnecessary steps, simplifies the implementation processes and sets reasonable deadlines. In particular, the Government establishes an alternative to the function of "ypologos" procedure for the EU co-funded projects and establishes the electronic payment (**June 2013**). The ypologos should be abolished by December 2013. Periodically and until the end of the programming period 2007-2013, it reviews the "sleeping" projects, un-activated delegations and "sleeping" contracts and informs the Commission on those eliminated.

8. The Government adopts measures and starts implementing an anti-fraud strategy in the field of the Structural Funds and the Cohesion Fund (**June 2013**).

9. The Government reports the Commission monthly on the progress of the Financial Engineering Instruments. If necessary and where appropriate, it proposes a rationalisation of the current allocations and instruments. **(September 2013)**

10. The Government establishes an efficient inter-service consultation procedure for the EU co-financed projects supported by an electronic system. An integrated project will be fully operational for the EU co-financed projects by end of 2013 **(December 2013).**

8 Monitoring

8.1 Statistics

1. Government will fully honour the Commitment on Confidence in Statistics signed in February 2012 by implementing all envisaged actions, including respecting international statistical standards; guaranteeing, defending and publicly promoting the professional independence of ELSTAT; and supporting ELSTAT in upholding confidence in Greek statistics and defending them against any efforts to undermine their credibility. (**continuous**)

2. Legal amendment will be introduced to ensure that ELSTAT will have access to the tax information (including tax registration number), at individual level, of legal entities under private law, associations of individuals and natural persons, notwithstanding tax confidentiality, so that it can carry out its statistical work for the production of official statistics, as it is provided for in Law 3832/2010 as in force, and is specifically set out in the Regulation on Statistical Obligations, while at the same time ELSTAT safeguards the confidentially of personal records. (**May 2013**)

3. Government respects the independence of ELSTAT in carrying its tasks and providing high quality statistics. In this regard it fully respects the financial independence of ELSTAT, and provides all the necessary resources in a timely manner, as approved in the annual budget of ELSTAT, for the agency to complete uninterrupted its tasks. In this respect, Government cannot invoke art. 1 of Legal Act of 18/11/2012 and the Ministerial Decree 2/91674 of 201/12/2012, while, at the same time, ELSTAT provides to the Hellenic Parliament information for monitoring the execution of its budget as provided for in the Regulation of the Parliament (Article 31A) and the Statistical Law of Greece (Article 16). (**continuous**)

4. Government will facilitate ELSTAT to complete, as soon as possible, the acquisition of qualified staff under way for staffing essential positions in its central office, as well as receive additional qualified staff through transfers from other government entities for addressing urgent staffing needs in prefecture offices and the central office, as reflected in the Medium term plan of ELSTAT submitted in the context of the preparation of the MTFS preparation and incorporated in the latter. (**September 2013**)

9 Annexes

9.1 Privatisation plan and intermediate steps

Timing of Privatizati (Launch of Tender)		Binding offers (submission)	Project	Intermediate Steps
I. State-owned enterprise/share sale				
	n/a	n/a	2 Airplanes	
2012	Q1	Q2/13	Public Gas (DEPA)	Modification of statutory provision at time of privatization.
	Q1	Q2/13	Public Gas (DESFA)	State aid clearance (DG Comp).
	Q4	Q2/13	Football Prognostics Organization (OPAP)	Proceed with the phase B of the tendering process and finalize selection (April 2013 - **DONE**).
2013	Q1	Q3/13	Horserace Betting Organization (ODIE)	Launch of tender (March 2013- **DONE**). Law for clarifying responsibilities between Jockey Club and the New Concessionaire (May 2013). Law for clarifying the taxation regime of the Concession (May 2013)
	Q1	Q3/13	Thessaloniki Water (EYATH)	Establish regulatory framework (March 2013 - **DONE**). Establish pricing policy (May 2013) and amend the license (November 2013).
	Q2	Q2/14	Hellenic Vehicle Industry (ELVO)	Transaction structure to be determined and agreed (May 2013). EC (DG Comp) consent (May 2013).
	Q2	Q4/13	Hellenic Petroleum (HELPE)	Following divestment of DEPA.
	Q2	Q1/14	Mining and Metallurgical Company (LARCO)	Agreement on privatisation structure (DG Comp) is a key prerequisite. Law for establishing a new company (June 2013).
	Q2	Q2/14	Railways (Trainose)	Trainose will be transferred to HRADF (March 2013 - **DONE**). - Comfort letter from EC (DG Comp) for TRAINOSE State Aid investigation clearance (May 2013).
	Q2	Q2/14	Athens Airport (AIA)	Agree on extension and sale process with Hochtief (June 2013).
	Q3	Q4/13	Hellenic Post (ELTA)	Ministerial decisions for (i) the determination of the content of universal service (**DONE**) and (ii) the compensation mechanism for USP drafted and prenotified to DGComp (further clarifications/ amendments asked by EC are being processed by HR & ELTA).
	Q3	Q2/14	Athens Water (EYDAP)	Establish regulatory framework (March 2013 - **DONE**). Establish pricing policy (September 2013) and amend license (February 2014). Settlement of receivables from the State (February 2014).
	Q3	Q3/14	Hellenic Defense Systems (EAS)	Identify assets for privatization (May 2013). State Aid formal investigation clearance (pending discussions with DGComp)
	Q3	Q3/14	Public Power Corporation (PPC)	Government approves and announces PPC restructuring and privatisation plan (April 2013).
	n/a	n/a	Casino Mont Parnes	Pending European Court decision
II. Concessions				
	n/a	n/a	Hellenic Motorways	Negotiations for the restart of projects currently in progress. Agreement with CJV's regarding claims reached. Recommencement of construction expected in May 2013. Ratification of reset agreement by Parliament, after consent by Lenders and EU granted (expected in July 2013).
2011	Q4	Q4/12	State Lottery	Court of auditors approval - **DONE**
2013	Q1	Q3/13	Small ports and marinas	Resolve issues related to urban zoning (May 2013).
	Q1	Q4/13	Regional airports	Clarify state aid related issues (before launch of the 2nd phase - estimated May/June 2013). Establish regulatory framework (April 2013).
	Q2	Q4/13	Egnatia Odos	Launching of tender process dependent on: a) agreement/finalisation with Ministry of Development on key characteristics of the concession and conclusion of business plan (**DONE**) b)decision on tolling policy/toll collection-system (**DONE**) c) treatment of Piraeus loan granted to Egnatia Odos SA and legislative settlement of such arrangement (April 2013)
	Q2	Q1/14	Thessaloniki Port (OLTH),Piraeus Port (OLP) & Large regional ports	State aid clearance (DG Comp). Submit privatization strategy (April 2013). Establish regulatory framework (April 2013 - **DONE**).
	Q3	n/a	South Kavala Gas Storage	Decision on the best exploitation option (December 2012 - **DONE**).
2014	Q2	Q4/2014	Digital Dividend	Entire process led by Ministry of Development. Adopt secondary legislation for: a. TV stations (June 2013 - tbc with Min Dev) and b. analogue switch-off date (June 2013 - tbc with Min Dev). Launch tender for TV network providers (June 2013).
	n/a	n/a	Mining rights	
III. Real Estate				
2011	Q4	Q4/13	Hellenikon 1	Transfer of Hellinikon SA ownership to HRADF (Pending decision: December 2012- **DONE**). Launch Phase B of tender process (December 2012 - **DONE**). Bids will be submitted end of December 2013
2012	Q1	Q3/12	IBC	ESCHADA submission (**DONE**). Have approval from Court of Audit (December 2012- **DONE**).
	Q1	Q1/13	Cassiopi	Right of surface establishment and creation of the SPV (June 2013). ESCHADA submission (October 2012 - **DONE**).
	Q1	Q2/13	Afantou	All intermediate steps have been fulfilled. Binding offers submission (May 2013), subject to timely issuance of decision by the Council of State. ESCHADA submission (June 2013)
	Q4/12	Q1/13	Buildings abroad	Launch tender process (December 2012- **DONE).** Tender concluded for 4/6 buildings. Court of Audit approval. Launch of tender for the remaining 2 buildings (May 2013).
2013	Q1	Q2/13	Sale/repo 28 buildings	All intermediate steps have been fulfilled. Launch the first phase of tender (March 2013 - **DONE**). Launch second phase (May 2013).
	Q1	Q4/13	Astir Vouliagmenis	Finalize the negotiations with NBG - **DONE**. Transfer EOT property to HRADF (March 2013 - **DONE**). Launch the request for EoI (April 2013 - **DONE**). ESCHADA submission (September 2013).
	Q1	Q2/13	Paliouri	Launch tender process (December 2012 - **DONE).** Transfer of asset to HRADF (March 2012- **DONE).** Launch second phase (April 2013).
	Q1	Q3/13	HEY	Launch tender process (February 2013-**DONE).** Transfer of asset to HRADF (March 2013- **DONE**). Launch second phase (April 2013).
	Q1	Q4/13	Agios Ioannis	All intermediate steps have been fulfilled. Launch the first phase of tender (March 2013 - **DONE).** ESCHADA submission (January 2014).
	Q1	n/a	Real Estate lot 2	The 40 properties already identified are transferred to HRADF (March 2013 - **DONE**).
	Q4	n/a	Real Estate lot 3	At least 1,000 real estate properties to be transferred to HRADF (December 2013). The first 250 real estate assets are transferred to HRADF (April 2013).

Source: HRADF update on projects under development.

1/ ESCHADA = zoning and land planning permit.

9.2 Regulated professions: regulated professions / economic activities whose regulatory framework needs to be adjusted to applicable opinions of the Hellenic Competition Commission and other requirements

1. **Professions under the Greek Ministry of Citizen Protection**: i) sale of revolvers, pistols and target-shooting weapons; ii) preparation of explosives; manufacture, conversion, assembly, finishing and repair of firearms, and charging/recharging of firearm cartridges; iii) charging cartridges for hunting weapons for sale; iv) sale of fireworks and flare launchers; v) manufacture of fireworks and flare launchers; vi) operation of private security firms; vii) work by security staff of private security firms; viii) operation of private investigation offices; ix) work by staff of private investigation office: *Cfr*. HCC Opinion no. 13/VI/2012.
2. **Dealers in antiques and more recent artifacts and restorers of fine art and antiquities:** *Cfr.* HCC Opinion no. 18/VI/2012. The revision eliminates the geographical restrictions on antique dealers and provides for other ways of acquiring professional experience other than in a Greek antique shop (e.g., experience in other antique shops abroad or in museums).
3. **Professions / economic activities under the Greek Ministry of Citizen Protection – harbour guard**: i) Organisations certifying divers; ii) Suppliers of recreational diving services; iii) Rental of means of marine recreation; iv) Service boat operations; v) Towing operations; vi) Licensing for outdoor trading (stands or itinerant) on board ships; vi) Operation of casinos on board passenger vessels flying the Greek flag on international voyages; vii) Lifeguards: (i) Operation of public health establishments on anchored or floating craft and (ii) Operation of public health establishments on seafaring vessels: *Cfr.* HCC Opinion no. 22/VII/2012.
4. **Professions / economic activities under the Ministry of Labour**, Directorate-General for Welfare: i) Creative activity centres for children; ii) Creative activity centres for children with disabilities; iii) Nurseries and kindergartens; iv) Private childrens' camps; v) Child welfare institutes: *Cfr*. HCC Opinion no. 25/VII/2012.
5. **Petrol sellers, shotfirers, blasters and natural gas sales**. *Cfr*. HCC Opinion no 26/VII/2012
6. **Actuaries**: review the regulatory framework governing the examination process so as to prevent the Hellenic Actuarial Society (HAS) from determining indirectly the number of successful candidates in the examinations in the interest of the incumbents (*cfr*. HCC opinion no. 14/VI/2012).
7. **Selling and production of reproductive material for agricultural plant species and selling of fertilisers (***cfr*. HCC opinion no. 19/VI/2012**).**
8. **Oenologists:** abolish minimum fees
9. **Oenology labs:** remove geographical restrictions for establishing multiple labs and administrative license
10. **Veterinarians**: remove the legal form requirement and allow any legal person, irrespective of the shareholders, to open a veterinary clinic long as the activity is being performed by veterinarians. Subject the licensing of such veterinary clinics to Art. 3 of Law 3919.
11. **Accountants**: abolish the four different classes of accountants and the activities reserved to each class.
12. **Private education establishments**. Adopt secondary legislation provided for in paragraph I.3.15 and 16 of law 4093/2012, spelling out the details of the licensing procedure of private schools and providing for the approval procedure for programs of study.
13. **Tourist guides**: Amend legislation to allow educational entities other than universities to offer accelerated training courses for candidate tourist guides.
14. **Stevedores at ports and for land operations**. Adopt secondary legislation referred to in section K7 of law 4093/2012 providing for the creation of the National Stevedores Registry, for the accreditation of stevedores, on special issues related to the organization and operation of control procedures on matters of health and safety at work of stevedores, providing for a new regulation on fees and remunerations for Port Funds and shipping agents, and providing for the terms and procedures for dock workers to enter the area of the port.
15. **Sworn in valuers**: Adopt law and necessary secondary legislation (3 MDs on the examination committee, code of ethics and on disciplinary committee) to reflect abolished restrictions in November 2012 (i.e. fixed fees, numerus clausus, nationality requirement etc) and include (i) replacement of the current system of certification with a system of prior declaration that allows professionals to exercise activities unless the

administration notifies against it; and (ii) reduction to 2 years in required professional experience to become a sworn-in valuer. .

16. **Geo-technician**: subject the regulations on geo-technicians to chapter A of law 3919/2011.

9.3 Agreed roadmap between the Greek Ministry of Justice and the EC/IMF/ECB for the review of the code of Civil Procedure

9.3.1 Code of civil procedure

1. **By end May 2013**, the Task Force for the review of the Code of Civil Procedure presents to the Government an initial draft of the Code. Within 15 days, the Code of Civil Procedure is presented to the EC/IMF/ECB for comments.
2. On the basis of the above cooperation, the Task Force presents to the Government, **by end October 2013**, a revised version of the draft Code of Civil Procedure. The Government carries out a broad public consultation, including EC/IMF/ECB, on the draft law bringing the Code of Civil Procedure in line with international best practice.
3. The Government submits the final draft Code to the Hellenic Parliament by March 2014.

9.3.2 Study on cost of litigation

The Government finalises the study on the costs of civil litigation, its recent increase and its effects on workload of civil courts, and publishes the study **by June 2013**.

9.4 *Statistics to be published by the Ministry of Justice*

1. Every quarter, for civil and administrative first instance court, court of appeal as well as the Supreme Court and the Council of State) tables published will provide for:
    - the number of judges and administrative staff[2],
    - the stock of cases at the beginning of the period,
    - the inflow of cases registered during the period,
    - The outflow of cases closed during the period[3]
    - the stock of cases at the end of the period.

    The tables will also include the following data:

    i. For the tax and customs cases, the data will also include the inflow of the new cases with a breakdown above and under 150 000 euros.

    ii. For civil and commercial courts, the data for stock and flows of cases will also show the corporate insolvency cases.

    iii. For administrative Justice, specific data, provided in another table, will include a breakdown by year of registration of the stock of cases for which no hearing date has been fixed yet. This will be provided for beginning and for end period. The table will also show the total number of cases with a hearing date.

2. For some of the most relevant courts, defined in agreement with EC, IMF and ECB, the Ministry of Justice will also publish by quarter, or by semester or year if so agreed by EC-IMF/ECB:

    i. The stock of cases (both at beginning and at end period), with a breakdown by year of registration.

    ii. for civil and commercial Justice, more detailed information on corporate insolvency cases including:
        - a more detailed breakdown by value[4], defined in agreement with EC, IMF and ECB,
        - a more detailed breakdown by sector (e.g., agriculture, construction, manufacturing, and services), defined in agreement with EC, IMF and ECB,

3. Ministry of Justice and General Secretariat for public revenue:

[2] At the end of the period.

[3] A case is considered closed, and registered in the outflow, at the moment the full decision is published (and its content is available to the parties).

[4] "Value" of the case could correspond to the value of the liabilities of bankruptcy, as this appears after the 3-months period of the submission of announcements by the debtors has expired.

i. The General Secretariat for public revenue will conduct and publish by September 2013 one study based on small but random sample, in order to gather information on recovery rate for tax and customs cases.

ii. The Ministry of Justice will try and propose a method to get relevant information on recovery rates for corporate insolvency cases.

4. When the IT system will be fully in place, the Ministry of Justice will publish:

i. Tables showing:

- the number of judges and administrative staff[5],
- the stock of cases at the beginning of the period,
- the inflow of cases registered during the period,
- The outflow of cases closed during the period[6],
- the stock of cases at the end of the period.

ii. The stock of cases at beginning and at end period will be broken down by year of registration,

iii. The stock of cases at beginning and at end period and the flow of cases will be broken down by categories of litigations,

iv. The average duration of the outflow cases during the period.

[5] At the end of the period.

[6] A case is considered closed, and registered in the outflow, at the moment the full decision is published (and its content is available to the parties).

9.5 Non-exhaustive list of regulations on port work for review under the new port strategy

- Port of Piraeus – law 1559/1950 (Gov. Gazette A 252/1950), law 2688/1999 (Gov. Gazette A 40/1.3.1999), Joint Ministerial Decision 5115.01/02/2004 on the approval of the General Regulation for Personnel (Gov. Gazette B 390/26.2.2004).
- Port of Thessaloniki - legislative decree 449/1970 (Gov. Gazette A 51/27.2.1970), law 2688/1999 (Gov. Gazette A 40/1.3.1999), Joint Ministerial Decision 5115.01/05/2003 on the approval of the General Regulation for Personnel (Gov. Gazette B 1203/26.8.2003).
- Work Regulation of the Dockworkers of the Piraeus Port approved by Joint Ministerial Decision 45058/7/1971-Gov. Gazette B 579/22.7.1971)
- Joint Ministerial Decision 44885/8919/1956, as modified by Joint Ministerial Decision 117756/8295/1967-Gov. Gazette B 9/11.1.1967)
- Law 3239/1955
- Law 5167/1932
- Ministerial Decision F 10221/26816/929- Gov. Gazette B 2778/2.12.2011

9.6 *Provision of Data*

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

These data should be sent to the following e-mail address:

ecfin-greece-data@ec.europa.eu

This address should also be used for the transmission of other data and reports related to the monitoring of the programme.

To be provided by the Ministry of Finance	
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.
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.
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 staff: number of employees, entries, exits, transfers among government entities; and from and into the mobility and exit scheme, per entity. *(Data compiled by the Ministries of Administrative Reform and E-Governance and of Finance)*	Monthly, 30 days after the end of each month.
Weekly information on the Government's cash position	Weekly on Friday,

with indication of sources and uses as well of number of days covered. *(Data compiled by the Ministry of Finance)*	reporting on the previous Thursday.
Data on below-the-line financing for the general government. *(Data compiled by the Ministry of Finance)*	Monthly, no later than 15 days after the end of each month; these data should also be included in subsequent transmissions in case of revision.
Data on expenditure pending payment (including arrears) of the general government, including the State, local government, social security, hospitals and legal entities. *(Data compiled by the Ministry of Finance on the basis of basic data from the several line ministries)*	Quarterly, within 55 days after the end of each quarter.
Data on use of international assistance loans split among following categories: Financial stability fund, segregated account, debt redemption, interest payments, other fiscal needs, building of cash buffer; per quarter and cumulative	Quarterly, by the end of each quarter.
Data on public debt and new guarantees issued by the general government to public enterprises and the private sector. Data on maturing debt (planned redemptions per month, split between short-term (Treasury bills and other short-term debt) and long-term (bonds and other long-term) debt). Data on planned monthly interest outflows. *(Data compiled by the Ministry of Finance)*	Monthly, within one month.

Data on assets privatised and proceeds collected. *(Data compiled by the Ministry of Finance)*	Monthly.
Data on state-owned 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 state-owned enterprises' liabilities.
Monthly statement of the transactions through off-budget accounts. *(Data compiled by the Ministries of Finance and Education, Religious Affairs, Culture and Sport)*	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 health care 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.

To be provided by the Bank of Greece

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

To be provided by the Hellenic Financial Stability Fund

Detailed report on the balance sheet of the Hellenic Financial Stability Fund with indication and explanation of changes in the accounts.	Monthly.

Abbreviations

ASEP	Supreme Council for Staff Selection
ADMIE	Independent Power transmission operator
CPB	Central Purchasing Bodies
DEPA	Public Gas Corporation
DOY	
DRG	Diagnostic-Related Group
DSO	Distribution System Operator
EBFs	Extra budgetary Funds
EC	European Commission
ECB	European Central Bank
EEA	European Economic Area
EETT	Hellenic Telecommunications and Post Commission
EFSF	European Financial Stability Facility
EKDAA	National Centre for Public Administration and Local Government
EKEVYL	National Centre for Medical Technology
ELENXIS	
ELSTAT	Hellenic Statistical Authority
EOF	National Organisation for Medicines
EOPYY	National Organisation for the provision of Health services
EPY	Health Procurement Commission
ERDF	European Regional Development Fund
ERP	Enterprise Resource Planning
ESA	European System of Accounts
ESF	European Social Fund
ESY	National Health System
ETEA	
EU	European Union
GAIA OSE	Real estate agency
GAO	General Accounting office
GDFS	
GDP	Gross Domestic Product
GEMI	General Commercial Registry
GSIS	General Secretariat for Information Systems
HCA	
HCAA	Hellenic Civil Aviation Authority
HFSF	Hellenic Financial Stability Fund
HRADF	Hellenic Republic Asset Development Fund
HSCA	Hellenic Slot Coordinator Authority
HWI-HISE	High Wealth Individual and High Income Self Employed
ICD – 10	International Classifications of Diseases
IDIKA	E-governance of social insurance
IMF	International Monetary Fund
JMD	Joint Ministerial Decision
KEN-DRGs	Diagnosis Related Groups
KPI	Key performance indicators
KTEL	Joint Fund for Bus Receipts

LAGIE	Operator of electricity market
LG	Local Government
LNG	Liquefied Natural Gas
LTU	Large Tax Payers Unit
LTV	Loan-to-value
MAREG	Ministry of Administrative reform and Electronic governance
MD	Ministerial Decision
MEFP	Memorandum of Economic and Financial Policies
MIS	
MTFS	Medium-Term Fiscal Strategy
NHS	National Health System
NPL	Non-performing loans
OASA	Athens Urban Transport Organisation
OECD	Organisation for Economic Cooperation and Development
OGA	Agricultural Insurance Organisation
OSE	Railway Organisation of Greece
OTC	Over - the – counter
OTE	Hellenic Telecommunication Company
PIB	Public investment budget
PPC	Public Power Corporation
PSC	Point of Single Contact
QV	
RAE	Regulatory Authority for Energy
RAS	Regulatory Authority for Railways
ROSCO	Rolling Stock & Railroad Maintenance business unit
RSPP	Radio Spectrum Policy Programme
SDOE	Corps for the Prosecution of Financial Crimes
SOE	State Owned Enterprises
SPA	Single Payment Authority
SPC	
SPPA	Single Public Procurement Authority
SSC	Social security contributions
SSF	Social Security Funds
TAP	trans-Adriatic pipeline
TAXIS	
TEN-T	Trans European Transport network
TSO	Transmission System Operator
WHO	World Health Organisation

Statement by the Staff Representative on Greece
May 31, 2013

All nine prior actions have been completed (Table 1). Data releases and developments since the issuance of the Staff Report do not affect the thrust of the staff appraisal.

- Consistent with the program's macroeconomic framework, new flash estimates show a moderate slowing in the pace of contraction, with GDP declining by 5¼ percent y/y in Q1 2013 (compared to 5½ percent projected in the program), down from a 5¾ percent drop in Q4 2012.

- Budget execution for the State remains on track, with revenues through April in line with program projections, and some temporary under-execution of spending, particularly investment.

- Investor sentiment has continued to recover: confidence indicators have improved further in May (although from a low base), and Greek banks and the covered bonds issued by them were upgraded by Fitch, on account of improved fundamentals and progress on bank recapitalization.

Table 1. Greece: Prior Actions

Measure	Status
Fiscal institutional reforms	
10. Government to meet end-April quantified key performance indicators for revenue administration (MEFP Annex I).	Met (see Table 2).
11. Government to meet end-March quantified key performance indicators for public financial management (MEFP Annex III).	Met (see Table 3).
12. Adopt legislation on key tax administration procedural reforms to: suspend collection activities on uncollectable debt, remove the legal requirement to audit all tax declarations for the previous 10 years; and implement indirect audit methods (MEFP ¶4).	Met.
13. Issue a ministerial decision that regulates the conditions of the existing basic and a new transitional installment scheme for tax and social security contributions debt (MEFP ¶6).	Met.
14. Adopt legislation to achieve a semi-autonomous revenue administration (MEFP ¶3, TMU¶27).	Met.
Fiscal measures	
15. Adopt legislation to extend collection of the real estate tax through 2013 via PPC (MEFP ¶12)	Met.
16. Government to adopt staffing plans, approve quarterly targets on mandatory exits, approve annual overall employment ceilings for the general government through 2016; and adoption of legislation to streamline and accelerate the disciplinary procedure, and remove restrictions for placing in the mobility scheme personnel of legal entities of private law whose positions are abolished (MEFP ¶13).	Met.
17. Adopt legislation to introduce measures to eliminate by end-2014 the debt in the RES account (MEFP ¶15).	Met.
Financial sector	
18. Add 2 independent members to the HFSF General Council (MEFP ¶27).	Met.

Table 2. Prior Action: Key Performance Indicators on Tax Administration 1/

Indicator	End-April 2013	
	Target	Actual
Debt collection		
Collection of new debts in the current year (percent of new debt in the year)	11.0%	13.0%
Tax audits and collection of large tax payers		
Number of risk-based full scope audits in the year	66	85
Number of risk based temporary audits in the year	134	184
Audits and collection of high wealth individuals		
Number of completed risk-based audits in the year	146	168

Source: IMF staff.

1/ Cumulative audits from end-2012.

Table 3. Prior Action: Key Performance Indicators on Public Financial Management Reforms

Indicator	End-March 2013	
	Target	Actual
a. Percent of institutional units (State and general government entities) reporting on the E-portal of GAO total budget allocations (including any revisions), pending outstanding commitments, unpaid commitments, and arrears data (for both ordinary and investment) at the end of each month, based on data from their commitment registers, is above the target.		
2012 entity coverage 1/	91%	95%
New entities 2/	55%	65%
b. Discrepancy between the total arrears to third parties of non-state general government entities reported under the E-Portal of GAO using data from commitment registers and the total arrears reported through monthly surveys, i.e. the sum across all entities of the absolute value of (arrears monthly survey less arrears E-portal) divided by total arrears multiplied by 100, is below target.		
2012 entity coverage 1/	2%	1.8%
New entities 2/	30%	10%

Source: IMF staff.

1/ Includes old entities with 2011 spending above €1 million.
2/ Includes new entities in the end-Septemeber 2012 ELSTAT register with spending above €1 million.

INTERNATIONAL MONETARY FUND

Press Release No. 13/195
FOR IMMEDIATE RELEASE
May 31, 2013

International Monetary Fund
Washington, D.C. 20431 USA

IMF Completes Third Review Under Extended Fund Facility Arrangement for Greece, Concludes 2013 Article IV Consultation

The Executive Board of the International Monetary Fund (IMF) today completed the third review of Greece's performance under an economic program supported by an Extended Fund Facility (EFF) arrangement. The completion of this review enables the disbursement of SDR 1.5 billion (about €1.74 billion or US$2.26 billion), which would bring total disbursements under the arrangement to SDR 5.7 billion (about €6.57 billion or US$8.55 billion).

The EFF arrangement, which was approved on March 15, 2012 for a total amount of about €28 billion (see Press Release No. 12/85), is part of a joint package of financing with euro area member states amounting to about €173 billion over four years. It entails exceptional access to IMF resources equivalent to about 2,159 percent of Greece's quota.

Against the backdrop of a still contracting economy and very high unemployment, the Greek authorities have pressed forward with implementing their economic program, with a focus on restoring fiscal sustainability, reforming tax collection, boosting competitiveness through structural reforms, and recapitalizing the banking sector. The economic downturn is expected to bottom out this year, with a gradual recovery taking hold in 2014.

The Executive Board also concluded today the 2013 Article IV Consultation with Greece, which discusses policies from a longer-term perspective. A Public Information Notice (PIN) on the Board's assessment of the Consultation will be released separately.

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

“The Greek authorities have made commendable progress in reducing fiscal and external imbalances and in restoring competitiveness. The authorities remain committed to make rapid progress on productivity-enhancing structural reforms and on tax and public administration reforms.

“Greece is well underway to complete its ambitious fiscal adjustment plan, and is on track to meet its 2013 fiscal targets. A critical priority is to tackle tax evasion by pressing forward rapidly with reform of the revenue administration to improve operational independence and make the burden of adjustment more equitable. Pressures to reduce taxes using the space from any fiscal over-performance should be resisted. Decisive steps are needed to reform public administration, including through targeted staff reductions, to lower costs, improve efficiency, and increase fairness.

“Efforts continue in earnest to address external imbalances and restore competitiveness, notably through far-reaching labor market reforms, which have increased wage flexibility. Broader structural reforms to enhance productivity and improve the business environment need to be accelerated, including the liberalization of regulated professions and other product and service markets. Such reform is essential to reduce costs, improve efficiency, and ensure that the burden of adjustment falls not just on wages.

“The recapitalization of core banks and resolution of non-core banks are nearing completion. The authorities must reinforce the governance framework and return to the private sector the stakes in banks that are under the government’s control at an early time. The authorities are reforming the insolvency and non-performing loan resolution frameworks, to facilitate the repair of balance sheets and restoration of credit growth.

“Public debt is projected to remain high well into the next decade. The assurances from Greece’s European partners that they will consider further measures and assistance, if necessary, to reduce debt to substantially below 110 percent of GDP by 2022, conditional on Greece’s full implementation of all conditions contained in the program, are welcome. Their continued commitment to provide adequate financial support to Greece during the life of the program and beyond until it has regained market assess, provided that Greece complies fully with the program, is also essential.”

Statement by Thanos Catsambas, Alternate Executive Director for Greece
May 28, 2013

THE THIRD REVIEW OF THE EFF-SUPPORTED PROGRAM

Economic Developments and Prospects. Greece is currently in its sixth year of recession: GDP declined by 6.4 percent in 2012 for a cumulative contraction of 22 percent between 2008 and 2012; it is forecast to decline further by 4.2 percent in 2013. The unemployment rate is close to 27 percent and youth unemployment now exceeds 60 percent. Inflation is anticipated to be steadily lower than the euro area average for both 2013 and 2014. The current-account deficit has declined from 11.2 percent of GDP in 2009 to 3.4 percent in 2012, and is expected to decline further to 0.8 percent in 2013.

These outcomes are the result of an unprecedented adjustment effort, which began strongly in 2010, continued at a slower pace in 2011, was bolstered with the PSI in early 2012, and was reinvigorated under the government of Prime Minister Samaras that has been in power since last June. Thanks to the determined efforts by the authorities, the economic outlook during the last review remained largely unchanged from the previous review, with continued prospects for a gradual return to growth in 2014, supported by inflation well below the euro area average and improved wage flexibility, both of which are helping to restore the competitiveness of the Greek economy.

Fiscal Policy and Management. Fiscal performance is on track to meet the program targets, and the government is committed to fully implement all agreed fiscal measures for 2013-14 that are not yet in place; recent legislation extended the collection of the real estate tax through 2013 via the Public Power Company to ensure an uninterrupted stream of good revenue performance. A very important step towards enhancing the revenue collection mechanism, which the authorities recognized as a weak link in the adjustment effort, was a major reform of the revenue administration to provide it with significantly more autonomy, powers and resources, and the adoption of more effective and enforceable installment schemes. The authorities share the staff views that improved tax collections and minimization of tax evasion and corruption are essential ingredients for a more balanced and fair distribution of adjustment, which would generally enhance the ownership of the adjustment program.

The Banking Sector. Most systemic banks completed the basic steps of the recapitalization process at the end of April; the subscription process is expected to be finalized in the coming weeks. The recapitalization included the purchase of branches of three Cypriot banks that had come under distress in recent months by one Greek bank. The funds provided by the Hellenic Financial Stability Fund should provide adequate capital, even under a significantly adverse scenario, and will thus ensure the safety and soundness of the banking system and its deposits. More generally, the authorities have undertaken to develop a comprehensive strategy for the banking sector following recapitalization by July 15, 2013; the strategy will address, *inter alia*, the issue of possible further mergers among the four systemic banks and the timetable for disposing the shares held by the Hellenic Financial Stability Fund to the private sector.

Structural Reforms. With the macroeconomic adjustment under control, the authorities are turning their attention to deeper structural reforms, which have been under consideration since the beginning of the program, and which required rigorous analysis and extensive consultations with social partners. One important commitment that had lagged behind is well under way: the administrative reform to improve the quality of the public service and to strengthen accountability by streamlining its structures, removing positions, and reallocating staff. This major reform includes dismissals that are targeted at disciplinary cases and cases of demonstrated incapacity, absenteeism, and poor performance, or that result from closure or mergers of government entities. Other areas of continued structural reforms are (a) continued liberalization of product and service markets, including transport and retail trade, private education, fuel distribution; and (b) electricity sector reforms to ensure financial sustainability and promote competition and efficiency.

Safety Net. The government is committed to protect the most vulnerable segments of the population during these turbulent times. The government is making progress in strengthening the social safety net, including through targeted employment and training programs supported by the EU, pilot programs to extend unemployment benefits and provide minimum income support, a program to provide access to primary health care for the uninsured, and a scheme to reduce the financial burden on indebted low-income households which have been severely affected by the crisis.

In sum, this review succeeded in shifting the focus from further macroeconomic adjustment through recessionary channels to the prospect of viable growth through extensive structural reforms, which will help achieve an annual primary surplus at an early time. When this is realized, the authorities look forward to earlier commitments by Euro Area Member States to consider further initiatives and assistance, if necessary, for achieving an additional and credible reduction of the Greek debt-to-GDP ratio, which should help ensure the long-term sustainability of Greece's public debt.

THE 2013 ARTICLE IV CONSULTATION

Areas of Agreement. My authorities are grateful to the staff for the comprehensive and rigorous Article IV consultation report. They consider it a useful and important supplement to the program discussions. They also appreciate the analytical chapters in the Selected Issues paper, which they consider important contributions to the debate about the development model of Greece "the day after".

My authorities agree with most conclusions in the staff appraisal, and appreciate the emphasis on three major achievements accomplished by Greece: exceptional fiscal adjustment in a short period of time, fundamental changes in the labor market, and preservation of banking sector stability. Combined, progress in these areas has improved Greece's competitiveness and has contained the runaway increase in public debt. With the help of the Fund and its European partners, Greece has begun the process of (re)gaining sustainability within the Euro zone and is now looking forward to reaching a sustainable growth path based on an economically viable model.

Some Amplification to Staff Conclusions. While the authorities agree with the thrust of the staff remarks and recognize that major challenges remain ahead, they wish to qualify some of the conclusions that are presented in the staff analysis regarding structural reforms.

First, as a matter of general principle, structural reforms are more difficult to implement than macroeconomic adjustment measures, not only because of political considerations but also due to severe capacity constraints. The latter, which should not be underestimated during the early phases of the program, are gradually being overcome thanks to massive technical assistance from Fund staff, the European Task Force, and several bilateral donors. As a result, progress under the coalition government that came to power one year ago has been steadfast: the Spring 2013 Update of the Euro Plus Monitor, produced by Berenberg Bank and the Lisbon Council, *placed Greece on the top spot of its Adjustment Progress Indicator*. In addition, Greece has been ranked as the country with *the highest responsiveness to OECD recommendations between 2010-12.*

Second, the authorities would qualify the characterization that "limited progress has been made in tackling Greece's notorious tax evasion" as follows: while tax compliance and collections remain a formidable challenge, in the past six months there are weekly reports about individuals who have been arrested for major tax evasion offenses. More generally, tax compliance is expected to be strengthened considerably with the January appointment of an independent General Secretary of public revenues, who, as noted earlier, was vested with more autonomy, power and resources to carry out effectively the tax collection process. However, resolution of tax offenses lies with the tax courts, which are beyond the reach of the executive branch, and the government has identified this as an area for further improvement. As staff acknowledges in the Article IV report (para. 33), the authorities, while mindful of the huge task of reforming tax administration within a short time horizon, have "emphasized their political commitment to see the process through".

Third, the authorities recognize the considerable delays in the implementation of employment reforms in the public sector. However, with the April 29 passage of the Omnibus Law, which included quarterly plans for 4,000 mandatory exits in 2013 and 15,000 cumulative through end-2014, the taboo against dismissals in the public sector has in principle been lifted, and the door has been opened for mandatory redundancies. The government sees this new avenue as a long-overdue opportunity to revamp the quality of public services through the replacing of laid-off public servants with qualified staff in key areas such as bank supervision and tax administration.

Doing Business, Privatizations, and the Banking Sector. Beyond tax administration and public sector reforms, the government intends to focus on invigorating Greece's export and import competing industries. The government is committed to reduce barriers to entry into various markets, including opaque and lengthy licensing procedures, and, more generally, to improve the business environment. *The World Bank Group Doing Business Report has raised the rank of Greece to 78 in 2013 from 89 in 2012*.

The privatization process has picked up. The Hellenic Republic Asset Development Fund recently approved the sale of a 33 percent stake in the Football Betting Organization to a private concern for over €700 million. Other privatizations recently completed are State Lotteries (€190 million), Mobile Telephony Licenses (€381 million) and the International Broadcasting center

(€81 million). There are also 14 privatizations in the final stages of completion, including the National Gas Utility Corporation, for which established foreign companies have tendered bids. In sum, since the beginning of the program the authorities expect cumulatively €4.2 billion privatization receipts by end-2013, €6.5 billion by end-2014, €7.7 billion by end-2015 and €11.1 billion by end-2016.

The authorities recognize the importance of effective financial intermediation in achieving a strong recovery and a viable growth path**.** The large injection of public capital to the systemic banks is understood as a temporary measure and the government intends to implement re-privatization at the earliest possible stage. More generally, the authorities are working on a reinforced governance framework, supporting strong oversight and supervision, which would also eliminate undue Government interference and attendant problems of directed credit. Moreover, a key priority for the banking system will be to contain and reverse the mounting tide of non-performing loans. The authorities are committed to put in place a framework for dealing with distressed household borrowers. In addition, deposits are replenished through cash that had been removed from the banking system: Greek private-sector bank deposits are 9 percent up from last June's lows and stabilized in May after some outflows in April on Cyprus fears.

Green shoots. While in several areas the picture is mixed, the government believes that 2013 will be the last year of retrenchment and the recession will bottom out in the next few months. Several recent developments point to hopeful signs for economic recovery. First, the real economy is set to acquire much needed liquidity: the government has paid off €2.2 billion of an outstanding €9 billion in arrears to suppliers and the stock of T-bills held by the banking sector declined, thus releasing resources for the financing of private sector activities. Second, work on some major infrastructure projects is restarting, potentially creating thousands of jobs. Third, tourist spending during the upcoming summer season may rise, as the Association of Greek Tourism Enterprises are anticipating 17 million tourist arrivals in 2013, one million more than in 2012. Fourth, two weeks ago the rating company FITCH upgraded both the sovereign rating and the rating of Greece's four systemic banks by one notch (with a stable outlook), stating that " clear progress has been made towards eliminating the twin fiscal and current account deficits and that 'internal devaluation' has at last begun to take hold".

Growth and the Role of Confidence. The authorities fully share the staff's view that restoring growth remains the overarching precondition for the success of the three-year old adjustment effort**.** In turn, growth cannot be achieved without improvement in sentiment. The authorities' top priority is to continue to enhance confidence in the government's resolve to forge ahead with the required reforms, so as to secure broad political stability and thus elicit domestic and foreign investments. The April 29 Omnibus Law mentioned earlier is a testimonial to the support that the government now enjoys among large strata of the population. The passage of the bill in parliament, despite its far reaching implications for civil servants, has been received only with muted protests, and certainly without vocal street confrontations.

Confidence is rising. The latest euro-zone Economic Sentiment Indicator for Greece rose to 89.2, above the euro-zone average, and the Purchase Managers' Index showed considerable improvement in April (45, up from 42.1 in March), which was the highest level since July 2011. Such improvement in sentiment, coupled with the European partners' commitment to deal

effectively with Greece's debt overhang, is the best assurance to dispel Euro exit fears and set the stage for a new page in the country's growth path.

THE EX-POST EVALUATION (EPE) OF THE 2010 STAND-BY ARRANGEMENT

The authorities have found the analysis in the paper insightful and balanced; essentially, following initial resistance by European partners, who had considered the Greece problem an "internal affair" of the Euro zone, the SBA was put together in a very short period of time, without adequate political dialogue and, more importantly, with insufficient contributions by the authorities to tailor conditionality to the peculiarities of the economy and the Greek public administration. Moreover, an ex-ante (or, at least, early) debt restructuring that would have helped mitigate the depth of adjustment and the severity of the recession, was ruled out by Greece in agreement with Euro zone partners. In a nutshell, as the EPE report aptly remarks, the SBA-supported program turned out to be a holding operation until the PSI became inevitable and an EFF-supported program replaced the original arrangement.

The authorities' official and detailed comments appear in Appendix I. They found the concluding section "Possible Lessons" reasonable and constructive, and would like to emphasize the following two areas for future consideration by staff and management:

- Although fiscal adjustment was necessary and structural reforms were essential, especially in the absence of monetary and exchange rate policies, the detailed conditionality in many program areas was at times overwhelming. Going forward, it would be helpful always to ensure that prior actions, not only in fiscal policy and management but in all areas with structural conditionality, are macro-critical for the achievement of the program objectives. At the same time, the authorities acknowledge that the TA provided by Fund staff, especially in fiscal management, has been tailored to the needs of a system that required hands-on assistance and has been important to help them improve much needed capacity for implementation; they hope to continue the strong TA engagement with the Fund.

- Relations with Troika members have generally been smooth, and the authorities acknowledge both the synergies in areas of shared expertise and the respective comparative advantage in structural issues. Based on these considerations, the authorities fully endorse the recommendation for streamlining procedures and documents among the Fund staff and EC and ECB officials.

INTERNATIONAL MONETARY FUND

IMF Country Report No. 13/154

GREECE

2013 ARTICLE IV CONSULTATION

June 2013

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2013 Article IV consultation with Greece, the following documents have been released and are included in this package:

- **Staff Report** for the 2013 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on April 15, 2013, with the officials of Greece on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on May 20, 2013. 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.
- **Public Information Notice** (PIN) summarizing the views of the Executive Board as expressed during its May 31, 2013 discussion of the staff report that concluded the Article IV consultation.
- **Statement by the Executive Director** for Greece.

The document listed below has been or will be separately released.

Selected Issues Paper

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

Copies of this report are available to the public from

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INTERNATIONAL MONETARY FUND

GREECE

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION

May 20, 2013

KEY ISSUES

In the midst of a sharp and socially painful recession, Greece is making important progress in overcoming deep-seated problems. Progress on fiscal adjustment has been exceptional by any standard, with the cyclically-adjusted primary balance having improved cumulatively by about 15 percent of GDP during 2010–12. Labor market reforms are helping to realign nominal wages and productivity; this internal devaluation has reduced the competitiveness gap by about half since 2010. And financial stability has been preserved, notwithstanding public debt restructuring and the recession. This progress has been facilitated by considerable European and international support.

But Greece is adjusting mainly through recession, not through productivity-enhancing reforms. Beyond the labor market, broader structural reforms have fallen well short of the critical mass required to transform the investment climate and boost potential growth. With fiscal adjustment set to weigh on demand for several more years, growth must come from private investment and exports. Thus, restoring growth and reducing unacceptably high unemployment will require full and timely implementation of ambitious reforms that firmly puts to rest uncertainty about the authorities' willingness to tackle vested interests. The key priorities:

- Undertaking structural reforms to lower barriers to entry would reduce product prices and facilitate re-allocation of resources to more productive activities.
- Reinforcing the governance framework in the financial sector and reversing the rising tide of non-performing loans are key to effective financial intermediation.
- Broadening the tax base and strengthening revenue and public administration would improve the quality of adjustment (the burden has fallen excessively on those earning a salary or pension) and underpin further fiscal effort to reach medium-term targets.
- Ensuring that debt sustainability concerns do not continue to weigh on investment requires timely delivery of Greece's European partners' undertakings on debt relief.

The last Article IV consultation was concluded in July 2009. This report focuses on developments since then and on policies to overcome current challenges.

Approved By
Reza Moghadam and Hugh Bredenkamp

Discussions for the Article IV consultation were held during April 8–15. The mission met 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, and employer associations. The staff team comprised P. Thomsen (head), M. Flanagan, W. McGrew, G. Gottlieb, N. Hobdari, W. Maliszewski, and M. Shamloo (EUR); I. Petrova (FAD); S. Lanau and B. Rayner (SPR); O. Frecaut, M. Oliva, and D. Monaghan (MCM); and G. Esposito (LEG). B. Traa, S. Eble, M. Athanasopoulou, G. Gatopoulos, and M. Kalimeri (IMF resident representative office) assisted the mission. J. Manning and C. Piatakovas (EUR) assisted from headquarters.

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CONTEXT

A. Build-Up to the Crisis

1. Fiscal expansion after euro accession led to a buildup of large economic imbalances. By 2009, both the flow and stock imbalances were among the highest in the euro area: the overall fiscal and current account balances were in double digits (-15½ and -11 percent of GDP, respectively), public sector debt reached 115 percent of GDP (revised subsequently to 130 percent of GDP), and the net international investment position stood at -86 percent of GDP. These imbalances were largely a result of fiscal expansion that was financed by external borrowing at lower post-euro accession interest rates. Channeled through transfers, subsidies, and investments, fiscal expansion lifted private income and consumption, which in turn boosted tax revenues and masked the true size of the underlying fiscal gap. Lower post-euro accession interest rates also stimulated a private sector borrowing spree. But private borrowing started from a low level, and private sector liabilities remained relatively small.

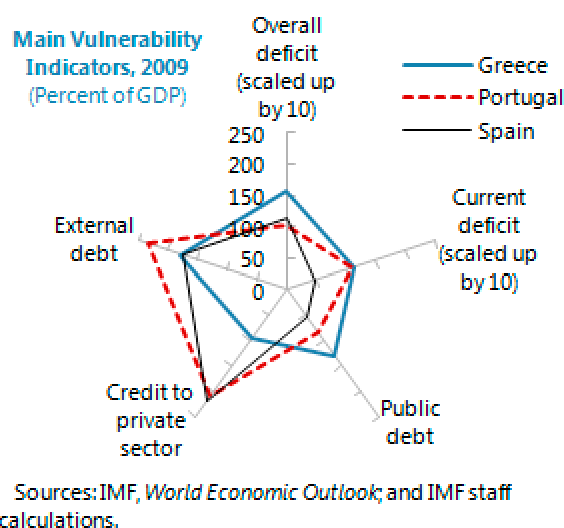
Key Fiscal Indicators

(Percent of GDP)

	2001	2009	Change
Primary balance	2.0	-10.5	-12.5
Revenue	40.9	38.3	-2.6
Of which:			
Total tax revenue 1/	34.4	32.4	-2.1
Primary expenditure	38.9	48.8	9.9
Of which:			
Wages	10.4	13.4	3.1
Social benefits	15.4	21.2	5.8

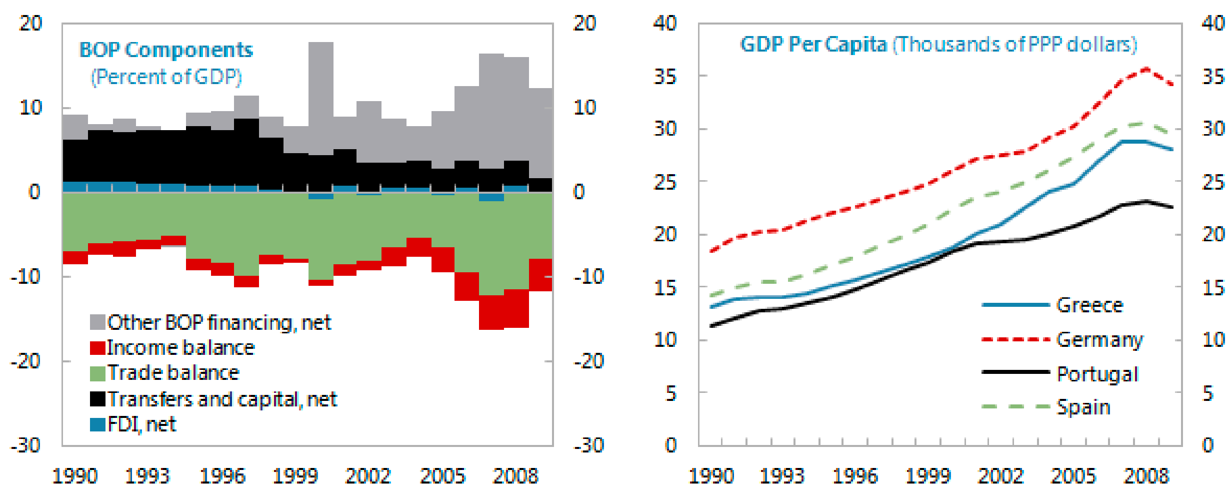
Source: IMF staff estimates.

1/ Includes direct taxes, indirect taxes, and social contributions.

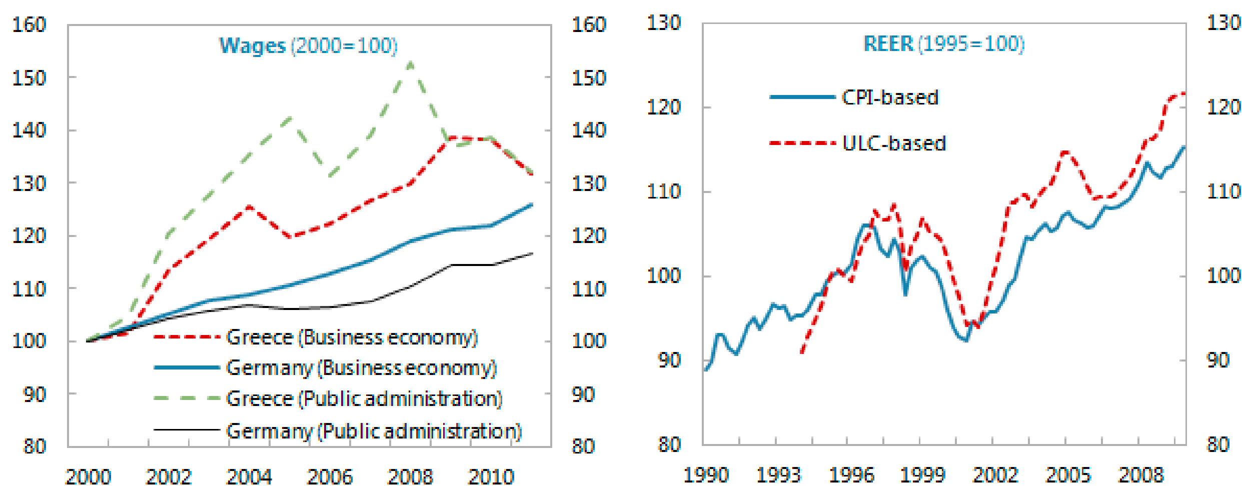


Sources: IMF, *World Economic Outlook*; and IMF staff calculations.

2. The global financial crisis in 2008 led to a retrenchment of cross-border flows and unmasked Greece's underlying fiscal and structural imbalances. In an economy constrained by some of the most stringent regulations in Europe, the external credit-fueled pre-crisis boom led to large and persistent structural current account deficits. Imbalances continued to widen, notwithstanding the Stability and Growth Pact, signaling worsening competitiveness problems. Re-pricing of risks in 2008, large government debt data revisions, and the deterioration in Greece's fiscal balance alerted ratings agencies and the markets to the size of the needed adjustment. As a result, spreads rose sharply and banks lost access to wholesale funding after sovereign downgrades.



Sources: Bank of Greece; IMF, World Economic Outlook; and IMF staff calculations.



Sources: Elstat; Eurostat; and IMF staff calculations and estimates.

B. Crisis Response

3. In response, an ambitious multi-year adjustment program was put in place. The May 2010 EC/ECB/IMF supported program had two broad aims: to make fiscal policy and the fiscal and debt position sustainable, and to improve competitiveness. Given an overall fiscal deficit of 13½ percent of GDP in 2009 (revised to 15½ percent of GDP shortly after program approval), the program entailed significant front-loaded fiscal consolidation (with provisions to shield low-income households from the brunt of the adjustment), in addition to comprehensive structural reforms to boost productivity and a strategy to backstop the banking system. In this regard, the authorities were convinced when the program was put in place that Greece's large potential for catch-up gains in productivity—together with the expectation that the crisis would mobilize broad political support for comprehensive structural reforms to unlock this potential—meant that direct measures to force down wages and achieve accelerated internal devaluation would not be necessary.

4. Growth underperformed considerably. Although nominal GDP was from the outset assumed to contract substantially in 2011–12, actual performance was worse than projected. Several adverse and mutually reinforcing factors combined to undermine investor sentiments during this period, of which the following stand out:

- **Bouts of political turmoil left increasing doubts about support for reforms.** The program was from the outset not supported by all mainstream parties and increasing opposition began to emerge from inside the governing party in early 2011. A government reshuffle in mid-2011, followed by an aborted attempt at galvanizing public support through a referendum, failed to mobilize broader political support. Such support was only achieved after the Cannes Summit in November 2011, when European leaders explicitly raised the euro exit option, prompting the two main political parties to support a technocratic interim government. By then, however, the deep recession had already seriously undermined public support, and the two parties' share of the vote in two rounds of elections in early 2012 fell from 80 to 42 percent. At present, the program is supported only by a slim majority of pro-program parties in a fragile coalition.

- **Structural reforms stalled**. Against a backdrop of political turmoil, vested interests opposed to reforms were increasingly emboldened. After a strong start in 2010, and aside from labor market reforms in early 2012 by the technocratic interim government, reforms were hesitant and piecemeal, falling well short of the critical mass needed to transform the investment climate.

- **Investors were unsettled by increasing uncertainty about the external financing strategy**. In a reversal of the initial strategy, key euro area member states started calling for a bail-in of investors at the Deauville Summit in October 2010. The reduction in spreads achieved during the previous months was quickly lost, and by the time consensus among Greece's European partners had shifted firmly in favor of a PSI one year later, spreads had risen to near default levels.

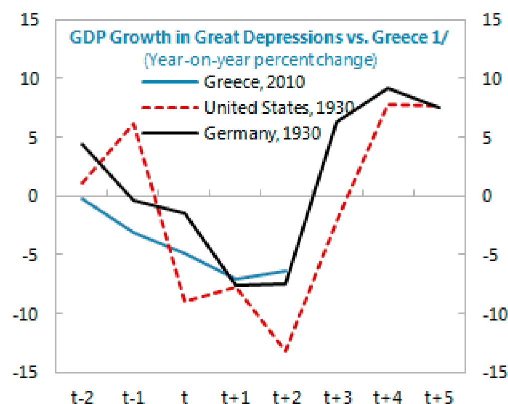
- **Debt sustainability concerns were increasing**. Under the program's baseline in May 2010, public debt-to-GDP was expected to increase dramatically—peaking at about 155–160 percent (including an expected data revision)—as a result of the contraction in nominal GDP. In the event, the much deeper-than-expected recession caused an even sharper increase in the debt ratio, and debt sustainability concerns were increasingly weighing on sentiment.

These mutually reinforcing factors contributed to a steady deterioration in investor sentiment and a large outflow of deposits, especially as the increasing doubts about political support for the program gradually raised the specter of euro exit. The assumed recovery in the investment climate failed to take hold. Instead, a continued contraction in investment amplified the negative output effect of the large upfront fiscal impulse and deepened the recession.[1] Thus, Greece has adjusted mainly through recession, rather than through productivity-enhancing reforms.

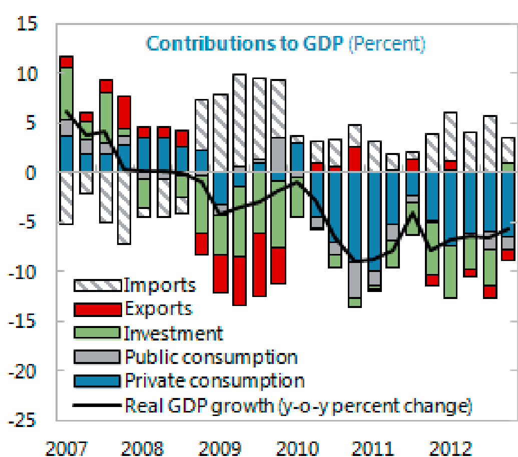
[1] As a result, with the benefit of hindsight, the macroeconomic assumptions at the initiation of the program proved optimistic (see also the Ex Post Evaluation report and Box 1). In this regard, an earlier debt restructuring exercise—if it had been feasible—could have provided for a somewhat more gradual fiscal adjustment path.

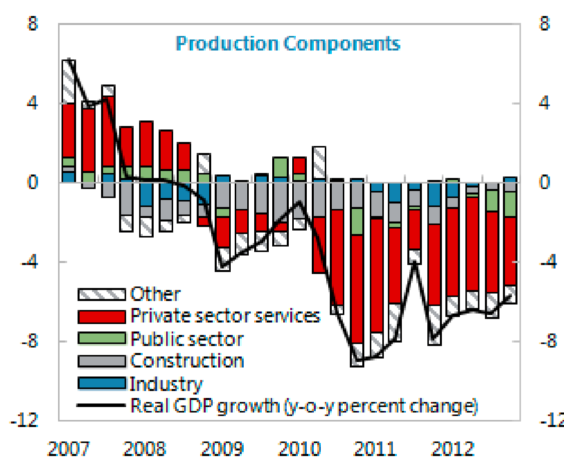
C. Developments

5. The recession has been one of the deepest peacetime recessions in industrialized economies (Figure 1–3 and Table 1–2). Overall, the economy contracted by 22 percent between 2008 and 2012 and unemployment rose to 27 percent; youth unemployment now exceeds 60 percent. As domestic demand shrank across all categories, net exports provided support largely through shrinking imports.



Sources: Groningen Growth and Development Centre; IMF, *World Economic Outlook*; and IMF staff calculations.
1/ Year in legend corresponds to year t.

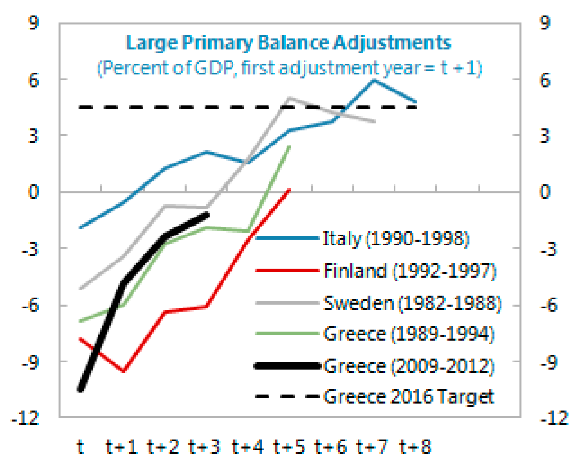




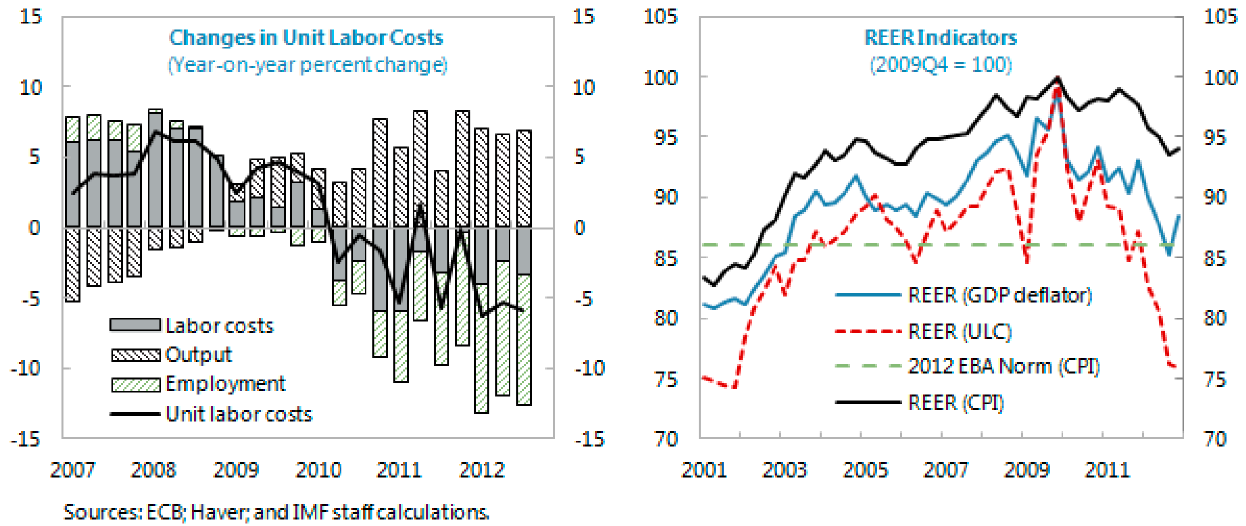
Sources: Elstat; and IMF staff calculations.

6. At the same time, Greece has made significant progress in redressing its imbalances.

- **Greece has achieved one of the largest fiscal adjustments to date** (Table 3–5; text Figure). The primary adjustment in 2010–12 amounted to 9 percent of GDP, and was much higher (15 percent of GDP) in cyclically-adjusted terms. Following a major cut in public sector wages and pensions in 2010, measures in 2011 relied mostly on tax increases. But the new government has refocused the fiscal consolidation on deep expenditure cuts, including to wages and pensions. These cuts have been socially painful, but necessary, given that these expenditures were the primary source of spending pressures leading up to the crisis.



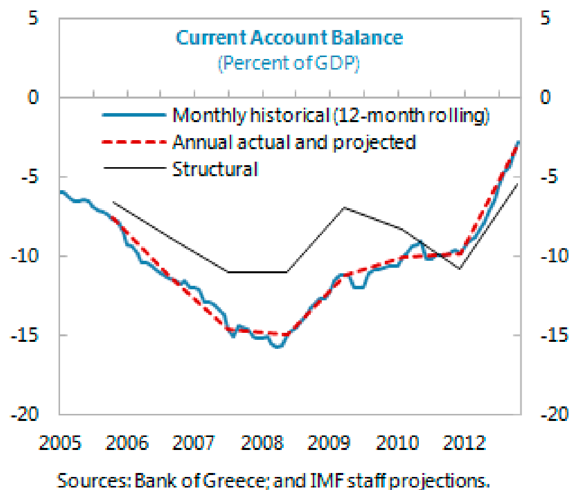
Sources: IMF, *World Economic Outlook*; and IMF staff calculations.



Sources: ECB; Haver; and IMF staff calculations.

- **There have been substantial gains in cost competitiveness.** The far-reaching labor market reforms put in place in early 2012 have contributed to deeper wage corrections than in other recent crisis cases and substantial adjustment in the ULC-based REER. Less encouraging has been the weak and delayed response of prices to wage reductions, owing largely to product market rigidities. This asymmetry in price adjustment has led to a substantial erosion in real incomes and demand, and placed a disproportionate burden on wage earners relative to the self employed and the corporate sector. It has also left the CPI-based REER overvalued in 2012 by about 9 percent (Box 2). With the headline inflation now in negative territory and a widening inflation differential with the euro area, the extent of overvaluation is gradually reducing and relative prices between the tradable and nontradable sectors are adjusting.

- **Greece's current account deficit improved from 15 percent of GDP in 2008 to 3½ percent in 2012** (Table 6). The improvement was initially gradual, with high public sector savings offset by private dissaving (facilitated by funding via the TARGET2 system). However, initial consumption smoothing (and import demand) by the private sector gave way to large increases in savings in 2012. As a result, imports contracted substantially in 2012. The current account adjusted significantly in headline and structural terms, improving by 6½ percent of GDP (of which about 1 percent can be attributed to the impact of lower official debt servicing costs and debt buyback discussed below). Nevertheless, the still insufficient improvement in price



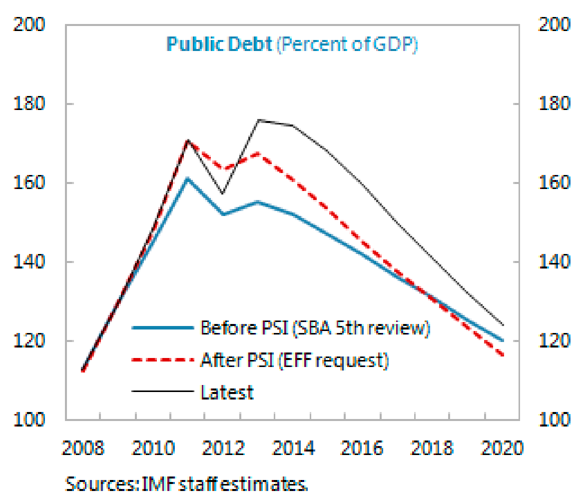
Sources: Bank of Greece; and IMF staff projections.

competitiveness has hindered export growth. The structural current account balance, estimated at -5½ percent of potential GDP, is still somewhat weaker than the estimated norm of -2½ percent, and points to the need for some further adjustment (Box 2).

7. Notwithstanding extraordinary international support, the high-debt-low-growth outcome made sovereign debt restructuring inevitable.

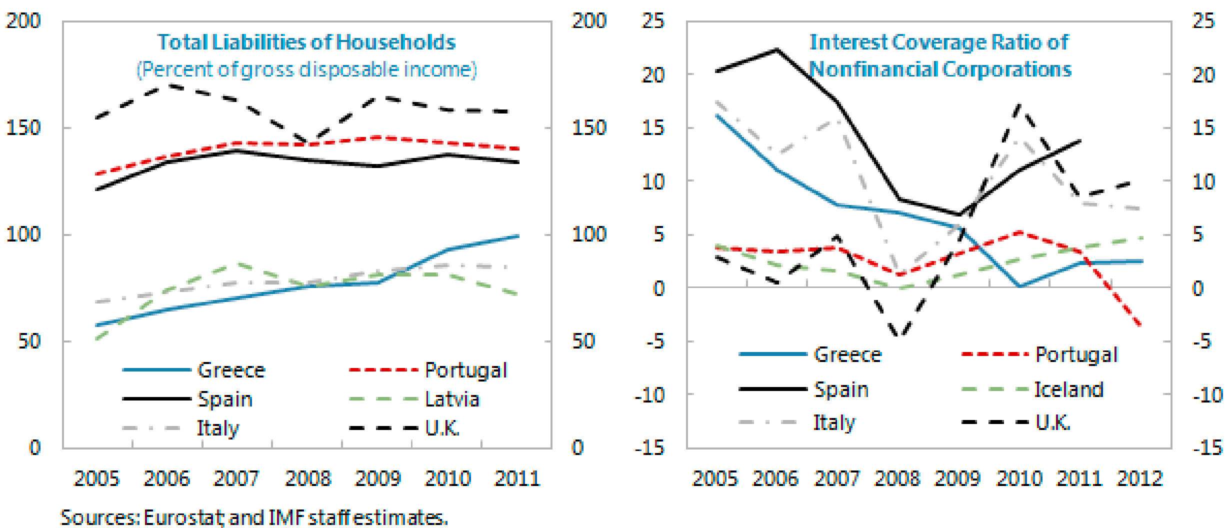
- **Greece received unprecedented international support**. Given the high initial public debt-to-GDP ratio, it was explicitly recognized in May 2010 that investors were likely to be unsettled and question debt sustainability. To give the authorities the breathing space needed to establish a strong record of policy implementation and in view of potentially devastating spillover risks of bail-in, the SBA assumed that Greece would have to be "taken out of the market." A three-year financing package of €110 billion was put together.[2] A further €173 billion was made available with approval of the EFF arrangement in 2012 (about €136 billion of which was financing over and above the undisbursed portion from the first package).

- **Failure to reinvigorate growth required debt restructuring—through both private sector involvement (PSI) and official sector involvement (OSI)—to keep public debt on a sustainable path.** The PSI, including the subsequent buyback, generated a haircut equivalent to 65 percent of GDP. Although public debt still stood at 157 percent of GDP at end-2012 and is projected to rise before a more sustained decline in the medium term, the debt burden has fallen markedly. Rollover risks are contained since 90 percent of Greece's public external debt is owed to the official sector, and the average maturity of Greek debt at 17 years is twice the euro area average. Near-term financing needs have been covered through committed European and IMF loans. Furthermore, the effective interest rate at 2½ percent is among the lowest in the euro area, leaving debt service to GDP in line with the euro area average. Greece's European partners also committed to provide further relief in early 2014 and 2015, if primary balance targets for 2013 and 2014 are met and if needed to bring the projected debt-to-GDP ratio to 124 percent by 2020 and to substantially below 110 percent of GDP by 2022. Still, despite this framework for debt reduction now in place, the debt burden is set to remain exceptionally high well into the next decade.



[2] This bail-out strategy also helps explain the sharp increase in the ECB's exposure to Greece and other countries in the periphery during 2010 (e.g., through its Securities Market Program).

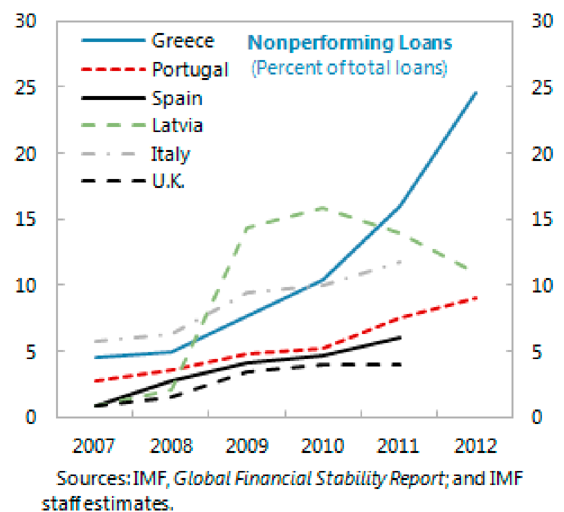
8. Debt restructuring frameworks are being put into place to deal with private debt, given the impact of the crisis on household and corporate sector balance sheets. In the household sector, the fall in disposable income nearly doubled the debt-to-disposable-income ratio between 2009 and 2011 to 96 percent (higher than the peak observed in Latvia). Falling property prices raised mortgage loan-to-value ratios from around 70 percent on average before the crisis (lower than in European peers) to close to 90 percent in 2012 (higher than in Spain). In the non-financial corporate sector, there has been a considerable sectoral variation, but the decline in profits has affected firms' ability to service debt: the interest coverage ratio dropped from 24 percent in 2001 (one of the highest in Europe) to 2.4 percent in 2012 (higher only than Portugal). However, the overall private sector balance sheet is supported by a positive net international investment position vis-à-vis the rest of the world.



Sources: Eurostat; and IMF staff estimates.

9. Heavy damage has been inflicted on the banking system that started with relatively low leverage, and the government has stepped in to recapitalize the system (Tables 7–9).

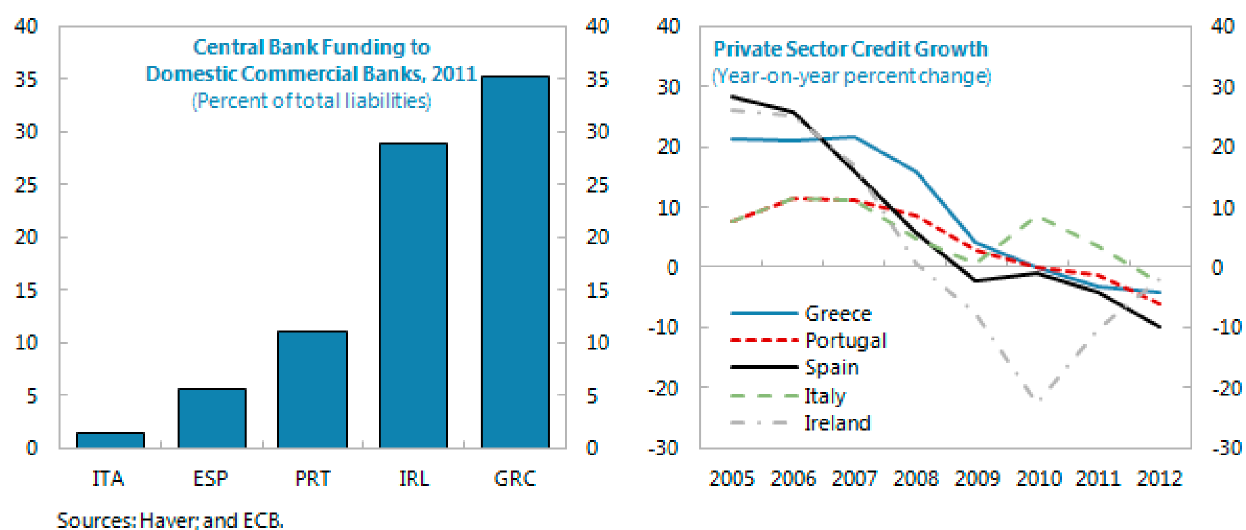
- Banks lost access to wholesale funding markets in 2010 and had to replace close to €60 billion in maturing liabilities with other sources. The funding gap became wider with deposit outflows, which began in 2010 and reached €83 billion by summer 2012, due to a drawdown on savings and fears about euro exit (outflows reversed after the elections and completion of the first/second review under the EFF arrangement, and €17 billion has since returned). On the asset side, the government debt restructuring generated a €38 billion loss to the banking system, wiping out the capital



Sources: IMF, *Global Financial Stability Report*; and IMF staff estimates.

base already eroded by the recession-related deterioration of the loan portfolio. NPLs have been rising fast, reaching 30 percent of total loans at the end of 2012 (including restructured loans).

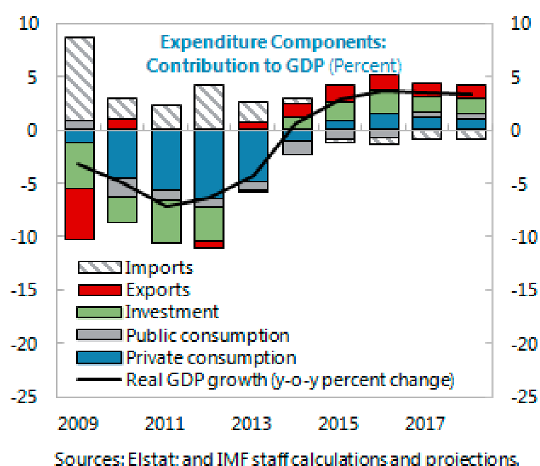
- In response to liquidity pressures, banks' reliance on central bank funding peaked at about €135 billion in 2012 (with heavy reliance at times on ELA). Further, the banks intensified their deleveraging efforts by reducing loans by about 12 percent since end-2009 and focusing their activity on restructuring rapidly rising NPLs. By 2012, a further deterioration in asset quality and the PSI required a total of €50 billion to recapitalize four core banks and restructure smaller banks and cooperatives through mergers and resolution. Capital injections have now put the banking system largely under state ownership, and steps are being taken to ensure that banks continue to operate on a commercial basis (through maintaining private control in banks where private investors contributed 10 percent of the capital needs; installing monitoring trustees; enhancing supervision for the non-core banks; and addressing failures in their internal procedures through a forthcoming distressed asset review).



Sources: Haver; and ECB.

D. Outlook

10. Greece's recovery is expected to be gradual, similarly to experiences with internal devaluation elsewhere. Staff projections are based upon implementation of productivity-boosting structural reforms, albeit at a more measured pace than assumed previously and consistent with what has been evident about the constraints on the pace of these reforms thus far.

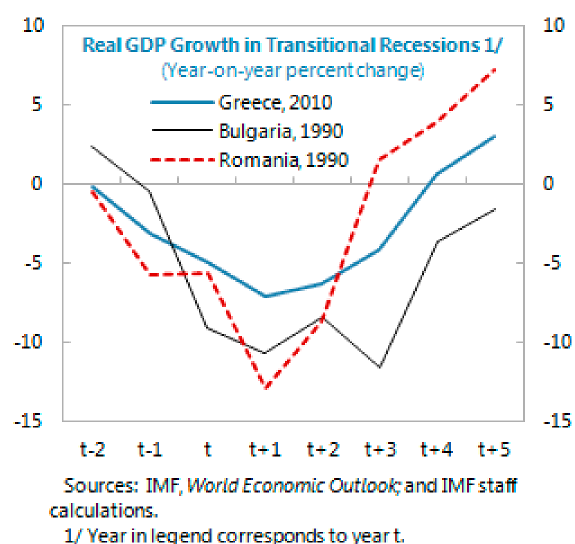


Sources: Elstat; and IMF staff calculations and projections.

- **Staff projects a return to modest growth in 2014.** Steady program implementation is expected to help turn around expectations, improve liquidity

conditions, and lead to a recovery beginning in 2014. The cyclical recovery is projected to accelerate with growth peaking at 3¾ percent in 2016 due to stronger investment (reflecting both pent-up demand and new profit opportunities), net exports (reflecting further improvements in competitiveness), and ultimately private consumption (when real incomes recover). Fiscal adjustment will remain a drag on growth, subtracting over 2 percentage points from the 2013 growth, but considerably less beyond 2013 when adjustment needs start to taper off.

- **The speed of recovery is projected to be weaker than after previous recessions.** The cyclical rebound will be muted since part of the physical and human capital has become obsolete during the crisis and will likely continue to deteriorate, and the need to rebuild balance sheets will be a drag on demand. It will also take time to fully unwind the competitiveness gap, given lags in the transmission of ULC improvements to prices. Present estimates suggest that the competitiveness and output gaps could persist until late in the decade. Overall, the dynamics of the Greek recovery resemble those in transition economies in the 1990s, where large reallocations were undertaken in an unstable macroeconomic environment albeit alongside exchange rate depreciation (text Figure).



Sources: IMF, *World Economic Outlook*; and IMF staff calculations.
1/ Year in legend corresponds to year t.

- **In the long-term, growth in Greece is projected to gradually settle at around 1¾ percent per annum.** Total factor productivity growth is projected to be about 1¼ percent per annum (in line with the literature on long-term effects of structural reforms and estimates for Greece; see Selected Issues Paper or SIP). But growth will be held back by demographics, with the working age population falling by about ¼ percentage point per annum.

11. The recovery hinges on a number of factors, pointing to risks.

- **Steadfast implementation of structural reforms is critically assumed, absent which investment and growth will likely disappoint.** Delayed or incomplete implementation would adversely impact expectations and investments, and have longer-term repercussions for resource re-allocation and productivity growth. Moreover, high unemployment and difficult policy measures could undermine social and political cohesion. A tail risk under such a scenario—dependent also on political reactions in Europe—is an exit of Greece from the currency union, which would have further sharp short-term adverse impacts on the economy and potentially spillovers to other currency union members.

- **Financial intermediation needs to be fully repaired.** A well-functioning financial system is necessary to support investment by allocating scarce resources to the most productive uses.

Failure to strengthen the governance framework of banks and contain the rise of NPLs could result in a mis-allocation of resources and a drag on growth.

- **Reform of tax and public administration is essential to improving the distribution of the adjustment burden and completing the remaining fiscal adjustment in a growth-friendly manner.** Improvements in revenue administration that broadens the tax base, and mandatory redundancies that create room for new, well-qualified and motivated staff and modernize the public sector, would deliver the adjustment in a socially fair manner. Otherwise, further raising the tax rate or cutting spending would risk not only exacerbating adverse demand impacts on the economy but also undermining support for the program.

- **A credible framework for reducing Greece's high debt is needed to limit the drag on investment and growth.** The commitment of Greece's European partners to further conditional debt relief is key in this regard, as high debt could continue to weigh on investment.

12. Spillover risks—both outward and inward—have come down, but remain elevated:

- **Direct outward spillover risks have receded.** Private sector exposure to Greece has fallen to below 1 percent of euro area GDP, and official exposure is relatively small at around 2 percent of creditor countries' GDP. There are lingering risks in countries with a large presence of Greek bank subsidiaries, which are being managed through policy actions (recapitalization of the Greek banking system) and coordination among national authorities.

- **Contagion risks remain elevated**, as fears of a possible Greek exit from the euro area have not yet been fully taken off the table. Potential spillovers to other currency union members have been explored in recent Greece staff reports—the output costs of a Greek exit is fundamentally uncertain and of a very large magnitude in certain scenarios (see Box 2 in the Staff Report on the Request for an EFF arrangement, and Box 2 in the Staff Report for the First and Second Review under the EFF arrangement).

- **Adverse developments in the rest of euro area would have large spillovers to Greece** (see Table 10). A deeper and more prolonged recession in euro zone would have a substantial impact on growth given the projected reliance on exports to drive the recovery. Moreover, while Greece is not projected to tap the market in the near future, a wider re-assessment of risks in the euro area could affect Greece through higher borrowing costs from the ESM (if the ESM's borrowing costs increase).

- **The direct impact of the crisis in Cyprus has been relatively contained**: the direct trade impact is projected to be limited, and spillovers from Cypriot bank branch operations in Greece have been dealt with through their absorption into a Greek bank. The largest risks are indirect, in particular from deposit outflows, if perceptions were to take hold that uninsured depositors in Greek banks may also be subject to haircuts, policy efforts notwithstanding (see Box 1 in the accompanying third review staff report).

13. The authorities acknowledged the above downsides to growth, but highlighted also some upside potential. They noted that improvements in cost competitiveness and reductions in barriers to entry are creating profit opportunities, which will boost investments once uncertainty is resolved. They pointed, however, to financing constraints for the private sector, and stressed that improving liquidity conditions in the economy is key to jump starting investments and growth.

POLICY DISCUSSIONS

14. There was consensus on the main achievements to date and the key challenges still ahead. There was agreement that Greece had made considerable progress in overcoming deep-seated problems, in particular, that fiscal policy had been extremely strong and that far-reaching labor market reforms were now facilitating a rapid rebalancing. However, there was also agreement that progress in other areas of structural reforms had been considerably less than hoped for, and that this—together with political turmoil and doubts about debt sustainability—had prevented the expected recovery in investment, leaving the economy to continue to contract in response to the strong negative fiscal impulse.

15. Against this background, discussions focused on the key policy actions needed for Greece to complete its adjustment and return to a balanced growth path. In particular, the discussions focused on strategies to: (i) restore growth by speeding up structural reforms and the process of internal devaluation; (ii) ensure adequate support for the recovery from the financial system; (iii) complete the remaining fiscal adjustment in an equitable way; and (iv) reduce public debt to sustainable levels.

A. Restoring Growth

16. Structural rigidities have played a key role in raising Greece's adjustment cost (Figure 4). While rebalancing from non-traded to traded sectors would be challenging in any circumstance, particularly when undertaken in a fixed exchange rate regime, rigidities in product and labor markets have contributed to especially high adjustment costs in Greece (see SIP for an empirical analysis). The improvement in the trade balance by 9 percentage points coincided with output contraction by 22 percent—a much worse 'sacrifice ratio' than in other economies.

- **Burden of regulation.** The key factors include: (i) state ownership and restrictions on use of important assets, which remain underutilized (e.g., because of land zoning restrictions) or subject to monopolies (network utilities); (ii) excessive regulations, with permits, licensing and export-import requirements well inferior to EU best practice; and (iii) barriers to entry into closed professions and new markets, including from excessive bureaucracy, corruption, and opaque tax and labor regulations. These factors have limited competition (including from FDI), kept prices and margins well above the EU average, and preserved an economic model based on small and inefficient enterprises.

- **Rigid labor market regulations that protect insiders.** The labor market has traditionally suffered from a closed and inflexible system of collective bargaining, very high firing costs (severance payments and redundancy notification periods), a high national minimum wage relative to competitors, and high non-wage labor costs.

17. Potential gains from addressing labor and product market frictions to foster adjustment are large. Simulations from a calibrated model for Greece indicate that the labor market reforms that have been undertaken have the potential to substantially improve the external position of the economy through adjustment in real wages and imports, and boost GDP growth during the transition to new steady-state equilibrium by around ¼ of a percentage point per annum. Eliminating barriers to entry in the product markets could add an additional ½ of a percentage point to growth during the transition period by stimulating investments, lowering prices, and restoring purchasing power and consumption of households. In the long term, these labor and product market reforms are estimated to raise GDP by about 3 and 7 percent respectively (these results are broadly in line with previous theoretical and empirical studies). These reforms would also enhance the flexibility of the economy to adjust to future shocks, improve burden sharing of the cost of adjustment, and help create an environment to better reap the benefits from membership in the monetary union.

18. With labor market reforms well advanced, removing barriers to entry in product markets is now the main priority. Reducing formal and informal restrictions in product markets is inherently a multifaceted and lengthy process. Identifying the multitude of restrictions takes time, and tackling those faces opposition from vested interests and is difficult administratively. Reforms in some areas have advanced and the authorities plan to remove many remaining restrictions (e.g., in the retail sector, certain regulated professions, transportation services, as well as in reducing border-related red tape). But the process remains well away from the needed critical mass of reforms, and some key reforms are still at the preparatory stage. They include identifying and removing barriers to competition in tourism, machinery, food processing, and construction materials; reducing the burden of administrative red tape and regulations; and passing anti-corruption legislation in line with international standards and implementing the authorities' anti-corruption plan without delay. Speeding up the judicial process through civil procedure reform will be key to improve contract and tax enforcement. Progress in privatization will be necessary to open up markets, and here too the work has only just started.

19. In addition, the authorities are considering other potential measures to facilitate investment. These include setting up a development bank and tax free zones, and targeting subsidies (or tax expenditures) to specific sectors. It is not clear, however, whether such measures will deliver benefits. The international evidence on the benefits for growth is mixed at best, while costs include diverted resources, potentially lost revenue, and a more complex system to administer.

Authorities' views

20. The authorities accepted that performance on structural reforms had been disappointing in part because of political turmoil. They noted that progress had been achieved in many areas, but concurred that a policy mix involving greater structural reform implementation would have helped smooth the recession to date, and can help going forward. In this regard, they were confident that there is a broad realization in Greek society that deep across-the-board changes are needed to modernize the economy, and a growing realization at the political level that this is becoming a matter of urgency. They argued that the potential for catch up of productivity remains large, and they felt that potential growth could be higher than projected by staff. On the near-term priorities, a review is planned of the progress achieved in opening up the 20 largest closed professions, with a view to further lowering entry barriers, and the pace of privatization is set to pick up with the first major sale about to be completed. The authorities also accepted that the scope for additional pro-growth spending by the public sector is strictly limited, although they noted that EU grant-financed projects provide some fiscal space.

B. Financial Sector: Supporting the Recovery

21. The growth strategy relies on shifting resources to more productive uses, and repairing the financial system is important to facilitate this process (Tables 7–8 and Figure 5). The restructuring and the nearly-completed recapitalization of the banking system are important milestones. But credit growth is expected to lag the recovery in output for an extended period of time. This reflects constraints anticipated on the funding side (a slow return of deposits offset by a reduction in central bank financing) and on capital (as banks absorb losses on non-performing loans), and a cautious projected lending policy (gradually reducing the loan-to-deposit ratio to the long-term average of 80 percent). But it is important to ensure that credit conditions do not remain so tight, nor deleveraging so persistent, as to derail recovery.

22. Although challenging, flat or even shrinking credit stocks can be consistent with growth, if allocated efficiently. Cross-country experience reveals that up to 25 percent of all recoveries do not depend on credit growth: it takes time for lenders and borrowers to repair their balance sheets (see SIP).

- Aggregate credit conditions often hide sectoral variations: in Greece, the 15 percent reduction in the overall credit since mid-2010 has masked a positive credit growth to some sectors (public utilities and tourism), offset by contractions in others (manufacturing, shipping, and wholesale and retail trade).

- To support activity, firms would need to use internal sources of capital or access non-bank external financing, such as FDI or direct access to capital markets. But the scope for the latter may be more limited in Greece because of the very large share of small enterprises.

- Going forward, to ensure efficient allocation and given that the state is set to assume ownership of much of the banking system, it will be critical for regulators to keep banks free of political

influence in their lending practices. The authorities have put in place governance safeguards for all banks, to ensure arm's length involvement by the state while protecting the state against fraud. These include the HFSF as owner (with a sufficient number of independent directors), monitoring trustees, and relationship frameworks. While these safeguards are welcome, staff is concerned that they are not yet fully effective, given Greece's poor record with state-run banks. Therefore, an urgent priority is to rapidly re-privatize banks under the control of the HFSF.

- Moreover, in a situation where funding is likely to be a constraint, it is particularly important that scarce funding not be trapped into continuously refinancing the same loan, but rather be directed to the most productive uses. Thus, regulatory practices discouraging such evergreening will be key to ensuring sufficient credit to new and dynamic enterprises, not least SMEs.

23. At the same time, targeted and well-designed restructuring programs to deal with the loans of viable but over-indebted borrowers can facilitate investment and consumption. Successful examples of government-sponsored restructuring programs in the aftermath of the financial crisis include the US (2008), the UK (2008), and Iceland (2010). Key lessons that have emerged are: (i) restructuring should occur when there is a systemic risk to the economy; (ii) targeted relief should be provided to the most distressed borrowers; (iii) if borrowers are insolvent, an NPV negative restructuring is usually needed; and (iv) proposals should be designed in conjunction with the banks. Furthermore, the eligibility criteria for each program should differentiate between borrowers temporarily in difficulty (and thus in need of forbearance) and those in need of more long-term solutions. In Greece, the authorities are putting in place a household debt restructuring framework aimed at providing standardized forbearance solutions which will significantly speed banks' procedures compared to a case-by-case approach (see the accompanying third review staff report). They also intend to introduce a legislative framework to provide long-term solutions for over-indebted borrowers. A concern in this regard is that these restructuring schemes might be overly generous and amenable to political pressures, which could damage the payment culture and the ability of the banking system to extend credit. The authorities are conducting a distressed credit operations review of banks' NPL resolution practices, and will set-up and monitor targets for NPL resolutions for banks to ensure timely progress.

24. The authorities need to guard against potential bank capital constraints. Ensuring banks are sufficiently capitalized has been the focus of the financial sector strategy, and at the moment the banks are fully capitalized. Going forward, the capital needs and financial sector program envelope may change due to a number of factors: (i) the macroeconomic environment has deteriorated beyond that envisaged in the last stress test, which will likely reduce earnings capacity and increase loan losses; (ii) the banking system structure has changed significantly due to on-going consolidation in the sector; (iii) banks and the authorities have taken steps to reduce the reliance on public funds (e.g., private sector participation, liability management exercises, foreign subsidiary recapitalizations, and a relaxation of caps on deferred tax assets); and (iv) the authorities are introducing policies to tackle NPLs. Once banking sector consolidation is complete, a further detailed stress test in late 2013 will help clarify future capital needs. While capital losses need to be minimized and paths to raising additional capital established, staff believes on balance and based on

current information that the €50 billion recapitalization envelope, which includes a €5 billion conservatism buffer, will suffice to meet any potential shortfall:

- **Reducing capital consumption (beyond loan restructuring).** Greek banks need to maximize their recoveries from loans in default. The authorities' focus has rightly been on revising the regulatory framework to remove operational restrictions facing liquidators in charge of running down the bad assets of resolved banks, and to align their roles and functions closer with those of an asset manager. By doing so, the legal framework could allow for borrowing firms to potentially continue operating as going concerns rather than face liquidation. An alternative approach, to deal more generally with bad assets of resolved banks as well as distressed portfolios of the operating banks, would be to set up a centralized asset management company (e.g., as in Spain). This approach is less likely to be advantageous for Greece where distressed assets are distributed across asset classes. Purchasing of impaired assets of banks in operation by an AMC may also require funding beyond the financial sector support envelope.

- **Raising additional capital.** A priority is to bring banks to the point where they can re-access capital from markets. For the two banks that are controlled by private shareholders, a three-year lock-out period prevents the HFSF from attracting new investors, and existing shareholders have the right to use any resources to buy back HFSF shares rather than contribute fresh capital. The authorities should make efforts to attract new private capital to state-controlled core banks, bringing in strategic investors and preparing the banks for re-privatization as soon as possible.

25. Another key consideration going forward will be how to improve funding availability. International experience has shown that sovereign re-access is generally necessary before financial sector re-access to wholesale markets. In Greece, the sovereign-bank link has been attenuated substantially—Greek banks after PSI have very little exposure to the Greek sovereign—which should facilitate market access. Meanwhile, longer-term funding could be sought through multilateral agencies, in addition to a return of deposits to the Greek banking system:

- **EIB and EBRD funding.** Greek banks could use low-cost EIB funding to on-lend to SMEs, similar to Portugal. Greek subsidiaries in the EU Accession countries could replace funding from their parent banks with the EBRD SME Finance Facility (subject to coordination with host countries, e.g., in providing guarantees for the EBRD). In both cases, the credit risk would remain on the banks' balance sheet. The authorities engaged the EIB by establishing a joint dedicated guarantee fund supporting lending to SMEs in March 2012. With a start-up capital of €500mn from unabsorbed Structural Funds for Greece, the fund will guarantee EIB loans to SMEs via partner banks in Greece totaling up to €1 billion (these guarantees help ease capital constraints).

- **Attracting deposits.** Staff estimates that as much as €58 billion of the total €71 billion that left the Greek banking system between 2010 and end 2012 was flight capital (either leaving the country or stored as cash outside the banking system), although about €17 billion has since returned. A further return of deposits would help improve banks' funding base. The authorities' strategy relies on successful program implementation and decisive bank recapitalization as pull factors, and on cracking down on evaded taxes from amounts outside the country (to reduce the

incentive to keep funds outside). This strategy should be accompanied by the effective implementation of AML measures to prevent tax evaders from misusing Greek financial institutions, and to facilitate access to information on accounts held abroad through all available international cooperation channels.

26. Complementary measures to strengthen non-bank intermediation are being considered. As noted, the authorities' proposals include the establishment of a development fund that would guarantee bank lending, or a small cooperative bank for lending to SMEs. International experience suggests caution with such approaches: these institutions often increase their lending with the election cycle, tend to finance the government to a greater degree than the private banks, are lacking in their managerial practices, and are subject to government intervention in credit decisions. Where there has been success abroad, key factors have included: i) a clear mandate to target only those sectors underserved by commercial banks, and not competing with them; ii) independence from political influence; iii) professional management; iv) while not deposit taking, should be subject to the same supervisory and prudential regulations as commercial banks; and v) clearly defined performance measures, such as a minimum return on capital. In light of the poor track record of such institutions in Greece in the past (the state-owned Agricultural Bank of Greece had a history of weak controls and public recapitalizations triggered by large NPLs that were eventually written off), however, there remain concerns about the risk of political interference in these schemes.

Authorities' views

27. The authorities concurred with staff's general assessment of the constraints faced by the banking sector in credit provision. They agreed that successful program implementation and return of confidence following recapitalization are by far the most important factors in attracting deposits and improving funding constraints. On NPL resolution, the authorities cautioned against pushing banks to clear NPLs too aggressively, since losses are likely to be highest at the bottom of business cycle. They were more favorably inclined to establish an Asset Management Company to deal with banks' bad assets as well as those under liquidation, suggesting that such a scheme might improve investors' interest in the Greek banking sector and could minimize losses for the state. They also agreed that it would be essential to prevent political interference in the management of banks with public capital, but were confident that the safeguards put in place were effective.

C. Advancing Fiscal Adjustment

28. While Greece has made very significant progress, completing the fiscal adjustment through 2016 will require: (i) delivering gains in tax administration over this period of 1½ percent of GDP; and (ii) identifying further measures equivalent to about 2 percent of GDP in 2015–16. The baseline projection assumes that the above-stated gains from tax administration reform materialize. With respect to the remaining 2 percent gap, there is some scope for the authorities to further adjust spending programs and taxation:

- **Spending cuts.** Public administration reform, which has not yet started in earnest and requires closing inefficient entities and programs and reducing staff in a targeted manner through exits, could generate ½ percent of GDP in savings. Savings of 1–1½ percent of GDP might be possible from rationalizing education and social spending, which should also be better targeted. But room for other cuts appears limited. After shrinking by 3½ percentage points since 2009, the primary expenditure ratio is now below the EU median. Health spending, public sector wages, and intermediate consumption have all been reduced sharply.

- **Tax increases.** There is scope for further base broadening, in particular to further increase revenue from sectors that have not contributed fully to the adjustment so far. For instance, raising direct taxes on the self-employed and removing some of the special reduced VAT rates could generate gains of up to ¼ percent of GDP. Room for tax rate hikes is limited: direct labor taxes already constitute a very large share of income (above 43 percent compared to an average of 30 percent in the EU).

Beyond the 1½ percent of GDP revenue gains above, further gains from revenue administration are critically important to improve the composition of fiscal policy including needed tax rate reductions, a stronger safety net, and a more modern public administration.

29. However, Greece also faces social safety net spending needs and a need to in fact reduce its high tax rates, but these will require identifying additional high-quality measures. Some elements of the social safety net are inadequate, particularly in light of the large and unequal distribution of adjustment costs. For instance, the net replacement rate of unemployment benefits is just below the 20th EU percentile (but is in part compensated by higher severance), and social benefits target only half of the poorest 30 percent of the population. The program commits Greece to identify and fill social safety net needs. Meanwhile, tax rate reductions are needed to boost competitiveness. The program targets a reduction in the labor tax wedge (to deliver a fiscal devaluation, in light of earlier VAT increases), while Greece's high corporate tax rate relative to its regional competitors is also an issue. These safety net and tax reductions will consume a good part of the gains from spending and tax base broadening measures.

30. The key to realizing Greece's medium-term adjustment remains improvements in revenue collection efficiency (Figure 6). This reform is critical to achieving the medium-term primary surplus target, upgrading and modernizing the public sector to be able to provide high-quality services, and over time to making room for needed tax rate reductions, while avoiding new spending cuts. Potential gains are large, estimated as high as 5 percent of GDP (see SIP). Taking this route would also help improve equity in sharing the adjustment costs: despite the overall progressivity of the adjustment so far (including through the recent income tax reform), there has been a growing sense of unfairness stemming from the failure to reduce tax evasion.

31. Gains through revenue collection are, however, highly uncertain in terms of their size and timing. Country experience shows that, while targeted reforms can deliver benefits in even less than one year, comprehensive reorganizations of the type Greece is undertaking can sometimes take close to 10 years to fully deliver (text table). Greece's program anticipates gains in the range of

¼ to ½ percent of GDP in the first year, cumulating to about ¾ percent in 2015 and 1½ percent of GDP by 2016. This is consistent with experience in other countries: Bulgaria increased tax and SSC collection by 5 percent of GDP, and VAT collection by 3 percent of GDP, over a 6-year period. The revenue gains are conservative compared to some more successful cases, such as Georgia, where tax revenues to GDP rose by 6 percentage points in 2005–07. But they could also be lower than targeted, as they have to date under the program. The crucial issue for Greece will be how quickly it can successfully implement reforms going forward.

Country Experiences with Institutional Reforms

Country	Type of Revenue Administration Reform	Period
Bulgaria	New unified revenue administration; consolidating 340 offices into 29; upgrading functions; merging SSC collection into tax administration; IT platform (2000-2009). Further reduction of offices from 29 to 7 (2009). (Tax and SSC collection increased by 5 percent of GDP, and VAT collection by 3 percent of GDP, during 2002–2008.)	2000–2009
Georgia	Reorganized tax headquarters and field units; new tax code and simplified administrative procedures; abolishing compulsory audit of all annual filings and adopting a risk-based approach to tax audits; compulsory electronic filing; new two stage administrative dispute resolution mechanism. (Tax revenues rose by 6 percent of GDP in this period.)	2005–2007
FYROM	New tax procedures law; restructuring of headquarters and field offices; creating large taxpayer office; flexibility in hiring, firing, rewarding staff; integrating collection of social insurance contributions to tax agency. (Income tax revenues rose by ½ percent of GDP in 2005–08.)	2005–2009
Peru	Creating an independent revenue administration agency directly reporting to the president with full budget flexibility. (Tax revenues rose by 2½ percent of GDP in this period.)	1991–1995
Hungary	Comprehensive: reorganizing the HQ office; creating an LTU; Improving VAT and PIT procedures: new arrears management approach; IT upgrade; Improving audit selection. (VAT revenues rose by ½ percent of GDP between 1994 and 1997.)	1993–1998

Sources: World Bank 2009; Durand, 1996; IOTA Tax Tribune Issue 28, 2011.

32. Evidence from other cases suggests that a number of elements are critical to the success of tax administration reform efforts, each of which features in Greece's program (see also the third review staff report). Above all, unwavering political commitment is the most critical element to the success (or failure) of such efforts.

- **Insulation from political interference, while maintaining checks and balances.** The head of the revenue administration should have sufficient powers and flexibility to drive the reforms forward, and then be held accountable (e.g., Latvia, Hungary). In Greece, important strides have been made to establish a legal framework that provides greater autonomy and flexibility to the head of the revenue administration. The key now is to overcome inertia and demonstrate unequivocal support for the process by implementing the legislation in the next 6 months and

showing through action that sufficient autonomy has been achieved and that the problem of political interference and patronage has been tackled.

- **Increasing efficiency.** The organizational structure needs to be transformed and refocused to better utilize resources and improve efficiency in units that have the greatest revenue potential (e.g., large taxpayer unit and high-wealth individuals unit). In Greece, the authorities must operationalize overdue reforms: (i) by providing new management and staff support to the units for large debt collection and audit of large taxpayers and high-wealth individuals; (ii) via staff training, improving grade and promotion incentives, and implementing performance assessments; and (iii) by implementing newly adopted legislation to streamline write-offs of uncollectable debt, risk-based selection of audit cases, indirect audit methods, and dispute resolution.

- **Strengthened collection enforcement.** Discretionary tax administration practices that provide for discounts, including amnesties, must be replaced with stronger enforcement (e.g., placing lien and seizure of assets). Repeated amnesties have been a serious problem, and contributed substantially to weakening the payment culture. In this regard, the authorities have made important—albeit still modest—improvements to the collection enforcement toolkit, such as new powers under the AML legislation and streamlined judicial procedures. Long overdue steps have been taken to reform the previous culture of automatic installments: new tax and SSC debt installment plans were adopted, in line with best international practice. Full implementation of these reforms would put to rest concerns about actual commitment in this area.

- **Greater transparency, improved performance measurement, and simplification of tax and procedural legislation.** Simpler tax policy and tax procedures rules provide greater incentives for taxpayers to comply with their tax obligations and are easier to administer (e.g., Latvia recently reformed its tax and customs code to reduce discretion of tax officials and simplify procedures). The authorities have simplified the income tax regime, and are working to overhaul the income tax legislation by removing provisions that do not belong in it and consolidating income tax policy provisions contained in other pieces of legislation. Similarly, an overhaul of tax procedures is expected to result in a simpler and more transparent code by mid-2013. Implementation will be key.

Authorities' views

33. The authorities concurred with these conclusions, and expressed moderate optimism about the direction of the institutional reforms. They saw little social support for further deep cuts in wages and pensions and tax increases, and agreed that policy options are becoming more limited. They agreed that it is critical to the success of fiscal adjustment and for broader political support of the program that tax administration reforms begin to deliver results. They acknowledged that the administration would face a huge challenge to implement the necessary wide-ranging reforms quickly, and emphasized their political commitment to see the process through.

D. Strategy to Reduce Public Debt

34. Greece's debt is projected to remain high well into the next decade (Appendix I). The debt reduction strategy relies on four pillars:

- **The resumption of growth.** Under program projections, the resumption of real growth will contribute 30 percentage points to the reduction in the debt ratio by 2020.
- **Fiscal adjustment.** Achievement of the primary surplus target of 4½ percent in 2016 (reduced to 4¼ percent by 2020) will improve medium-term debt dynamics in a long-lasting way.
- **Privatization** is projected to make a contribution to debt reduction equivalent to roughly 10 percentage points of GDP by 2020.
- **Conditional debt relief.** Debt sustainability going forward is underpinned by the euro area Member States' commitment in December 2012 to provide any further relief necessary—conditional on Greece fully implementing the program—to ensure that Greece's debt reaches 124 percent of GDP in 2020; and significantly below 110 percent of GDP by 2022. Under staff's current DSA, this will require yet unspecified additional relief of 4 percent of GDP by 2020 as well as at least a further 3 percent of GDP by 2022.

35. As high debt implies Greece will remain accident prone, the conditional relief framework must credibly bring down debt. This framework for tackling the debt overhang has sought to balance the need for firm commitment to debt relief (to protect investor confidence) with an incentive structure that avoids moral hazard (see Box 1 in the Staff Report on the Request for an EFF arrangement, and Box 4 in the Staff Report on the First/Second Review under the EFF arrangement). With the projected debt path contingent on both considerable and sustained fiscal adjustment as well as extended financing support from euro area member states, the core risks stemming from high debt have not been eliminated. There is a risk that investors will not consider the framework to be sufficient to restore debt sustainability. Debt therefore may continue to weigh on investment, and the assumed recovery may not take hold. The macroeconomic and debt outlook must remain under close review.

Authorities' views

36. The authorities broadly agreed with this assessment. They highlighted, in particular, the negative effects of the debt level on sovereign spreads, market confidence, and investment. In that regard, they welcomed Europe's commitment to provide further debt relief and understood the importance in this regard of their meeting the required fiscal balance targets.

STATISTICS

37. Greece has made significant progress in addressing statistical shortcomings from the past, but the gains must be preserved in the face of ongoing political pressures. The new Statistical Law established ELSTAT as an independent statistical agency, which is an important accomplishment. Professional independence supported by law, and giving freedom from political interference, is in line with the Fund's Data Quality Assessment Framework. The Greek statistical authorities have recently benefited from technical assistance in GFS from the Fund and Eurostat. The actions foreseen in the Joint Overall Statistical Greek Action Plan have been implemented on a consistent basis and there has been improvement in the process of GFS compilation by ELSTAT, including coverage, timeliness, and consistency with international statistical standards. These significant gains have been hard-won and should be protected by defending the statistical agency against any efforts to undermine its credibility, guaranteeing its professional independence, and securing its adequate and stable resources. These principles have been endorsed by the Greek government in February 2012 in the "Commitment on Confidence in Statistics" and should be firmly respected.

STAFF APPRAISAL

38. Greece has unquestionably made significant strides in overcoming deep-seated problems. Three achievements stand out:

- Progress on fiscal adjustment has been exceptional by any international comparison, with the primary balance now set to swing into a surplus by end-2013, having improved by 16 percent of GDP in structural terms. Greece is well underway to complete its fiscal adjustment.

- The competitiveness gap has narrowed by about one-half, as bold labor market reforms are helping realign wages and productivity, while the current account deficit has dropped by about 10 percent of GDP. The economy is now rebalancing fast.

- Financial sector stability has been preserved, despite large losses associated with the PSI and the recession-induced surge in NPLs. This is a major achievement for an economy undergoing such a dramatic recession and rapid rebalancing.

39. Significantly, Greece has been able to stay within the euro area and the program has thus fulfilled what throughout the crisis has been the overarching concern of Greek society and body polity. In this regard, the program undoubtedly internalized constraints on its policies and options coming from membership of the euro area that do not exist in countries outside. This includes taking into account the impact of policy choices on other members of the currency union. While such constraints have been a matter of much debate and have evolved as the crisis has unfolded, for Greek policymakers taking actions that could jeopardize Greece's membership in the euro area was never an option that they were willing to consider. Staff agrees that euro exit would

have devastating consequences, and that this would not avoid Greece having to undertake the comprehensive and difficult structural reforms needed to modernize its economy.

40. However, the recession was much deeper than expected, and the social cost has been very high. While GDP was on track in 2010, a key assumption of the program—that, after two years, a recovery in investment would begin to more than offset the drag from fiscal tightening, paving the way for a gradual recovery in 2012—failed to materialize. Greece was hit by a series of negative and mutually reinforcing shocks—political turmoil, failure to implement structural reforms, uncertainty about the external financing strategy, and ever rising concerns about debt sustainability (which could, with the benefit of hindsight, partially have been addressed by an earlier restructuring exercise, if such an exercise had been feasible)—that jolted the investment climate from early 2011 and exacerbated the downdrafts from fiscal tightening. These developments fueled the specter of euro exit and sent spreads to default-levels.

41. This suggests that the current program can only succeed if policy makers—in Greece and abroad—address these root causes of the lack of confidence. Like in the original program, the assumed recovery in 2014 still hinges on the assumption that an improved investment climate will by then begin to offset what is set to be a drag on growth from fiscal policy in the next few years. Without an improvement in sentiment, the economy will continue to contract, stretching the already seriously strained social fabric. Steadfast implementation of key reforms thus remains essential, although the pace of reforms in the program has now been calibrated more in line with the constraints evident from the experience of recent years. Similarly, the assumed recovery will not materialize if investors remain concerned about debt sustainability and the credibility of policies to bring down the huge debt burden.

42. As to policy makers in Greece, refocusing the program on key reforms could do much to shore up broader support. Maintaining public support while advancing what is bound to be painful reforms will pose a formidable political challenge. However, much of the sense of social injustice reflects the fact that failure to advance key reforms has caused an unequal burden of adjustment. Reforms need to be refocused on three key areas:

- **Curtailing tax evasion:** Limited progress has been made in tackling Greece's notorious tax evasion. The rich and self-employed are not paying their fair share, which has forced an excessive reliance on across-the-board expenditure cuts and higher taxes on those earning a salary or a pension. Tackling tax evasion, including by putting in place safeguards against what remains significant political interference in tax administration, is an overarching priority.

- **Opening up the economy:** While labor market reforms are causing a notable decline in wages, this has only to a limited degree been reflected in lower prices, because of the failure to decisively liberalize closed professions and product markets and strengthen the investment framework. High prices and lower wages is another way in which too much of the burden has fallen on those earning wages and pensions. Redoubling efforts to open up the economy to competition is another priority.

- **Accepting mandatory public sector lay-offs.** While the rebalancing of the economy has been associated with a surge in unemployment in the private sector, the over-staffed public sector has been spared. In a country with youth unemployment of over 60 percent, political reluctance to fire even workers who do not show up for work is inexplicable. Recent announcements of planned layoffs are a start. Without progress in this area, staff doubts that Greece can meet its medium-term fiscal targets without further across-the-board cuts in pensions and wages.

43. The accompanying third review staff report presents just such a refocusing of the program. The disappointing track record to date suggests that these reforms will be fiercely contested by a small, but well-entrenched, group of narrow vested interests. Reform efforts that could have a large pay-off in terms of broad political support for the program must not be allowed to falter because of an inability to overcome opposition from what are far more privileged vested interests. Staff takes note of the government's assurances that it is keenly aware of what is riding on such success and that it is determined to push ahead with reforms.

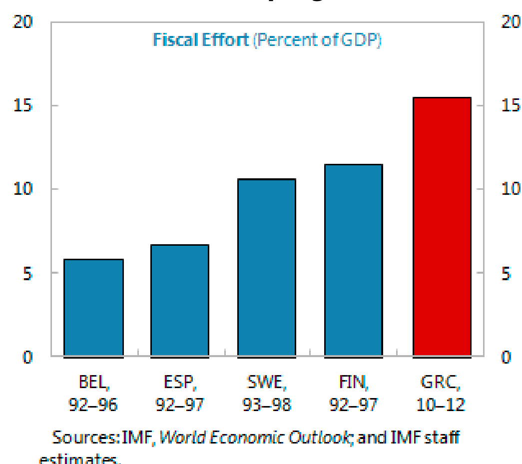
44. As far as European partners are concerned, it is critical that they dispel any doubts about their commitment to ensure debt sustainability. The Eurogroup's promise to provide additional relief to keep debt on the programmed path, if necessary and if primary balance targets are met, provides a welcome framework for restoring debt sustainability. The credibility of this framework is bolstered by the fact that virtually all debt is now on public balance sheets. Still, even under this framework, debt will remain exceptionally high well into the next decade. This could raise concerns on the part of investors about whether the framework is credible, in particular because of the contingency linking debt relief to policy implementation. Should debt sustainability concerns prove to be weighing on investor sentiment going forward, strong program implementation by the Greek authorities notwithstanding, then a more front-loaded approach to debt relief would need to be considered.

45. The next Article IV consultation with Greece is expected to take place on a 24-month cycle.

Box 1. Why Has the Recession In Greece Been So Deep?

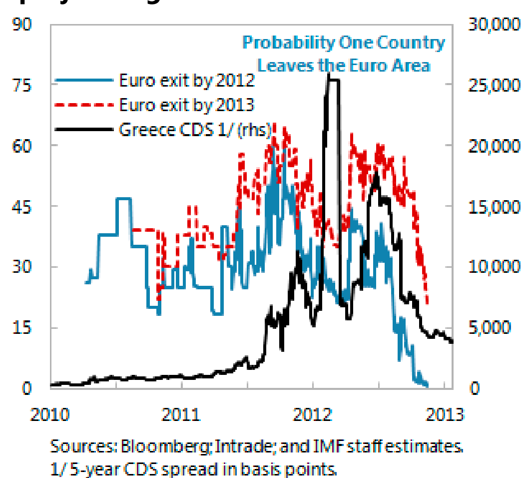
Failure to implement structural reforms and adverse shocks that amplified the negative fiscal impulse contributed to the depth of the recession in Greece.

- **As expected, fiscal adjustment primed the recession at the outset of the program.** To arrest the ballooning public debt and constrained by the scale of official available support, Greece adopted an ambitious fiscal adjustment path. The adjustment under the SBA was projected to be among the largest and most frontloaded ever recorded, with planned measures in 2010-12 amounting to 15½ percent of GDP (including 7½ percent of GDP in 2010 alone). This was projected to have a significant recessionary impact. Using Greece-specific multipliers estimated by OECD (2009), staff projected the impact to be over 3 percent of GDP in 2010, and staff projections were close to actual (4 vs. 5 percent).



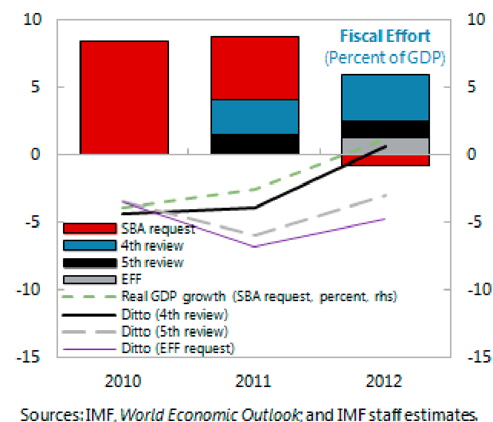
Sources: IMF, *World Economic Outlook*; and IMF staff estimates.

- **Structural reforms were projected to start working their way through the economy relatively fast and offset the impact of further tightening, but projected gains did not materialize.** Deregulation and privatization were expected to turn around expectations, and boost investments to exploit new profit opportunities. Income policies (reductions in public wages and changes to collective bargaining framework) were expected to improve cost competitiveness, which, together with pro-competition structural reforms, would reduce relative prices over time, encouraging strong export response. But these projections failed to materialize, mainly because the critical mass of structural reforms were not achieved, but also because transmission lags to growth proved longer than expected.



Sources: Bloomberg; Intrade; and IMF staff estimates.
1/ 5-year CDS spread in basis points.

- **Moreover, a barrage of powerful adverse shocks hit the economy.** Diminishing support for the program and the domestic political turmoil, combined with a growing impatience with the slow pace reform implementation among European leaders, led to the growing uncertainty surrounding Greece's future in the euro area. The widespread loss of confidence resulted in a large outflow of deposits and seizing up of liquidity in the economy. This hampered the transmission from even the modest structural reform implementation to growth by stifling investments. Externally, recessionary forces in Europe proved stronger than expected, reducing demand for Greece's exports.



Sources: IMF, *World Economic Outlook*; and IMF staff estimates.

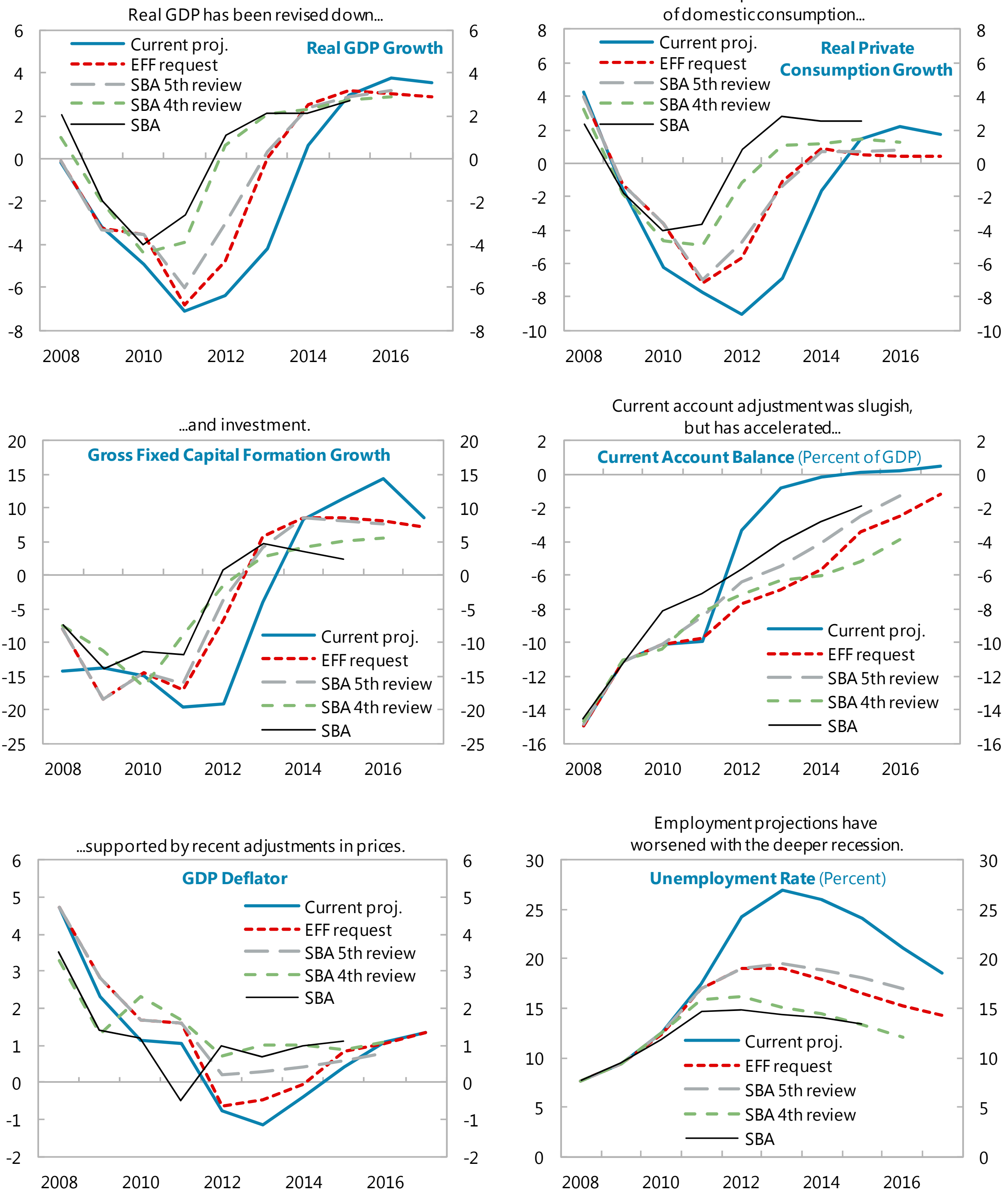
Box 1. Why Has the Recession In Greece Been So Deep? (concluded)

- **With no support to growth from structural reforms, the adverse shocks amplified the impact of the negative fiscal impulse, creating a negative feedback loop.** Fiscal targets were relaxed only marginally in the face of weaker growth, effectively leading to additional, highly pro-cyclical tightening. Consecutive packages of measures amounted to around 7 percent of GDP. Under standard OECD multipliers, this would have reduced GDP growth by additional 4 percentage points (on top of the direct impact of expectations and the liquidity squeeze on the economy), but multipliers have likely increased when liquidity crunch associated with the confidence crisis affected access to credit for households and businesses alike.

Box 2. External Balance Assessment (EBA)

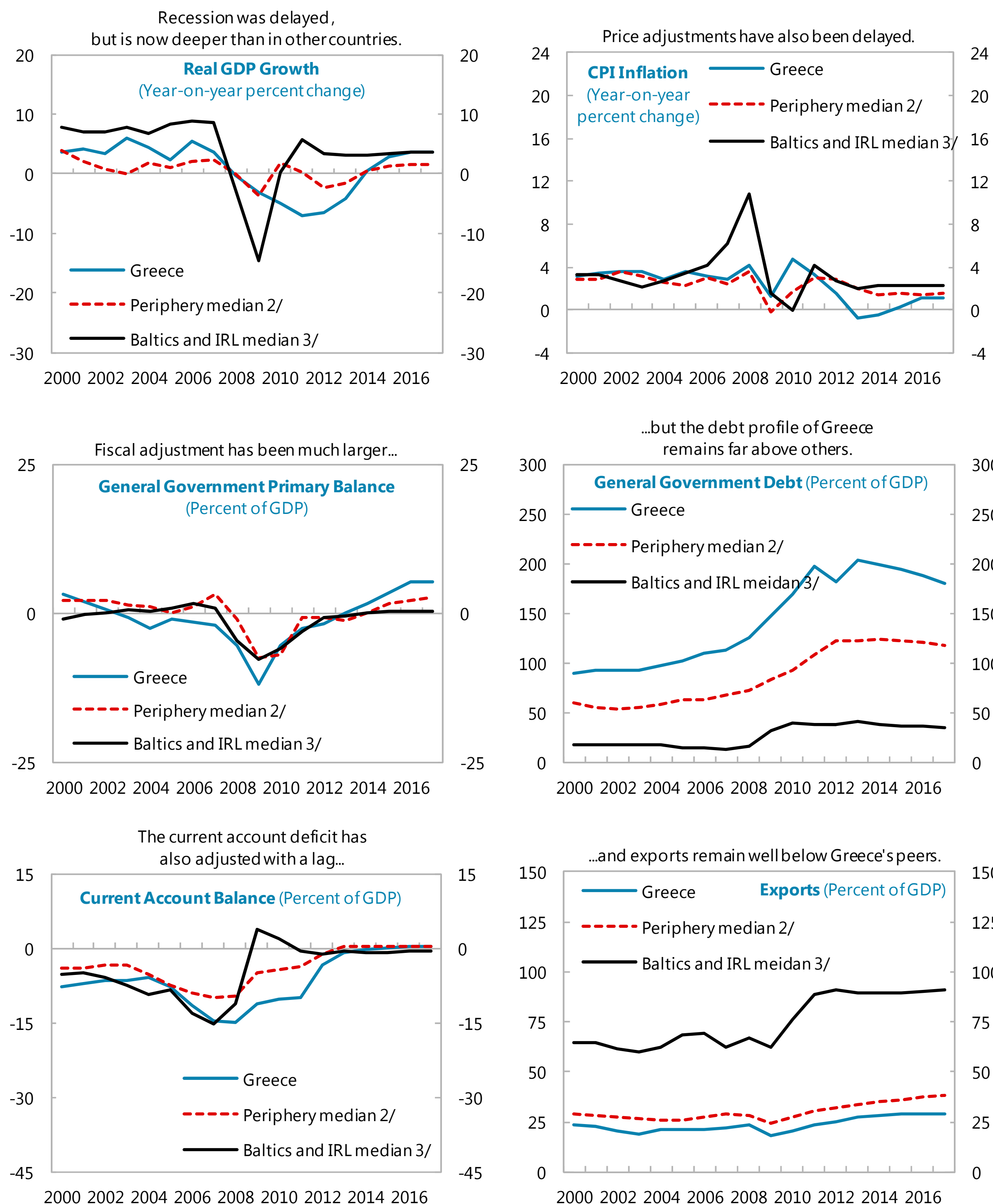
The EBA exercise indicates that the external adjustment is not yet complete:

- The EBA current account exercise suggests that further current account adjustment is needed to restore external sustainability. The EBA estimates a current account norm of -2.5 percent of GDP compared to 2012 cyclically-adjusted current account of around -5½ percent of GDP. The envisaged fiscal adjustment under the program is expected to be one of the key elements to bring the current account closer to the norm (the EBA methodology attributes about -1 percent of GDP to the domestic fiscal balance policy gap, which is expected to close).
- In the medium-term, high net external debt requires an extended period of current account balances above the EBA norm to reduce debt to safer levels. Staff projects that a cyclically-adjusted current account converging to a surplus of about 2 percent of GDP by 2020 would be consistent with net external debt falling to around 70 percent of GDP by the end of the decade. In this scenario, public debt would still be in a range where detrimental effects to growth could occur.
- The EBA REER regression yields a 9 percent overvaluation. CGER results indicate a larger overvaluation of 24 percent (broadly consistent with the 4 percent drop in the REER from the peak in 2009Q4 and an estimated overvaluation of 20-30 percent at the onset of the SBA in 2010), but it does not reflect the narrowing of policy gaps, which are reflected in the EBA methodology. Given the large and ongoing structural changes to the Greek economy, these results should be interpreted with caution.
- On the basis of the envisaged product and labor market reforms and continued domestic demand restraint, staff projects the CPI- and GDP-deflator based REERs to fall by a cumulative 10 percent by 2020. Together with the general business environment improvements that the program's structural reforms will deliver, these projected REER developments are consistent with closing the competitiveness gap around 2020.



Sources: Elstat; Bank of Greece; and IMF staff projections.

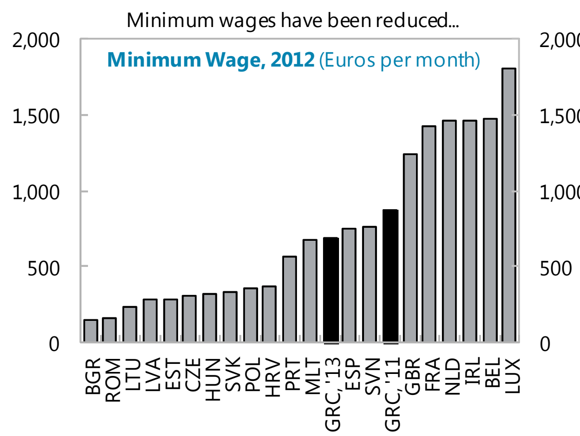
Figure 2. Greece: Performance Among Peers, 2000–17 1/



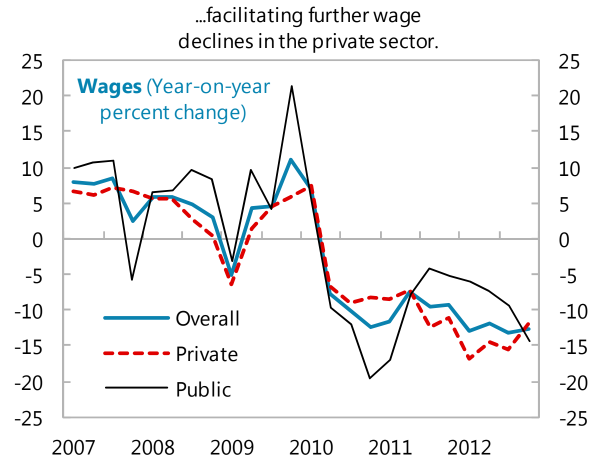
Sources: IMF, *World Economic Outlook*; and IMF staff calculations.
1/ Aggregates exclude Greece. Max and min for the entire sample excluding Greece.
2/ Includes Italy, Portugal, and Spain.
3/ Includes Estonia, Ireland, Latvia, and Lithuania.

Figure 3. Greece: Labor Market Developments, 2007–12

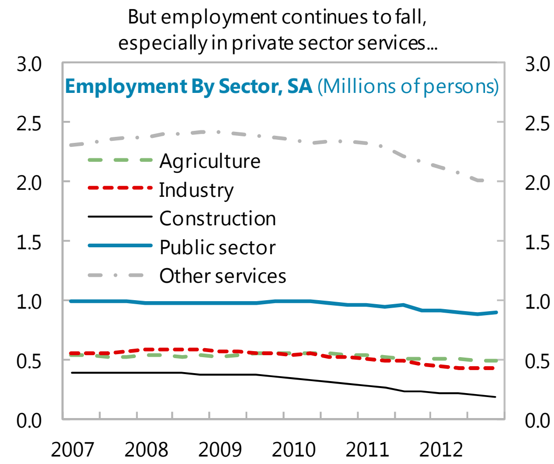
Minimum wages have been reduced...



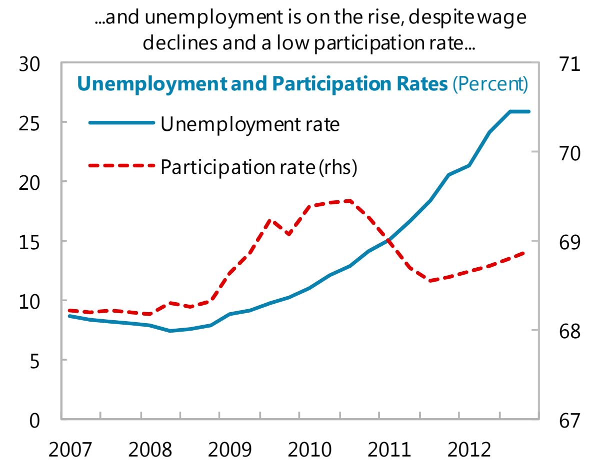
...facilitating further wage declines in the private sector.



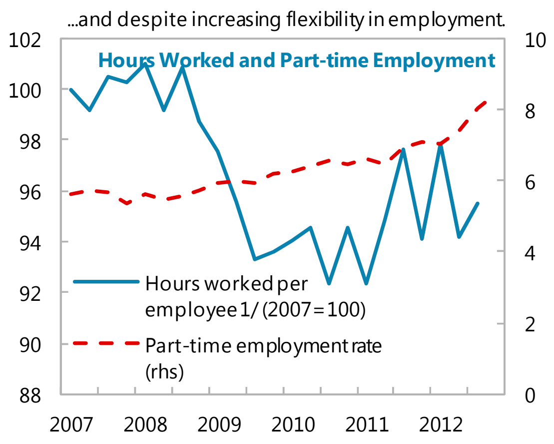
But employment continues to fall, especially in private sector services...



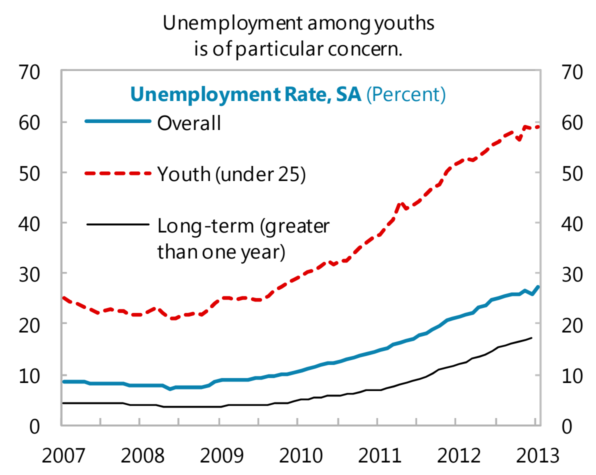
...and unemployment is on the rise, despite wage declines and a low participation rate...



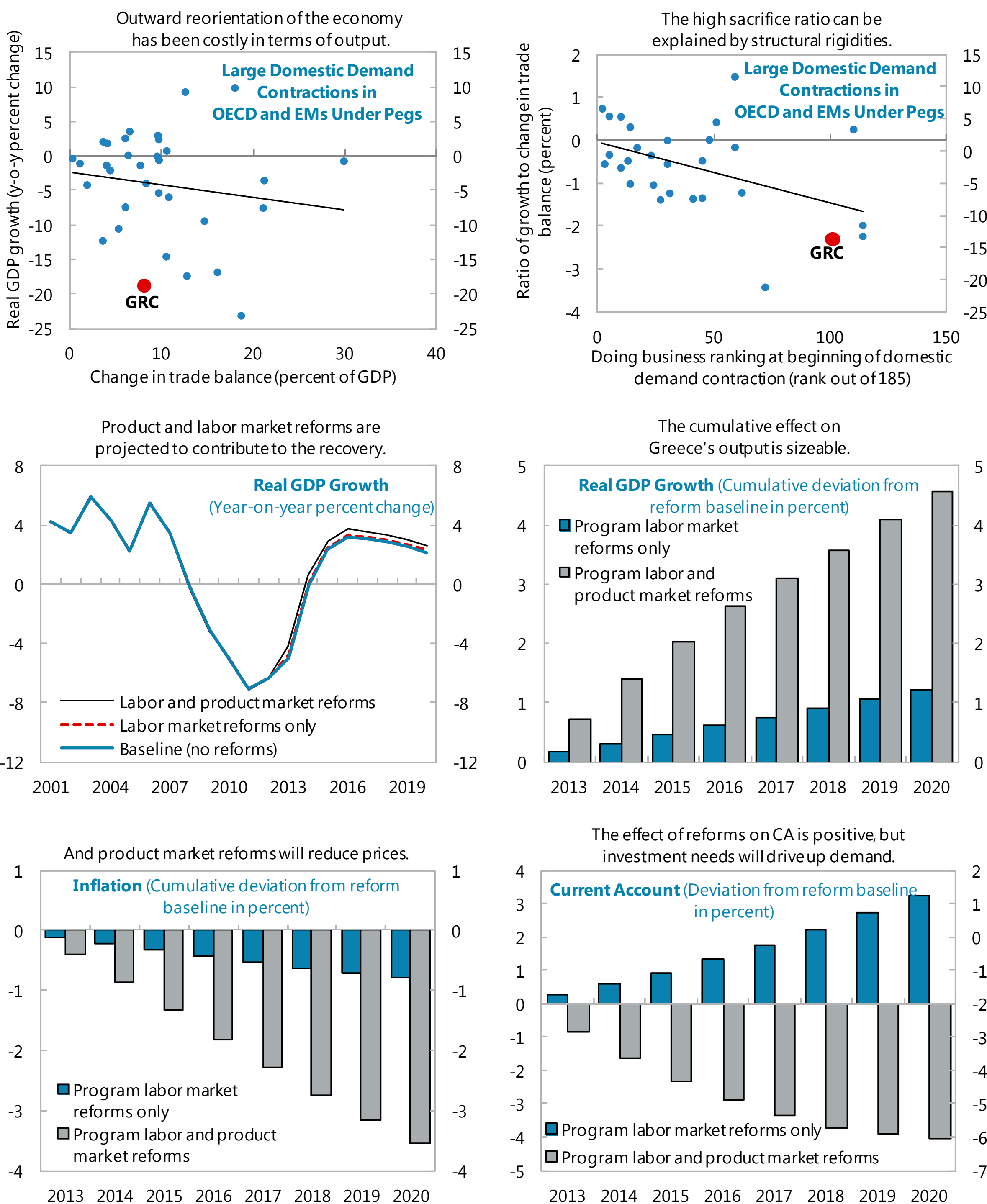
...and despite increasing flexibility in employment.



Unemployment among youths is of particular concern.



Sources: Elstat; Eurostat; Haver; and IMF staff calculations.



Sources: IMF, *World Economic Outlook;* and IMF staff estimates.

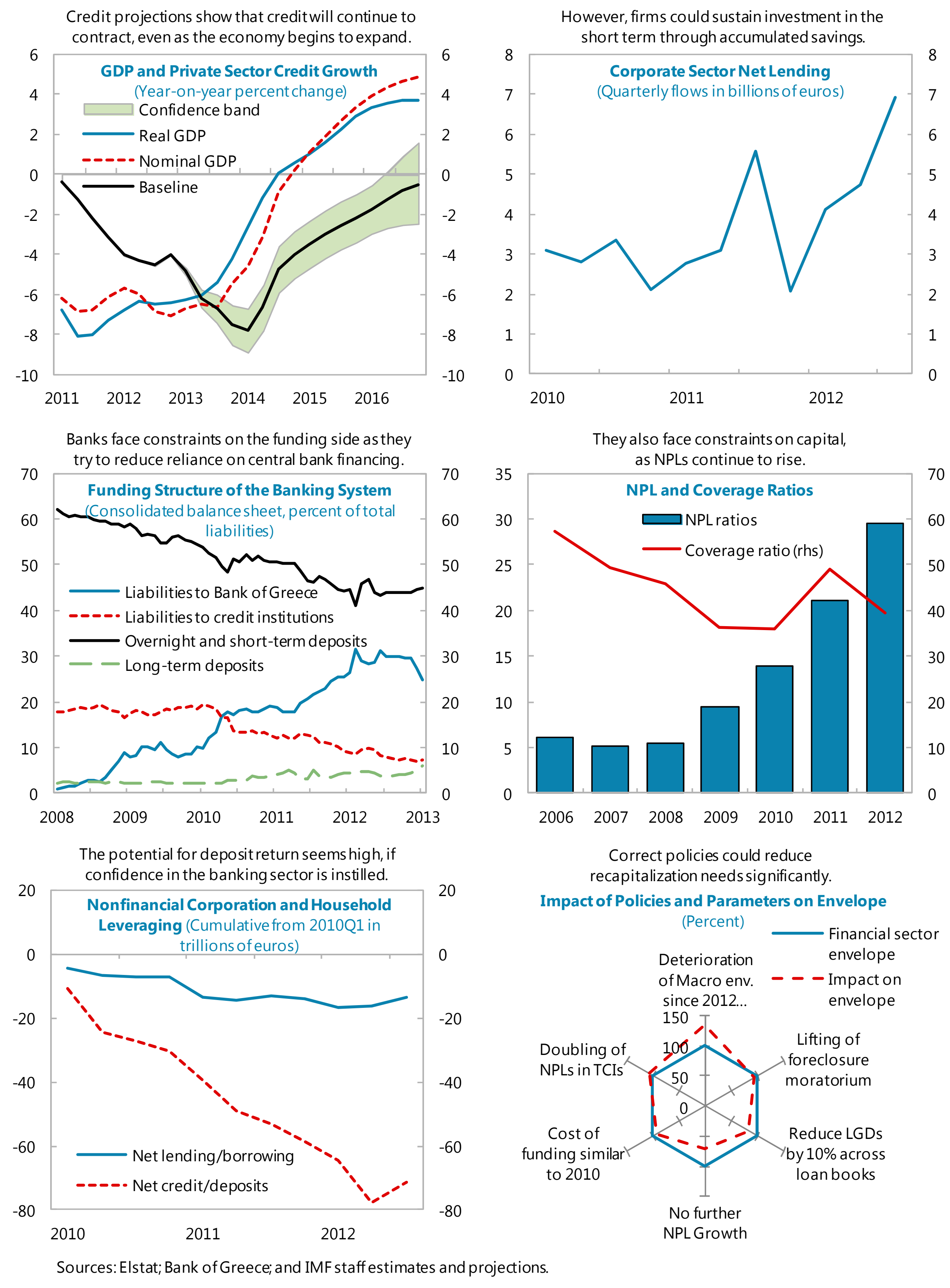
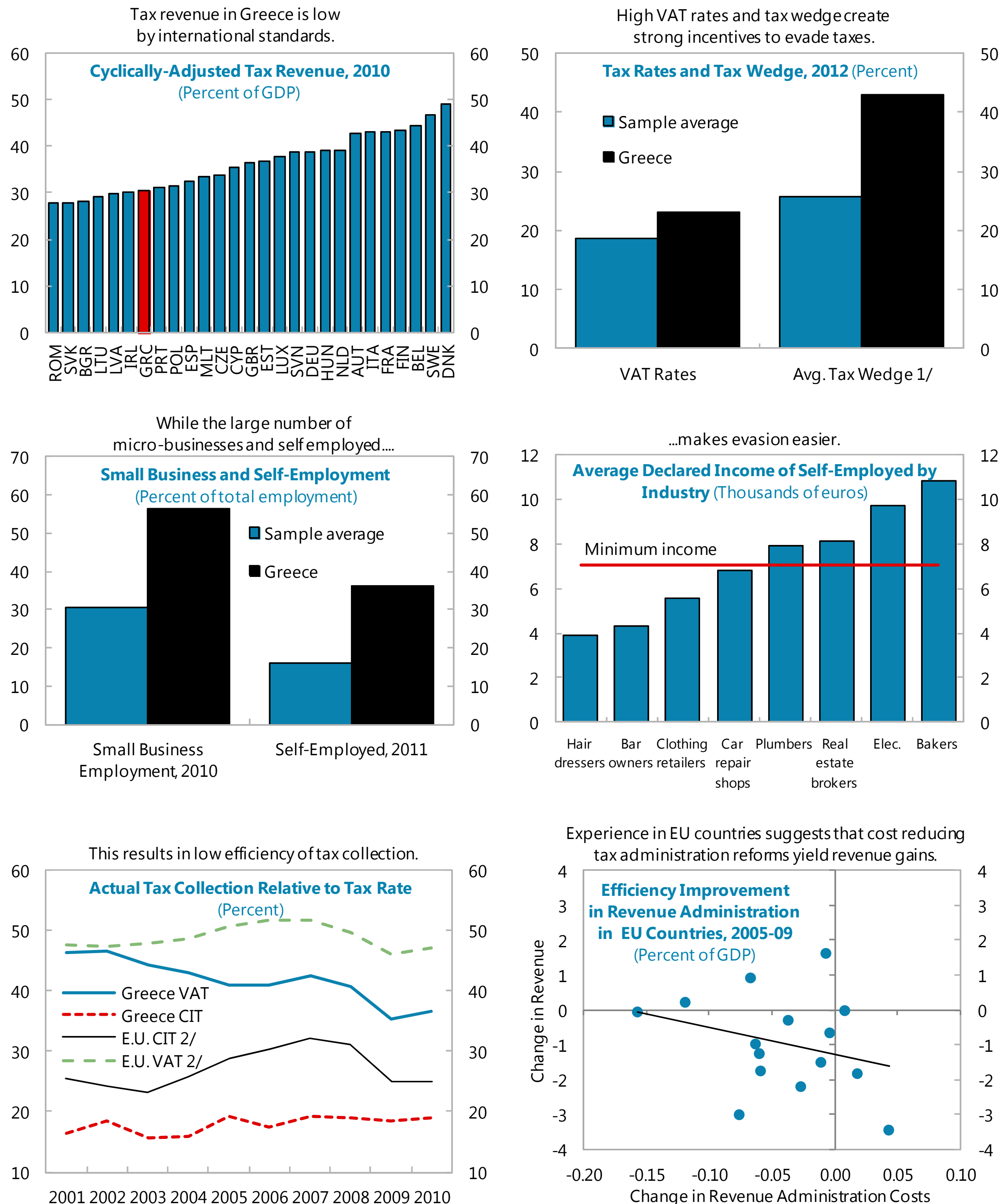


Figure 5. Financial Sector: Supporting the Recovery
Credit projections show that credit will continue to contract, even as the economy begins to expand.
GDP and Private Sector Credit Growth
(Year-on-year percent change)
Confidence band
Real GDP
Nominal GDP
Baseline
6
4
2
0
-2
-4
-6
-8
-10
2011
2012
2013
2014
2015
2016
However, firms could sustain investment in the short term through accumulated savings.
Corporate Sector Net Lending
(Quarterly flows in billions of euros)
8
7
6
5
4
3
2
1
0
2010
2011
2012
Banks face constraints on the funding side as they try to reduce reliance on central bank financing.
Funding Structure of the Banking System
(Consolidated balance sheet, percent of total liabilities)
Liabilities to Bank of Greece
Liabilities to credit institutions
Overnight and short-term deposits
Long-term deposits
70
60
50
40
30
20
10
0
2008
2009
2010
2011
2012
2013
They also face constraints on capital, as NPLs continue to rise.
NPL and Coverage Ratios
NPL ratios
Coverage ratio (rhs)
35
30
25
20
15
10
5
0
2006
2007
2008
2009
2010
2011
2012
The potential for deposit return seems high, if confidence in the banking sector is instilled.
Nonfinancial Corporation and Household Leveraging (Cumulative from 2010Q1 in trillions of euros)
Net lending/borrowing
Net credit/deposits
20
0
-20
-40
-60
-80
2010
2011
2012
Correct policies could reduce recapitalization needs significantly.
Impact of Policies and Parameters on Envelope
(Percent)
Financial sector envelope
Impact on envelope
Deterioration of Macro env. since 2012...
Lifting of foreclosure moratorium
Reduce LGDs by 10% across loan books
No further NPL Growth
Cost of funding similar to 2010
Doubling of NPLs in TCIs
150
100
50
0
Sources: Elstat; Bank of Greece; and IMF staff estimates and projections.



Sources: European Commission; Eurostat; OECD; and IMF staff estimates.
1/ Tax wedge for one family earner with two children.
2/ Unweighted average.

Table 1. Greece: Selected Economic Indicators, 2009–14

	2009	2010	2011	2012		2013	2014
				Prog.	Est.	Proj.	
	(Percentage change, unless otherwise indicated)						
Domestic economy							
Real GDP	-3.1	-4.9	-7.1	-6.0	-6.4	-4.2	0.6
Output gap (percent of pot. output)	7.3	3.3	-2.6	-7.3	-7.7	-10.6	-9.5
Total domestic demand	-5.5	-7.0	-8.7	-8.7	-10.4	-5.6	-1.1
Private consumption	-1.6	-6.2	-7.7	-7.7	-9.1	-6.9	-1.6
Public consumption	4.9	-8.7	-5.2	-6.2	-4.2	-4.0	-6.2
Gross fixed capital formation	-13.7	-15.0	-19.6	-14.4	-19.2	-4.0	8.4
Change in stocks (contribution)	-1.2	0.7	-0.4	0.4	0.0	0.4	0.0
Foreign balance (contribution)	3.0	3.0	2.4	3.3	3.7	2.6	1.7
Exports of goods and services	-19.4	5.2	0.3	-1.2	-2.4	3.0	4.6
Imports of goods and services	-20.2	-6.2	-7.3	-11.5	-13.8	-6.4	-1.9
Unemployment rate (percent) 1/	9.4	12.5	17.5	24.4	24.2	27.0	26.0
Employment 1/	-1.0	-2.7	-6.6	-9.2	-8.2	-3.7	0.6
Unit labor costs	4.2	-1.1	-3.9	-8.1	-6.1	-6.5	-1.5
Consumer prices (national definition), period averag	1.2	4.7	3.3	1.2	1.5	-0.8	-0.4
Consumer prices (HICP), period average	1.3	4.7	3.1	...	1.0	...	...
Core prices, period average 2/	2.3	2.6	1.1	...	-0.3	...	...
GDP deflator	2.3	1.1	1.0	-0.5	-0.8	-1.1	-0.4
	(Percent of GDP, unless otherwise indicated)						
Balance of payments							
Current account	-11.2	-10.1	-9.9	-4.2	-3.4	-0.8	-0.2
Structural current account balance	-7.0	-8.3	-10.9	...	-5.4	-4.9	-3.6
Trade balance	-7.8	-6.8	-6.0	-2.5	-2.5	-0.2	1.4
Export of goods and services	18.3	20.5	23.4	25.3	25.4	27.4	28.3
Imports of goods and services	-26.2	-27.3	-29.5	-27.8	-27.9	-27.6	-26.9
Total transfers	0.6	0.1	0.3	0.3	0.7	1.8	1.5
Net income receipts	-3.9	-3.5	-4.1	-2.0	-1.6	-2.5	-3.1
Net international investment position	-86.4	-98.4	-86.1	-94.2	-114.1	-118.9	-117
Public finances (general government)							
Total revenues	38.3	40.6	42.4	43.6	44.1	44.3	43.7
Total expenditures	54.0	51.4	52.0	50.3	50.4	48.4	46.9
Primary expenditures	48.8	45.5	44.8	45.1	45.4	44.3	42.2
Overall balance	-15.6	-10.8	-9.6	-6.7	-6.3	-4.1	-3.2
Primary balance	-10.5	-4.9	-2.4	-1.5	-1.3	0.0	1.5
Cyclically-adjusted primary balance	-13.0	-6.1	-1.3	...	2.2	5.0	5.9
Gross debt	130	148	170	158	157	176	174
Interest rates and credit							
Lending interest rate (percent)3/	5.1	6.1	6.8	...	5.8	6.4	...
Private credit growth (percent change) 4/	4.2	0.0	-3.1	-7.2	-4.0	-6.5	-4.0
Exchange rates, end-period (percent change) 3/							
Nominal effective exchange rate	0.4	-3.7	0.0	...	-0.5	0.1	...
Real effective exchange rate (CPI-based)	1.7	-1.2	-0.7	...	-1.9	-2.1	...
Real effective exchange rate (man. ULC-based)	1.1	0.8	-6.1	...	-8.4	-8.4	...
Memorandum items:							
Nominal GDP (billions of euros)	231	222	209	195	194	183	184
Nominal GDP (percent change)	-0.9	-3.9	-6.1	-6.5	-7.1	-5.3	0.2

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

1/ Based on Labor Force Survey.
2/ Core prices exclude energy, food, alcohol, and tobacco.
3/ Data for 2013 as of March.
4/ Includes securitized or otherwise transferred loans from 2010 onward.

Table 2. Greece: Medium-Term Macro Framework, 2012–18

	2012	2013	2014	2015	2016	2017	2018
	Est.	Proj.					
	(Percentage change, unless otherwise indicated)						
Domestic economy							
Real GDP	-6.4	-4.2	0.6	2.9	3.7	3.5	3.3
Output gap (percent of pot. output)	-7.7	-10.6	-9.5	-6.9	-4.5	-2.7	-1.0
Total domestic demand	-10.4	-5.6	-1.1	1.7	3.2	3.2	3.0
Private consumption	-9.1	-6.9	-1.6	1.4	2.2	1.8	1.5
Public consumption	-4.2	-4.0	-6.2	-4.8	-4.0	3.2	3.7
Gross fixed capital formation	-19.2	-4.0	8.4	11.3	14.4	8.5	7.4
Change in stocks (contribution)	0.0	0.4	0.0	0.0	0.0	0.0	0.0
Foreign balance (contribution)	3.7	2.6	1.7	1.2	0.6	0.4	0.4
Exports of goods and services	-2.4	3.0	4.6	5.5	4.7	4.1	4.3
Imports of goods and services	-13.8	-6.4	-1.9	1.2	2.7	3.1	3.2
Unemployment rate (percent) 1/	24.2	27.0	26.0	24.0	21.0	18.6	16.3
Employment	-8.2	-3.7	0.6	2.6	4.0	3.0	2.7
Unit labor costs	-6.1	-6.5	-1.5	-0.3	1.7	1.4	1.6
Consumer prices (national defintion), period average	1.5	-0.8	-0.4	0.3	1.1	1.2	1.3
Consumer prices (HICP), period average	1.0	...	...	...	...	...	...
GDP deflator	-0.8	-1.1	-0.4	0.4	1.1	1.3	1.4
Monetary survey							
Private credit growth (percent change) 2/	-4.0	-6.5	-4.0	-2.2	-0.6	5.3	n.a.
Private sector deposit growth (percent change)	-7.0	1.3	1.0	3.4	5.0	5.0	n.a.
Liabilities to the Bank of Greece (billions of Euro)	121.2	81.5	66.9	51.0	35.0	27.7	n.a.
	(Percent of GDP, unless otherwise indicated)						
Balance of payments							
Current account	-3.4	-0.8	-0.2	0.1	0.2	0.5	0.9
Structural current account balance	-5.4	-4.9	-3.6	-2.1	-0.8	0.1	1.0
Trade balance	-2.5	-0.2	1.4	2.4	3.0	3.5	3.9
Export of goods and services	25.4	27.4	28.3	28.6	28.7	28.9	29.1
Export of goods	11.4	12.1	12.4	12.4	12.2	12.2	12.3
Exports of services	14.0	15.3	15.9	16.3	16.4	16.6	16.9
Imports of goods and services	-27.9	-27.6	-26.9	-26.2	-25.7	-25.4	-25.2
Imports of goods	-21.5	-21.3	-20.8	-20.2	-19.7	-19.5	-19.3
Imports of services	-6.4	-6.3	-6.1	-6.0	-6.0	-5.9	-5.9
Total transfers	0.7	1.8	1.5	1.2	0.9	0.7	0.4
Net income receipts	-1.6	-2.5	-3.1	-3.5	-3.7	-3.7	-3.4
Net international investment position	-114.1	-118.9	-116.9	-111.3	-104.3	-96.9	-89.1
Gross external debt	232.8	247.0	238.1	222.2	204.7	190.6	176.6
Private sector capital flows (net)	-21.5	-14.2	5.1	5.1	4.5	0.7	0.8
Public finances (general government)							
Total revenues	44.1	44.3	43.7	42.7	42.0	42.0	42.0
Total expenditures 3/	50.4	48.4	46.9	44.8	42.7	42.6	42.8
Primary expenditures 3/	45.4	44.3	42.2	39.7	37.5	37.5	37.7
Overall balance	-6.3	-4.1	-3.2	-2.1	-0.7	-0.6	-0.8
Primary balance	-1.3	0.0	1.5	3.0	4.5	4.5	4.3
Cyclically-adjusted primary balance	2.2	5.0	5.9	6.0	6.4	5.6	4.7
Privatization receipts	0.1	1.4	1.0	1.1	1.1	1.1	1.5
Gross debt	156.9	175.8	174.2	168.2	159.5	149.7	140.9

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

1/ Based on Labor Force Survey.

2/ Projections do not take into account write-offs, valuation changes, or reclassifications.

3/ Includes unidentified measures.

Table 3. Greece: General Government: Statement of Operations (GFSM 2001, flows), 2010–16 1/

(Millions of euros)

	2010	2011	2012	2013	2014	2015	2016
Revenue	90,232	88,383	85,458	81,243	80,265	81,205	83,675
Taxes	45,109	44,917	43,644	42,264	41,714	42,259	43,802
Social contributions	29,764	27,435	26,508	24,666	25,220	25,127	25,790
Grants and other revenue	15,359	16,031	15,306	14,313	13,331	13,819	14,082
Expenditure	114,289	108,346	97,655	88,807	86,313	88,484	89,403
Expense	114,472	111,332	100,264	....	....	....	....
Compensation of employees	27,773	25,852	24,215	21,184	20,365	20,175	19,895
Use of goods and services	13,429	9,789	9,456	7,583	6,919	7,069	6,999
Consumption of fixed capital	5,386	5,782	6,263	....	....	....	....
Interest	13,193	15,016	9,723	7,527	8,745	9,786	10,524
Subsidies	129	982	977	1,090	478	212	375
Social benefits	47,476	47,450	44,383	39,957	38,513	39,251	40,010
Grants and other expense	7,086	6,461	5,247	3,130	2,772	2,725	2,652
Net acquisition of nonfinancial assets	-183	-2,986	-2,609	....	....	....	....
Gross capital formation 2/	5,203	2,796	3,654	8,337	8,520	9,265	8,948
(-) Consumption of fixed capital	5,386	5,782	6,263	....	....	....	....
Unidentified Measures (Cumulative)	0	0	0	37	60	3,195	4,173
Gross operating balance 3/	-18,854	-17,167	-8,543	810	2,532	5,181	7,392
Net operating balance 4/	-24,240	-22,949	-14,806	....	....	....	....
Net lending (+)/borrowing (–) 5/	-24,057	-19,963	-12,197	-7,527	-5,988	-4,084	-1,556
Primary Net lending (+)/borrowing (–)	-10,864	-4,947	-2,474	0	2,758	5,702	8,969
Net acquisition of financial assets	4,798	356	52,061	....	....	....	....
Monetary gold and SDRs	0	0	0	....	....	....	....
Currency and deposits	5,097	-2,012	4,979	....	....	....	....
Debt securities	0	-48	13,535	....	....	....	....
Loans	144	832	-4,995	....	....	....	....
Equity and investment fund shares	380	652	38,036	....	....	....	....
Insurance, pensions, and standardized guarantee schemes	4	1	1	....	....	....	....
Financial derivatives and employee stock options	0	0	0	....	....	....	....
Other accounts receivable	-827	931	505	....	....	....	....
Net incurrence of liabilities	28,695	20,057	64,525	....	....	....	....
SDRs	0	0	0	....	....	....	....
Currency and deposits	-503	-184	-46	....	....	....	....
Debt securities	-311	-2,981	-44,744	....	....	....	....
Loans	30,216	26,907	107,811	....	....	....	....
Equity and investment fund shares	0	0	0	....	....	....	....
Insurance, pensions, and standardized guarantee schemes	0	0	0	....	....	....	....
Financial derivatives and employee stock options	951	166	-1,499	....	....	....	....
Other accounts payable	-1,658	-3,851	3,003	....	....	....	....

Sources: Ministry of Finance; and IMF staff projections

1/ Calculations based on program definitions as outlined in the TMU.
2/ Acquisition less disposals of nonfinancial assets.
3/ Revenue minus expense (excluding consumption of fixed capital).
4/ Revenue minus expense (including consumption of fixed capital).
5/ Revenue minus expenditure.

Table 4. Greece: Financial Balance Sheet (GFSM 2001, stocks), 2008–12 1/

(Millions of euros)

	2008	2009	2010	2011	2012
Stock positions					
Net worth	....	....	....	....	....
Nonfinancial assets	....	....	....	....	....
Net financial worth	-221,099	-242,350	-211,112	-153,297	-198,700
Financial assets	64,412	77,232	79,471	75,756	121,573
Monetary gold and SDRs	0	0	0	0	0
Currency and deposits	13,213	11,764	16,901	14,732	20,707
Debt securities	702	741	741	693	14,196
Loans	1,591	5,261	5,407	6,238	1,243
Equity and investment fund shares	29,256	39,757	37,533	34,270	65,097
Insurance, pensions, and standardized guarantee schemes	38	42	47	48	49
Financial derivatives and employee stock options	0	0	0	0	0
Other accounts receivable	19,612	19,667	18,842	19,775	20,281
Liabilities	285,511	319,582	290,583	229,053	320,273
Monetary gold and SDRs	0	0	0	0	0
Currency and deposits	728	1,508	1,005	820	774
Debt securities	213,617	248,184	190,632	104,586	78,128
Loans	45,912	44,811	75,193	102,921	216,240
Equity and investment fund shares	0	0	0	0	0
Insurance, pensions, and standardized guarantee schemes	0	0	0	0	0
Financial derivatives and employee stock options	2,736	980	1,311	2,134	3,536
Other accounts payable	22,518	24,099	22,442	18,592	21,595
Memorandum items:					
Debt (at market value)	282,775	318,602	289,272	226,919	316,737
Debt at face value	285,802	323,784	351,957	373,764	325,513
Maastricht debt	263,284	299,685	329,515	355,172	303,918
Other economic flows					
Change in net worth from other economic flows	....	....	....	....	....
Nonfinancial assets	....	....	....	....	....
Change in net financial worth from other economic flows	-5,405	15,093	55,135	77,516	-25,729
Financial assets	-13,417	10,552	-2,559	-4,071	966
Monetary gold and SDRs	0	0	0	0	0
Currency and deposits	48	-67	40	-157	-223
Debt securities	0	0	0	0	-32
Loans	-2	0	2	-1	0
Equity and investment fund shares	-13,461	10,619	-2,604	-3,915	1,220
Insurance, pensions, and standardized guarantee schemes	-1	-1	1	0	0
Financial derivatives and employee stock options	0	0	0	0	0
Other accounts receivable	-1	1	2	2	1
Liabilities	-8,012	-4,541	-57,694	-81,587	26,695
Monetary gold and SDRs	0	0	0	0	0
Currency and deposits	0	57	0	-1	0
Debt securities	-7,067	-3,353	-57,241	-83,065	18,286
Loans	6	-11	166	821	5,508
Equity and investment fund shares	0	0	0	0	0
Insurance, pensions, and standardized guarantee schemes	0	0	0	0	0
Financial derivatives and employee stock options	-950	-1,234	-620	657	2,901
Other accounts payable	-1	0	1	1	0

Sources: Ministry of Finance; and IMF staff projections.

1/ Calculations based on program definitions as outlined in the TMU.

Table 5: Greece: General Government Operations, 2010–17 1/

	2010	2011	2012	2013	2014	2015	2016	2017
						Proj.		
				(Billions of euros)				
Revenue	90.2	88.4	85.5	81.2	80.3	81.2	83.7	87.8
Indirect taxes	27.3	26.6	24.3	23.5	23.2	23.7	25.0	26.2
Direct taxes	17.5	18.0	19.1	18.7	18.5	18.6	18.8	19.7
Social contributions	29.8	27.4	26.5	24.7	25.2	25.1	25.8	27.1
Other current revenue	4.9	5.7	4.7	5.3	5.1	5.3	5.5	5.8
Sales	6.1	5.6	5.8	4.6	4.4	4.6	4.8	5.0
Capital revenue	4.6	5.0	4.9	4.4	3.8	3.9	3.8	4.0
Primary expenditure	101.1	93.3	87.9	81.3	77.6	78.7	78.9	82.7
Social benefits	47.5	47.5	44.4	40.0	38.5	39.3	40.0	42.0
Subsidies	0.1	1.0	1.0	1.1	0.5	0.2	0.4	0.4
Other current expenditure	3.4	2.6	2.3	2.5	2.4	2.4	2.4	2.5
Compensation of employees	27.8	25.9	24.2	21.2	20.4	20.2	19.9	20.9
Intermediate consumption	13.4	9.8	9.5	7.6	6.9	7.1	7.0	7.3
Investment	8.9	6.7	6.6	8.9	8.9	9.6	9.2	9.7
Unidentified measures (cumulative)	0.0	0.0	0.0	0.0	0.0	3.2	4.2	4.4
Primary balance	-10.9	-4.9	-2.5	0.0	2.8	5.7	9.0	9.4
Interest	13.2	15.0	9.7	7.5	8.7	9.8	10.5	11.0
Overall balance	-24.1	-20.0	-12.2	-7.5	-6.0	-4.1	-1.6	-1.6
Gross debt (Maastricht)	329.5	355.2	303.9	322.5	320.3	319.8	317.9	312.9
				(Percent of GDP)				
Total primary revenue	40.6	42.4	44.1	44.3	43.7	42.7	42.0	42.0
Indirect taxes	12.3	12.8	12.6	12.8	12.6	12.5	12.5	12.5
Direct taxes	7.9	8.6	9.9	10.2	10.1	9.8	9.4	9.4
Social contributions	13.4	13.2	13.7	13.4	13.7	13.2	12.9	12.9
Other current revenue	2.2	2.7	2.4	2.9	2.8	2.8	2.8	2.8
Sales	2.7	2.7	3.0	2.5	2.4	2.4	2.4	2.4
Capital revenue	2.1	2.4	2.5	2.4	2.1	2.1	1.9	1.9
Total primary expenditure	45.5	44.8	45.4	44.3	42.2	41.4	39.6	39.6
Social benefits	21.4	22.8	22.9	21.8	20.9	20.7	20.1	20.1
Subsidies	0.1	0.5	0.5	0.6	0.3	0.1	0.2	0.2
Other current expenditure	1.5	1.2	1.2	1.4	1.3	1.2	1.2	1.2
Compensation of employees	12.5	12.4	12.5	11.5	11.1	10.6	10.0	10.0
Intermediate consumption	6.0	4.7	4.9	4.1	3.8	3.7	3.5	3.5
Investment	4.0	3.2	3.4	4.9	4.8	5.1	4.6	4.6
Unidentified measures (cumulative)	0.0	0.0	0.0	0.0	0.0	1.7	2.1	2.1
Primary balance	-4.89	-2.37	-1.28	0.00	1.50	3.00	4.50	4.50
Interest	5.9	7.2	5.0	4.1	4.8	5.1	5.3	5.3
Overall balance	-10.8	-9.6	-6.3	-4.1	-3.3	-2.1	-0.8	-0.8
Gross debt (Maastricht)	148.3	170.3	156.9	175.8	174.2	168.2	159.5	149.7
Nominal GDP (billions of euros)	222.2	208.5	193.8	183.5	183.9	190.1	199.3	209.1

Sources: Ministry of Finance; and IMF staff projections.

1/ Calculations based on program definitions as outlined in the TMU.

Table 6. Greece: Summary of Balance of Payments, 2010–18

	2010	2011	2012	2013	2014	2015	2016	2017	2018
						Proj.			
					(Billions of euro)				
Current account balance	-22.5	-20.6	-6.5	-1.6	-0.4	0.2	0.4	0.9	1.9
Balance of goods and services	-15.0	-12.6	-4.9	-0.3	2.6	4.6	5.9	7.2	8.6
Goods balance	-28.3	-27.2	-19.6	-16.9	-15.4	-14.9	-15.0	-15.1	-15.4
Exports	17.1	20.2	22.0	22.2	22.8	23.5	24.4	25.6	26.9
Imports	45.4	47.5	41.6	39.1	38.2	38.4	39.4	40.7	42.3
Services balance	13.2	14.6	14.7	16.6	18.0	19.5	20.9	22.4	24.0
Credit	28.5	28.6	27.1	28.1	29.3	30.9	32.7	34.8	37.0
Debit	15.2	14.0	12.4	11.5	11.2	11.4	11.9	12.4	13.0
Income balance	-7.7	-8.6	-3.1	-4.7	-5.7	-6.6	-7.3	-7.7	-7.5
Credit	4.0	3.3	3.3	3.8	4.2	4.6	5.1	5.7	6.1
Debit	11.7	11.9	6.3	8.5	9.9	11.2	12.3	13.4	13.6
Current transfers (net)	0.2	0.6	1.4	3.4	2.7	2.2	1.8	1.5	0.8
Capital and financial account balance	-8.6	-21.0	-103.4	-33.2	-15.2	-7.0	-3.0	-4.9	-5.0
Capital account balance	2.1	2.7	2.3	4.6	3.5	3.2	3.3	3.3	2.8
Financial account	-10.6	-23.7	-105.7	-37.9	-18.7	-10.3	-6.3	-8.2	-7.8
Direct investment	-0.9	-0.5	2.3	2.3	1.8	1.9	1.8	2.2	3.0
Portfolio investment	-20.9	-19.8	-99.9	-2.8	-9.0	-5.4	-2.1	-3.5	0.2
Of which: government	-26.8	-23.3	-57.0	6.2	-9.1	-6.1	-2.7	-4.7	-0.9
Other investment (excl. program financing)	11.0	-3.4	-8.1	-37.3	-11.4	-6.8	-6.0	-6.8	-11.0
Reserve assets (increase = -)	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net errors and omissions	-0.4	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Program financing, net	31.5	41.5	109.9	34.8	11.0	0.3	2.6	3.9	3.1
Unidentified financing	0.0	0.0	0.0	0.0	4.6	6.5	0.0	0.0	0.0
					(Percent of GDP)				
Current account balance	-10.1	-9.9	-3.4	-0.8	-0.2	0.1	0.2	0.5	0.9
Balance on goods and services	-6.8	-6.0	-2.5	-0.2	1.4	2.4	3.0	3.5	3.9
Goods balance	-12.7	-13.1	-10.1	-9.2	-8.4	-7.8	-7.5	-7.2	-7.0
Services balance	6.0	7.0	7.6	9.0	9.8	10.2	10.5	10.7	11.0
Income balance	-3.5	-4.1	-1.6	-2.5	-3.1	-3.5	-3.7	-3.7	-3.4
Current transfers	0.1	0.3	0.7	1.8	1.5	1.2	0.9	0.7	0.4
Capital and financial account balance	-3.9	-10.1	-53.4	-18.1	-8.3	-3.7	-1.5	-2.3	-2.3
Capital account balance	0.9	1.3	1.2	2.5	1.9	1.7	1.7	1.6	1.3
Financial account	-4.8	-11.3	-54.6	-20.6	-10.1	-5.4	-3.2	-3.9	-3.6
Direct investment	-0.4	-0.2	1.2	1.2	1.0	1.0	0.9	1.0	1.4
Portfolio investment	-9.4	-9.5	-51.6	-1.5	-4.9	-2.8	-1.1	-1.7	0.1
Of which: government	-12.1	-11.2	-29.4	3.4	-4.9	-3.2	-1.4	-2.2	-0.4
Other investment	5.0	-1.7	-4.2	-20.4	-6.2	-3.6	-3.0	-3.3	-5.0
Reserve assets (increase = -)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net errors and omissions	-0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Program financing	14.2	19.9	56.7	19.0	6.0	0.2	1.3	1.9	1.4
Unidentified official financing / market access	0.0	0.0	0.0	0.0	2.5	3.4	0.0	0.0	0.0
Gross external debt	213.1	225.4	232.8	247.0	238.1	222.2	204.7	190.6	176.6
Public sector	150.9	173.5	183.3	196.0	187.9	173.8	158.5	146.8	134.7
Private sector	62.2	51.9	49.5	51.0	50.2	48.4	46.2	43.8	42.0
Memorandum item:									
Current account balance in cash terms	-10.1	-9.9	-3.4	-0.4	0.8	2.1	2.5	3.0	3.5
Structural current account balance	-8.3	-10.9	-5.4	-4.9	-3.6	-2.1	-0.8	0.1	1.0

Sources: Bank of Greece; and IMF staff estimates.

Table 7. Greece: Monetary Survey, 2010–14

	2010	2011	2012	2013				2014			
				Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14
								Proj.			
	(Billions of Euros)										
Aggregated balance sheet of Monetary Financial Institutions (MFIs)											
Total assets	654.6	646.1	602.5	558.5	541.4	526.7	520.9	512.4	505.6	499.5	494.4
Cash (held by credit institutions)	2.1	2.4	2.5	2.0	2.0	1.9	1.9	1.9	1.9	1.9	1.9
Claims on Bank of Greece	10.6	5.1	3.1	4.2	3.5	3.4	3.4	3.4	3.4	3.4	3.4
Claims on other MFIs	186.0	146.8	170.7	130.9	129.0	124.2	122.0	117.6	113.8	109.8	106.1
Claims (Loans) on non MFIs	289.0	275.9	250.1	249.3	240.2	232.8	229.6	226.6	224.3	222.5	221.2
Domestic	282.5	269.5	244.8	243.6	235.1	227.7	224.5	221.6	219.3	217.4	216.1
General government	26.3	22.3	17.4	15.3	14.6	14.0	13.9	13.8	13.8	13.9	13.9
Other sectors 1/	256.2	247.2	227.5	228.2	220.5	213.7	210.6	207.7	205.4	203.6	202.2
Other countries	6.5	6.4	5.2	5.7	5.2	5.2	5.1	5.1	5.1	5.1	5.1
Securities 2/	101.2	93.0	100.4	99.8	96.9	95.5	95.3	94.5	93.9	93.5	93.2
Other assets	60.7	117.9	70.6	67.4	65.2	64.3	64.2	63.9	63.9	64.0	64.2
Fixed assets	5.0	5.0	5.0	4.9	4.6	4.5	4.5	4.5	4.5	4.5	4.5
Total Liabilities	654.6	646.1	602.5	558.5	541.4	526.7	520.9	512.4	505.6	499.5	494.4
Liabilities to Bank of Greece	97.8	76.9	121.2	92.0	88.8	83.9	81.5	77.6	74.1	70.5	66.9
Liabilities to other MFIs	164.7	155.4	133.2	109.3	108.7	103.9	101.6	97.6	94.1	90.4	86.9
Deposits and repos of non MFIs	282.5	237.5	225.2	227.2	223.7	221.1	220.9	220.2	220.1	220.7	221.8
Domestic	225.1	187.7	179.1	186.0	182.1	180.2	180.4	179.7	179.6	180.2	181.2
Other countries	57.4	49.8	46.1	41.2	41.6	40.8	40.6	40.5	40.5	40.5	40.7
Capital and reserves	46.7	54.8	56.0	59.8	58.2	57.0	56.6	56.9	57.3	57.8	58.4
Banknotes and coins in circulation	22.5	23.7	24.3	23.9	23.3	22.8	22.6	22.5	22.5	22.5	22.6
Other liabilities	40.3	97.8	42.6	46.3	38.8	38.0	37.7	37.6	37.6	37.6	37.7
Money and credit											
Broad money	232.9	199.2	188.4	193.7	191.4	189.5	189.6	189.3	189.6	190.5	191.9
Credit to the private sector 3/ 4/	257.5	248.1	227.3	228.0	220.5	213.7	210.6	207.7	205.4	203.6	202.2
Credit to government 3/	63.0	59.1	28.2	22.5	22.8	22.3	22.4	22.3	22.3	22.3	22.3
	(Annual percentage change) 5/										
Broad money	-11.2	-14.6	-5.3	1.5	8.6	4.9	0.6	-2.2	-1.0	0.5	1.2
Domestic private sector deposits	-12.4	-17.0	-7.0	0.9	9.8	6.0	1.3	-2.0	-1.1	0.3	1.0
Credit to the private sector 3/ 4/	0.0	-3.1	-4.0	-3.5	-5.0	-5.6	-6.5	-8.8	-6.8	-4.8	-4.0
Credit to government 3/	28.3	2.0	-7.9	-17.0	-15.0	-24.6	-20.8	-0.9	-2.3	-0.1	-0.1
	(Percent of GDP)										
Broad money	101.8	89.5	89.1	97.8	101.0	102.7	103.5	103.6	103.8	104.2	104.6
Domestic deposits	98.4	84.3	84.7	93.9	96.1	97.7	98.4	98.4	98.4	98.5	98.7
Credit to the private sector 4/	112.6	111.4	107.5	115.1	116.3	115.9	115.0	113.7	112.5	111.3	110.1
Credit to government	27.6	26.6	13.4	11.4	12.0	12.1	12.2	12.2	12.2	12.2	12.2
Memorandum items:	(Percent)										
Capital to assets	5.8	6.9	5.7	5.8	5.7	5.7	5.6	5.9	6.1	6.3	6.5
Loans to customer deposits	103.5	117.0	111.6	110.3	107.1	104.9	103.5	102.5	101.4	100.3	99.2
Velocity	1.0	1.1	1.1	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

Sources: 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/ Projected growth rates are calculated from differences in outstanding amounts and do not take into account write-offs, valuation changes, or reclassifications.

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

Table 8. Greece: Monetary Financial Institutions (excl. BoG)—Uses and Sources of Funds, 2010–16

	2010	2011	2012	2013	2014	2015	2016
					Proj.		
				(Billions of euros)			
Assets	515.0	476.9	442.2	408.6	396.6	394.4	398.7
Cash	2.1	2.4	2.5	1.9	1.9	2.0	2.1
Claims on other MFIs	88.9	68.7	48.3	40.5	39.1	39.0	39.4
Claims on non-MFIs	354.8	338.4	321.3	299.9	289.3	284.9	285.4
General government	63.0	59.1	28.2	22.4	22.3	23.1	24.2
Private sector 1/	255.8	246.8	227.1	210.6	202.2	197.7	196.6
Corporate	116.5	113.0	100.8	97.1	95.3	95.3	96.8
Households	139.3	133.8	126.3	113.5	106.8	102.4	99.8
Other countries	36.0	32.4	66.0	66.9	64.8	64.1	64.5
Other assets	69.1	67.4	70.0	66.4	66.3	68.5	71.8
Liabilities	515.0	476.9	442.2	408.6	396.6	394.4	398.7
Liabilities to other MFIs	66.3	44.5	31.7	34.6	34.5	35.5	37.0
Deposits of non-MFIs	280.2	232.3	218.9	215.7	216.6	225.0	237.9
Central government	9.0	4.1	7.1	7.2	6.4	6.4	7.2
Private sector	213.9	178.7	166.2	168.4	170.0	175.8	184.5
Other countries 2/	57.4	49.5	45.6	40.1	40.2	42.8	46.2
Other liabilities	26.3	18.1	17.2	24.3	24.3	25.1	26.3
Capital and reserves	44.4	53.1	53.2	52.5	54.3	57.8	62.5
Eurosystem liquidity support	97.8	128.9	121.2	81.5	66.9	51.0	35.0
				(Percent of GDP)			
Assets	231.8	228.7	228.2	223.0	216.1	207.9	200.4
Cash	1.0	1.1	1.3	1.0	1.0	1.0	1.0
Claims on other MFIs	40.0	33.0	24.9	22.1	21.3	20.6	19.8
Claims on non-MFIs	159.7	162.3	165.8	163.7	157.6	150.2	143.5
General government	28.4	28.4	14.6	12.2	12.2	12.2	12.2
Private sector 1/	115.2	118.4	117.2	115.0	110.1	104.3	98.9
Corporate	52.4	54.2	52.0	53.0	51.9	50.3	48.7
Households	62.7	64.2	65.2	62.0	58.2	54.0	50.2
Other countries	16.2	15.6	34.1	36.5	35.3	33.8	32.4
Other assets	31.1	32.3	36.2	36.2	36.1	36.1	36.1
Liabilities	231.8	228.7	228.2	223.0	216.1	207.9	200.4
Liabilities to other MFIs	29.8	21.4	16.4	18.9	18.8	18.7	18.6
Deposits of non-MFIs	126.1	111.4	113.0	117.7	118.0	118.6	119.6
Central government	4.0	2.0	3.7	3.9	3.5	3.4	3.6
Private sector	96.3	85.7	85.8	91.9	92.6	92.7	92.8
Other countries 2/	25.8	23.7	23.5	21.9	21.9	22.6	23.2
Other liabilities	11.8	8.7	8.9	13.2	13.2	13.2	13.2
Capital and reserves	20.0	25.4	27.5	28.7	29.6	30.5	31.4
Eurosystem liquidity support	44.0	61.8	62.5	44.5	36.5	26.9	17.6
Memorandum items:							
Domestic private sector deposit growth (percent)	-12.4	-17.0	-7.0	1.3	1.0	3.4	5.0
Private credit growth (percent change) 3/	0.0	-3.1	-4.0	-6.5	-4.0	-2.2	-0.6
Eurosystem liquidity support (percent of total assets)	19.0	27.0	27.4	20.0	16.9	12.9	8.8

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

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

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

3/ Projections do not take into account write-offs, valuation changes, or reclassifications.

Table 9. Greece: Core Set of Financial Soundness Indicators for Deposit Taking Institutions, 2009–12

(Percent, unless otherwise indicated)

	2009	2010	2011				2012			
			Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.
Core set										
Regulatory capital to risk-weighted assets 1/	11.9	12.3	12.3	10.6	10.1	7.0	5.7	8.9	10.2	10.2
Regulatory tier I capital to risk-weighted assets 1/	10.9	11.2	11.1	9.6	9.2	5.8	4.7	8.1	9.4	9.5
Nonperforming loans net of provisions to capital	37.9	46.9	51.2	66.3	78.6	...	...	...	...	...
Nonperforming loans to total gross loans	7.8	10.5	11.5	12.8	14.7	16.0	18.7	21.6	22.5	24.6
Bank provisions to nonperforming loans	42.0	46.2	...	...	...	62.9	57.1	49.5	50.1	48.1
Return on assets (after taxes) 2/	-0.1	-0.6	-0.3	-1.7	-2.1	...	...	...	...	...
Return on equity (after taxes) 2/	-1.7	-8.8	-3.9	-27.3	-34.2	...	...	...	...	...
Interest margin to gross income 2/	75.8	91.0	82.5	87.4	91.7	93.7	100.1	106.5	123.1	103.1
Non-interest expenses to gross income 2/	57.4	62.2	54.1	56.9	58.6	66.1	72.0	89.2	106.0	94.0
Liquid assets to total assets 3/	45.2	35.2	34.5	35.2	33.2	32.3	27.3	29.3	30.8	32.1
Liquid assets to short-term liabilities 3/	56.9	46.9	46.4	48.2	50.2	43.1	34.0	37.5	39.7	41.9
Net open position in foreign exchange to capital 1/ 4/	11.6	11.3	12.0	15.4	14.5	...	...	...	...	...
Encouraged set										
Spread between reference lending and deposit rates (end-of-period, basis points) 5/	5.2	6.4	...	...	...	7.5	7.4	7.3	7.1	7.1
Customer deposits to total (noninterbank) loans 3/	125.7	96.6	...	...	...	85.5	84.2	80.5	85.0	89.6
Foreign currency-denominated liabilities to total liabilities 3/	10.8	9.0	...	...	...	7.7	7.1	6.7	6.5	6.5
Market liquidity										
Average bid-ask spread in the securities market (basis points)	60.6	126.0	...	...	...	87.2	177.0	185.0	155.0	193.0
Households										
Household debt to GDP	52.1	60.0	...	...	...	61.3	63.8	66.2	64.1	63.7
Real estate markets										
Residential real estate loans to total loans 3/	20.3	21.1	...	...	...	22.8	24.2	25.0	25.5	25.5
Memorandum items:										
Assets (billions of euros)										
Banks	440.3	465.5	...	...	...	412.7	376.0	383.5	383.3	389.7
Branches of foreign banks	38.3	36.9	...	...	...	52.0	47.6	42.6	40.9	39.1
General insurance companies 6/	15.6	15.7	...	...	...	14.9	14.3	14.1	15.1	15.4
Other credit institutions	11.6	11.4	...	...	...	11.5	10.6	10.9	12.1	12.6
Deposits (billions of euros)										
Banks	248.6	220.3	...	...	...	172.4	163.3	152.0	155.0	164.0
Branches of foreign banks	21.9	18.7	...	...	...	20.9	20.1	16.0	16.7	18.1

Source: Bank of Greece.

1/ Data on a consolidated basis. For end-2011 and 2012Q1, C.A.R. ratios are affected by the PSI and include only the first tranche of €18 billion HFSF recapitalization. In addittion, C.A.R. ratios are affected by the negative supervisory own funds of two banks (ATEbank and TT Hellenic Post Bank).

2/ From 2004 in accordance with IFRS.

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

4/ Based on revised figures from 2002 onwards.

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

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

Table 10. Greece: Risk Assessment Matrix 1/

(Scale—High, Medium, or Low)

Source of risk	Relative Likelihood	Impact if Realized
Reform fatigue	**High** Unemployment is high, recovery still some distance ahead, and recent fiscal adjustment reforms have increased public discontent.	**High** Rejection of program policies could trigger debt default and/or euro exit.
Delayed or weak recovery of domestic demand	**High** Debt overhang could be a bigger-than-expected drag on investments, and fiscal impulse from fiscal measures is uncertain (fiscal multipliers higher than assumed).	**High** Lower growth would undermine achievement of fiscal targets, putting at risk the conditional debt relief, and leave Greece in a high-debt low-growth trap.
Re-emergence of financial stress in the euro area	**Medium** Heightened financial stress from incomplete delivery of policy commitments could lead to large negative shocks to Euro area growth.	**High** Direct effects via lower exports, and indirect effects via a possibly vicious spiral of weaker confidence and renewed capital flight.
Delayed pay-off from structural reform	**Medium** It could take longer for wage adjustments to translate to lower prices, and for stronger competitiveness to lead to higher export growth.	**Medium** Debt sustainability could be called into question, and consensus for continued reforms eroded.
Protracted period of slow European growth	**Medium** Ongoing public and private deleveraging in Europe could create adverse debt-deflation dynamics.	**Medium** Adverse impact from lower exports to Europe and weaker confidence would be gradually offset by trade diversification.
Financial crisis in Cyprus	**High** Problems with financial sector solvency and public sector sustainability.	**Low** Adverse effects limited mainly to financial links (from two Cypriot banks branches in Greece).

1/ The risk assessment matrix shows events that could materially alter the baseline path discussed in this report (which is the most likely to materialize in the view of the staff). The matrix reflects staff's subjective assessment of the sources of risks around this baseline, their relative likelihood, and overall level of concerns as of the time of the discussions with the authorities.

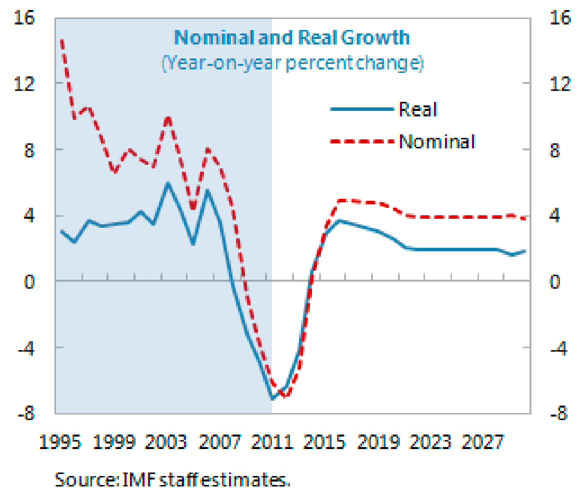
Appendix I: Debt Sustainability Analysis

1. This appendix considers the sustainability of Greece's public and external debt. Section A provides an overview of the macro, policy and financing inputs. Sections B and C consider, respectively, public and external debt sustainability, examining the debt trajectory under the program baseline and under a variety of stress scenarios. The results suggest that the current program can place Greece on a sustainable trajectory, but the size and duration of adjustment still required of Greece poses significant risks. Such risks cannot be credibly eliminated without a more conclusive reduction in Greece's debt burden.

A. Key Inputs for the DSA

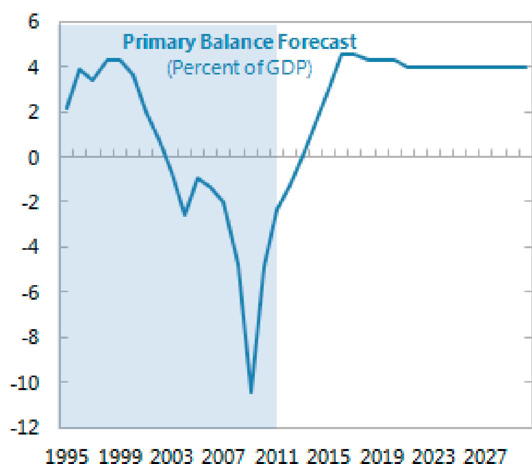
2. The macro and policy framework underpinning the DSA reflects both the significant headwinds facing the Greek economy and the limits on currently available financing.

- **Output Path.** The economy is expected to continue to contract in 2013 before a modest recovery takes hold in 2014. Tight liquidity, low confidence, and significant fiscal drag will be negative for growth in the near term. But steady implementation of the authorities' program should help turn around expectations, improve liquidity conditions, and lead to a recovery beginning in 2014 and accelerating to peak at 3¾ percent in 2016. In the long-term, growth in Greece is projected to gradually taper off to around 1¾ percent per annum.

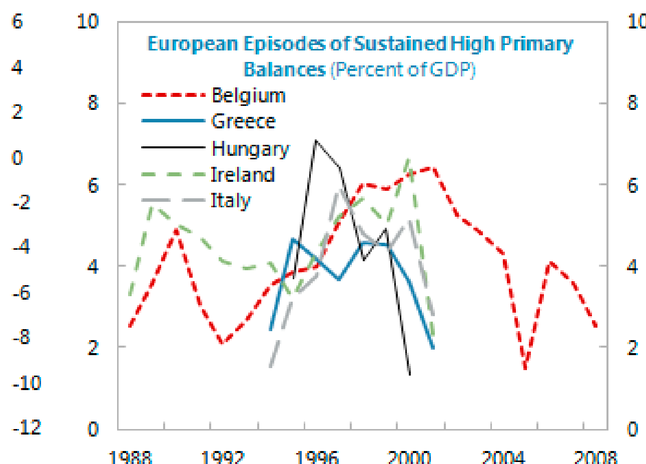


Source: IMF staff estimates.

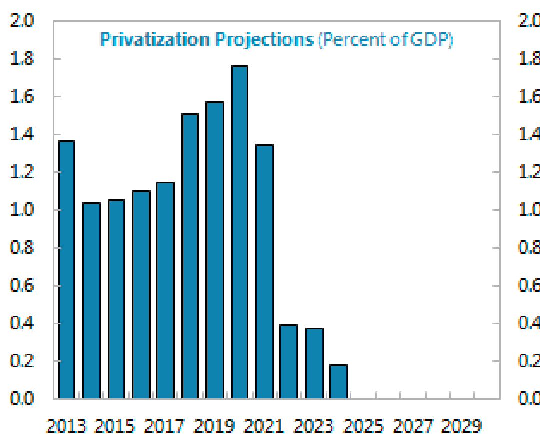
- **Fiscal Adjustment.** The program fiscal path targets headline primary adjustment of 1.5 percent of GDP per year, terminating in a surplus of 4.5 percent in 2016. It is further assumed that Greece can maintain a long-term primary surplus of 4 percent of GDP. This fiscal path is ambitious, but, in terms of dynamics, almost all of the adjustment will be behind Greece at the end of this year. Maintaining a 4 percent primary surplus will remain a challenge: while there were episodes of large sustained primary surpluses in the past, they were rare and often occurred in extraordinary circumstances (e.g., before the euro accession).



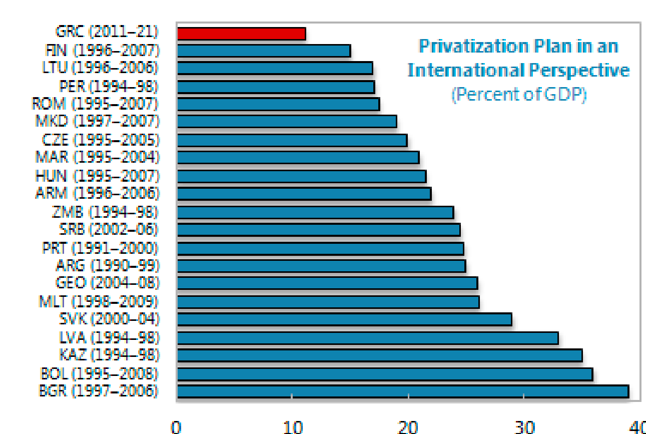
Source: IMF staff estimates.



Sources IMF staff estimates.



Sources: IMF staff estimates.



Source: IMF, 2011 Fiscal Monitor; and IMF staff estimates.

- **Privatization** – Expected proceeds for privatization are EUR 22 billion. This target is at the low end of international experience. However, the slow progress in recent months point to risks to achieve even the conservative goals, although mainly concerning the timing of proceeds rather than the total yield.

- **Other** – The DSA also incorporates key assumptions regarding Greece's liquidity needs: i) financing for clearance of arrears is EUR8 billion in the 5 quarters between end Q3-12 and end-2013; ii) the program targets net deposit accumulation of 1.5 billion by end 2014 before

returning to the original program path thereafter; and iii) the path for the stock of T-bills remains elevated at 15 billion for the duration of the program.

3. The program financing framework reflects the significant relief committed by the official sector in 2012. At the time of the EFF arrangement in March of 2012, euro area member countries made an explicit commitment to provide adequate support to Greece during the program period and beyond, provided that Greece fully complies with the requirements and objectives of the program. This broad-based show of support was repeated at the Eurogroup in December 2012 but the euro area member states also made a series of further, more specific commitments which are now modeled explicitly in the DSA.

- A reduced interest rate on the Greek loan facility from a margin of 150 basis points to 50bps over Euribor.
- Cancellation of a 10 bps administrative fee on EFSF loans .
- Deferral (and capitalization) of interest payments on EFSF (excluding PSI related loans) between 2013 and 2022 and on PSI related loans (roughly 34 billion) between 2015 and 2024.
- Transfer of profits on the ECB's SMP portfolio back to Greece (a projected flow of 9.3 billion through 2020).
- An additional 4 percent of GDP in debt reduction measures after 2014, conditional on Greece achieving a primary surplus, to ensure Greece reaches a debt level of 124 percent of GDP in 2020.

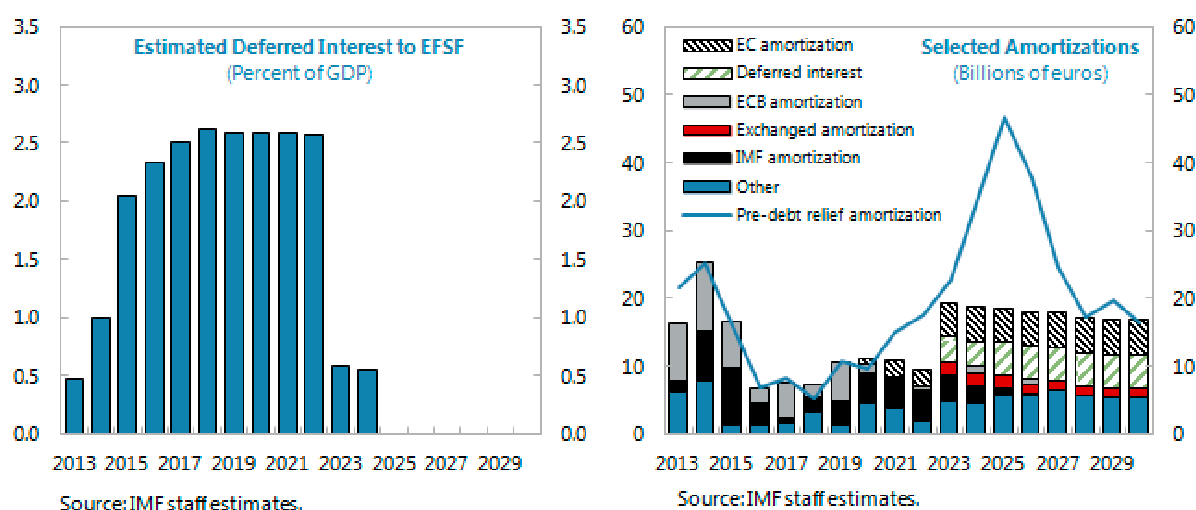
Additionally, there is a key commitment that is not modeled in the DSA but remains critical to the assessment of sustainability in Greece. Euro area member states promised further relief to ensure Greece reaches a debt level substantially below 110 percent of GDP in 2022, once Greece reaches an annual primary surplus. Without such relief, the baseline debt projection currently reaches 113 percent of GDP in 2022 and is in the mid 80s by 2030.

4. The DSA assumes no market access over the life of the program. Given Greece's high debt levels (largely to official sector creditors) and the significant haircut to private sector debt implemented in March 2012, it is assumed that market access at affordable rates will not be feasible until late in the decade and even then at modest amounts. Full reliance on market financing begins after 2020 with initially short maturities of 3 years. For modeling purposes, it is assumed that the terms of borrowing are directly linked to the level of Greece's debt. At a debt level of roughly 115 percent of GDP, Greece is assumed to be able to borrow at a spreads of 450-600 bps depending on the maturity with spreads rising by 10 bps for every 1 percentage point increase in debt.

B. Public Sector DSA

5. Baseline projections show that debt would decline to 124 percent of GDP in 2020 and to 113 percent by 2022 (Table A1 and Figure A1). Debt is projected to peak at above 175 percent of GDP in the near term. Steady reductions in the debt ratio begin in 2015, and the debt ratio is projected to drop below 100 percent of GDP in 2026. The downward revisions at the time of the first and second review—growth, speed of primary adjustment, and privatization—resulted in a higher debt path than envisioned at the time of the approval of the EFF arrangement, when 2020 debt was expected to reach 120 percent of GDP. However, once Greece reaches an annual primary surplus, the additional relief promised by the European member states to reduce debt substantially below 110 percent by 2022 will significantly improve debt dynamics.

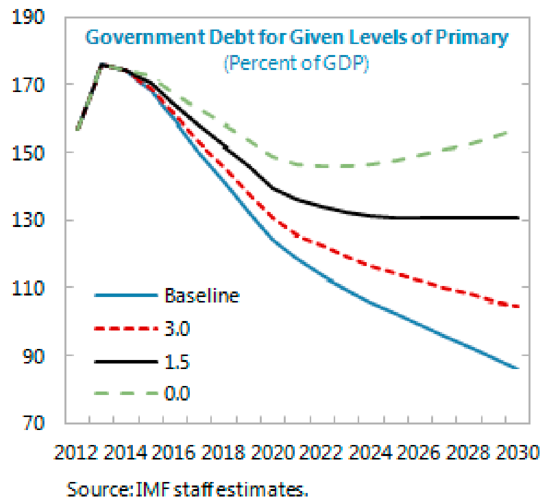
6. Despite the high level, the structure of Greece's debt mitigates risks: near term financing needs have been substantially reduced via interest deferral on loans from European member states; maturity extensions by the EFSF have considerably reduced the amount of debt that matures in the immediate period after 2020 (facilitating the return to market access); and almost 80 percent of all debt is now to the official sector, substantially reducing rollover risks.



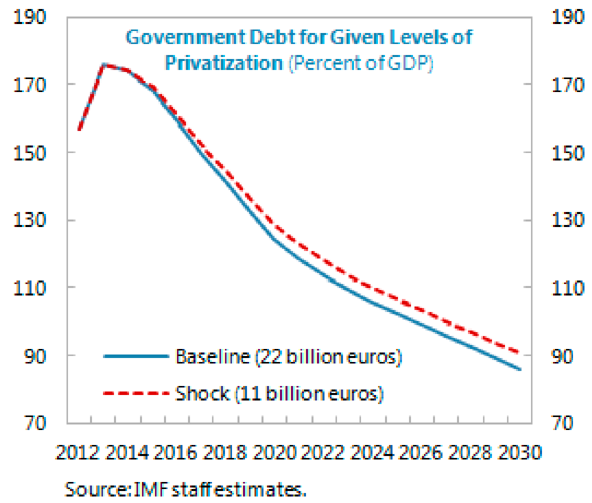
7. Nonetheless, stress tests suggest that risks to the debt path remain considerable, particularly from lower primary surpluses and weaker nominal growth (Table A2 and Figure A2).

- **Policies**. If fiscal adjustment ceased when the primary balance reaches the 1.5 percent of GDP surplus expected next year, debt to GDP would flatten out just below 130 percent of GDP. A lower primary balance would put debt on an ever increasing trajectory. The cost of a lower primary effort for the debt path is greater in the post 2020 period when Greece is expected to meet its financing needs in the market rather than at concessional official sector interest rates. Meanwhile, the debt path is less sensitive to lower privatization proceeds. Indeed, if total receipts are only half of projected levels at 11 billion, debt to GDP in 2020 and 2030 is only 4 percentage points higher in 2020 and it does not widen further over time. This

reflects the now relatively conservative assumptions that privatization will generate roughly 1 percent of GDP per year.

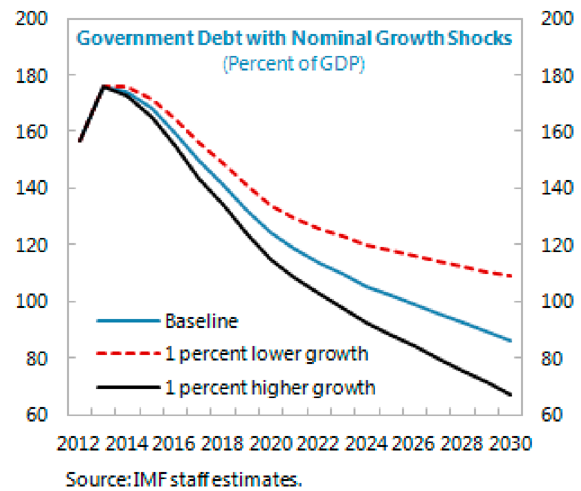


Source: IMF staff estimates.



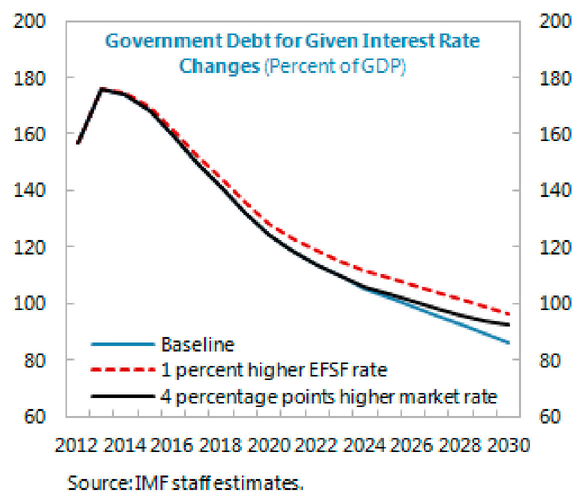
Source: IMF staff estimates.

- **Nominal Growth**. The debt ratio is also sensitive to lower growth in nominal output. Beyond the indirect challenge that weaker growth would have on the primary effort, a sustained lower rate of growth by 1 percentage point increases public debt in 2020 by 10 percentage points of GDP.



Source: IMF staff estimates.

- **Financing Assumptions.** The sensitivity of the debt path to changes in interest rates could arise either from a change in the rate charged by the EFSF or, after 2020, by the cost of new market borrowing. In practice, the risks from this channel over the next decade appear modest as no market access is assumed and the cost of borrowing from the EFSF/ESM is a function of the latter's own borrowing costs (which is the weighted cost of borrowing of the Euro area, largely anchored by low interest economies).

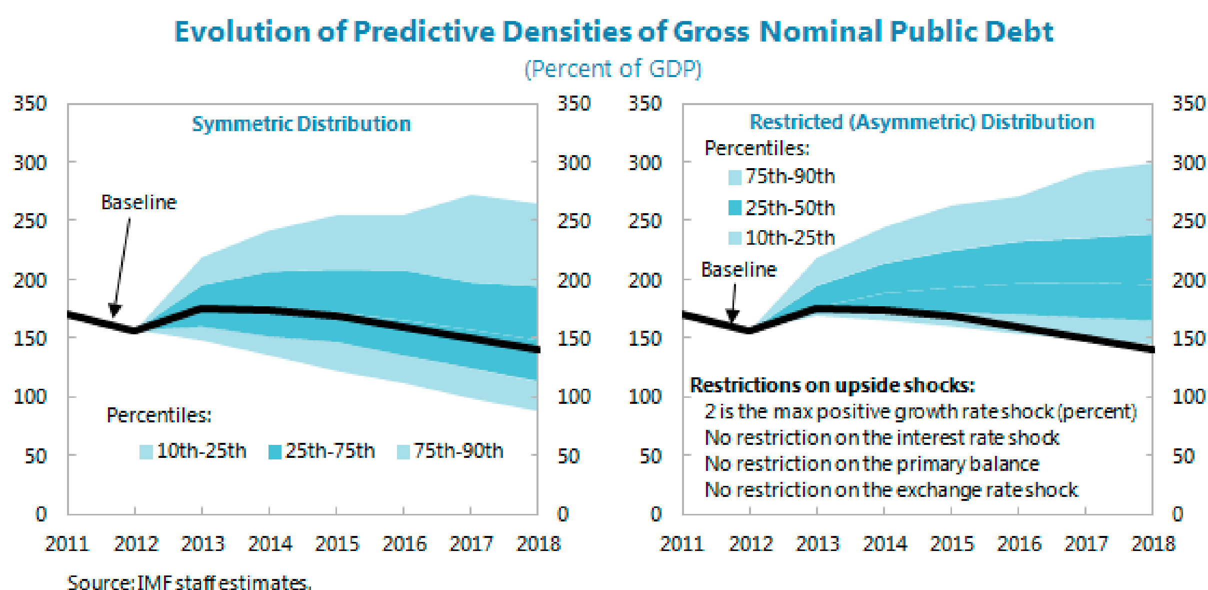


Source: IMF staff estimates.

- **Joint Shocks.** The debt trajectory remains extremely sensitive to program delays. This "tailored downside" scenario assumes that a recovery in confidence and investment is delayed, structural reforms take longer to implement, and the economy continues to adjust

through recessionary channels—resulting in a lower output path than in the baseline. On the policy side, primary adjustment is assumed to take two years longer to reach the end target, and privatization delivers €10 billion less than targeted. In this scenario, debt would peak near 180 percent of GDP but would remain higher for longer, falling to around 147 percent by 2020, roughly 23 percentage points above the baseline. The underlying point is that, with debt levels remaining so high in this scenario, even small further shocks could produce unsustainable dynamics (See Table A2).

- **Further sensitivity tests.** The fan charts below illustrate the impact on the debt-to-GDP ratio of a large number of shocks to key macroeconomic variables, including (i) real GDP growth; (ii) the effective real interest rate on government debt; (iii) the variation in the real exchange rate; and (iv) the primary balance in percent of GDP. Country-specific historical data are used to generate the sample means and the variance-covariance matrix that define the joint normal distribution for these variables. By construction, a joint normal distribution of shocks would generate a broadly symmetrical fan chart, with upside risks matching downside risks (left panel). To better reflect the likely asymmetry of risks to the Greek debt profile and to give an indication of sensitivity of the debt path to individual macroeconomic variables, an asymmetric fan chart is also presented in which positive growth is constrained to be no greater than 2 percent in any given year.



C. External Sector DSA

8. External debt is expected to decline gradually (Table A3 and Figure A3). Gross debt, currently at 233 percent of GDP, would peak at around 245 percent of GDP in 2013 and then decline to about 155 percent in 2020. Net debt would fall from about 130 percent of GDP in 2012 to around 75 percent in 2020. Several factors lie behind the projected improvement in external debt. Most importantly, the current account is projected to improve quickly as competitiveness is restored and Greece continues to rely on official loans at relatively low interest

rates. The agreed reduction in the GLF interest rate and EFSF fees, and the return of SMP profits will also contribute to the sharp improvement in the current account. FDI inflows related to privatization also remain an important non-debt-creating source of financing.

9. **Macroeconomic shocks and policy slippages could result in adverse dynamics**.

- **Larger current account deficits.** Slow competitiveness improvements resulting from delayed structural reforms or a terms-of-trade shock could affect exports negatively and worsen the baseline current account projections by around 1.5 percent of GDP. The debt ratio would remain on a downward path, but would be 10 percentage points higher than in the baseline by 2020.

- **Interest rate shock.** The effects of higher Greek sovereign spreads would be dampened by the almost exclusive reliance of Greece on official financing. Changes in the risk free rate would nevertheless impact Greece through the cost of official financing. A 100 bps shock to Bund rates would worsen the income account and result in a 2020 debt ratio 8 percentage points above the baseline.

- **Slippages in privatization.** Privatization delays that result in only about half of the projected privatization proceeds over the projection period would affect external debt dynamics by reducing non-debt-creating flows. The impact on the debt path would be modest since baseline privatization related inflows are small relative to the overall financial account balance. The debt ratio in 2020 would be around 3 percentage points higher than in the baseline.

10. **Debt dynamics would be significantly worse under a combined shock involving lagged program implementation, weak competitiveness, and higher interest rates**. The shocks above would likely be individually manageable, but would have a more substantial impact in an adverse scenario where they occur simultaneously. The net debt ratio would reach about 100 percent of GDP in 2020, 23 percent of GDP higher than in the baseline.

Table A1. Greece: Public Debt Sustainability Framework: Baseline, 2007–30

(Percent of GDP, unless otherwise indicated)

	Actual					Projections							Debt-stabilizing primary balance 9/
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2020	2025	2030	
Baseline: public sector debt 1/	112.9	129.7	148.3	170.3	156.9	175.8	174.2	168.2	159.5	124.2	102.2	86.2	1.1
Of which: foreign-currency denominated	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Change in public sector debt	5.7	16.8	18.6	22.0	-13.5	18.9	-1.6	-6.0	-8.7	-8.1	-3.4	-3.1	
Identified debt-creating flows (4+7+12)	5.5	16.5	16.6	20.1	65.3	17.7	0.2	-7.6	-8.0	-8.6	-3.6	-2.9	
Primary deficit	4.8	10.5	4.9	2.4	1.3	0.0	-1.5	-3.0	-4.5	-4.3	-4.0	-4.0	
Revenue and grants	40.7	38.3	40.6	42.4	44.1	44.3	43.7	42.7	42.0	42.0	42.0	42.0	
Primary (noninterest) expenditure	45.5	48.8	45.5	44.8	45.4	44.3	42.2	39.7	37.5	37.7	38.0	38.0	
Automatic debt dynamics 2/	0.5	6.2	11.2	16.9	18.0	12.9	4.4	-0.6	-2.6	-1.2	0.1	0.9	
Contribution from interest rate/growth differential 3/	0.5	6.2	11.2	16.9	18.0	12.9	4.4	-0.6	-2.6	-1.2	0.1	0.9	
Of which contribution from real interest rate	0.3	2.6	4.5	5.7	6.3	5.9	5.4	4.3	3.4	2.2	2.0	2.4	
Of which contribution from real GDP growth	0.2	3.6	6.7	11.2	11.7	7.0	-1.0	-5.0	-6.0	-3.3	-1.9	-1.6	
Contribution from exchange rate depreciation 4/	0.0	0.0	0.0	0.0	0.0	...	...	...	...	...	...	...	
Other identified debt-creating flows	0.2	-0.1	0.6	0.8	46.0	4.8	-2.6	-4.0	-0.9	-3.2	0.3	0.2	
Privatization receipts (negative)	0.0	0.0	0.0	-0.5	-0.1	-1.4	-1.0	-1.1	-1.1	-1.8	0.0	0.0	
Recognition of implicit or contingent liabilities	0.2	-0.1	0.6	1.3	7.1	2.3	-1.6	-3.0	0.2	-1.4	0.3	0.2	
Other (Includes bank recap, PSI sweetener)	0.0	0.0	0.0	0.0	39.0	3.9	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including debt relief (2-3) 5/	0.1	0.3	2.0	1.9	-78.7	1.2	-1.8	1.7	-0.7	0.5	0.3	-0.2	
Public sector debt-to-revenue ratio	277.6	338.2	365.2	401.9	355.6	397.0	399.0	393.8	379.9	295.7	243.5	205.3	
Gross financing need 6/	9.9	15.6	19.6	27.5	18.9	21.1	25.1	18.6	11.7	8.7	5.4	4.0	
Billions of U.S. dollars	34.1	50.2	57.9	79.7	47.1	51.4	60.8	46.3	30.2	26.8	20.0	18.2	
Key macroeconomic and fiscal assumptions underlying baseline													
Real GDP growth (percent)	-0.2	-3.1	-4.9	-7.1	-6.4	-4.2	0.6	2.9	3.7	2.6	1.9	1.8	
Average nominal interest rate on public debt (percent) 7/	5.0	4.5	4.4	4.6	2.7	2.5	2.7	3.0	3.2	3.5	4.1	4.9	
Average real interest rate (nominal rate minus change in GDP deflator, percent)	0.3	2.2	3.3	3.5	3.5	3.6	3.1	2.6	2.2	1.8	2.1	2.9	
Inflation rate (GDP deflator, percent)	4.7	2.3	1.1	1.0	-0.8	-1.1	-0.4	0.4	1.1	1.7	2.0	2.0	
Growth of real primary spending (deflated by GDP deflator, percent)	6.3	3.9	-11.3	-8.6	-5.1	-6.5	-4.2	-3.0	-2.1	2.6	1.9	1.8	

1/ General government gross debt. Only intra-government holdings are netted out.

2/ Derived as [(r - p(1+g) - g + ae(1+r)]/(1+g+p+gp)) times previous period debt ratio, with r = interest rate; p = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

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 ae(1+r).

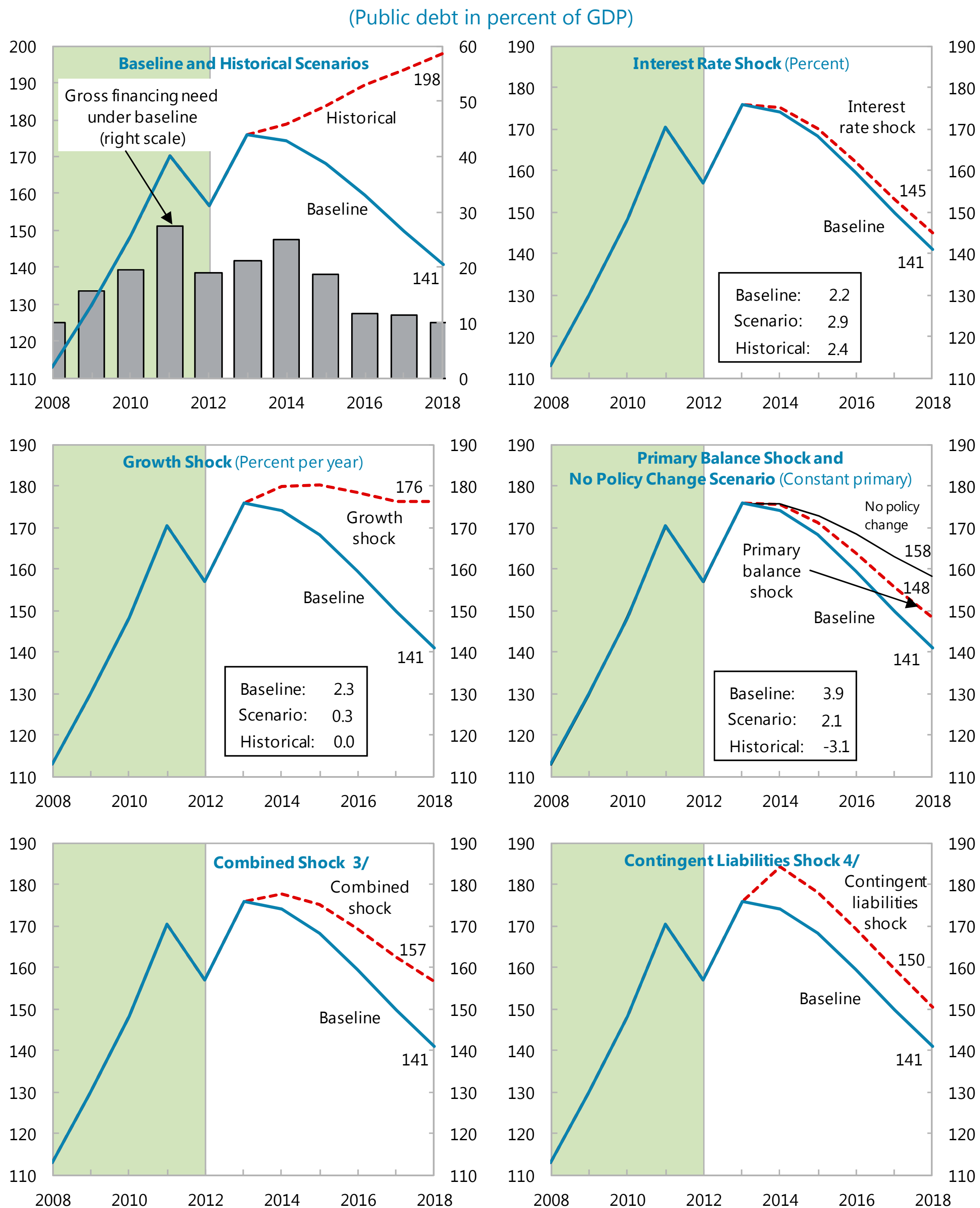
5/ For projections, this line includes exchange rate changes.

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

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

Figure A1. Greece: Public Debt Sustainability: Baseline Bound Tests, 2008–18 1/ 2/

(Public debt in percent of GDP)



Sources: IMF staff estimates.

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

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

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

4/ 10 percent of GDP shock to contingent liabilities occur in 2010.

Table A2. Greece: Public Sector Debt Sustainability Framework: Alternative Scenario, 2007–30

(Percent of GDP, unless otherwise indicated)

	Actual					Projections									Debt-stabilizing primary balance 9/
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2020	2025	2030	
Baseline: public sector debt 1/	112.9	129.7	148.3	170.3	156.9	180.5	182.1	181.7	176.4	169.7	161.6	147.2	126.0	111.3	1.4
Of which: foreign-currency denominated	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Change in public sector debt	5.7	16.8	18.6	22.0	-13.5	23.7	1.6	-0.5	-5.3	-6.7	-8.1	-6.6	-3.2	-2.8	
Identified debt-creating flows (4+7+12)	5.5	16.5	16.6	20.1	65.3	22.1	1.7	-6.3	-7.0	-9.9	-9.8	-9.2	-3.6	-2.6	
Primary deficit	4.8	10.5	4.9	2.4	1.3	0.0	-1.6	-2.0	-3.0	-3.5	-4.5	-4.3	-4.0	-4.0	
Revenue and grants	40.7	38.3	40.6	42.4	44.1	45.5	45.7	45.5	45.3	45.8	45.9	46.0	45.9	45.9	
Primary (noninterest) expenditure	45.5	48.8	45.5	44.8	45.4	45.5	44.1	43.5	42.3	42.3	41.4	41.8	41.9	41.9	
Automatic debt dynamics 2/	0.5	6.2	11.2	16.9	18.0	17.1	6.0	0.0	-3.0	-2.4	-2.1	-1.5	0.1	1.1	
Contribution from interest rate/growth differential 3/	0.5	6.2	11.2	16.9	18.0	17.1	6.0	0.0	-3.0	-2.4	-2.1	-1.5	0.1	1.1	
Of which contribution from real interest rate	0.3	2.6	4.5	5.7	6.3	10.0	7.1	5.2	3.5	3.5	3.3	2.4	2.5	3.1	
Of which contribution from real GDP growth	0.2	3.6	6.7	11.2	11.7	7.2	-1.1	-5.2	-6.5	-5.9	-5.3	-3.9	-2.4	-2.0	
Contribution from exchange rate depreciation 4/	0.0	0.0	0.0	0.0	0.0	...	...	...	...	...	...	...	...	...	
Other identified debt-creating flows	0.2	-0.1	0.6	0.8	46.0	5.0	-2.8	-4.3	-1.0	-4.0	-3.3	-3.5	0.3	0.3	
Privatization receipts (negative)	0.0	0.0	0.0	-0.5	-0.1	-1.4	-1.1	-1.1	-1.2	-1.2	-1.6	-1.9	0.0	0.0	
Recognition of implicit or contingent liabilities	0.2	-0.1	0.6	1.3	7.1	2.3	-1.7	-3.2	0.2	-2.8	-1.6	-1.5	0.3	0.3	
Other (Includes bank recap, PSI sweetener)	0.0	0.0	0.0	0.0	39.0	4.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including debt relief (2-3) 5/	0.1	0.3	2.0	1.9	-78.7	2.7	-0.1	5.8	1.7	3.2	1.7	2.6	0.4	-0.2	
Public sector debt-to-revenue ratio	277.6	338.2	365.2	401.9	355.6	396.9	399.0	399.0	389.3	370.9	352.2	320.0	274.4	242.5	
Gross financing need 6/	9.9	15.6	19.6	27.5	18.9	21.7	26.2	19.8	12.6	12.4	10.9	9.6	5.9	4.4	
Billions of U.S. dollars	34.1	50.2	57.9	79.7	47.1	51.4	60.8	46.3	30.2	30.8	27.9	26.8	20.0	18.2	
Key macroeconomic and fiscal assumptions underlying baseline															
Real GDP growth (percent)	-0.2	-3.1	-4.9	-7.1	-6.4	-4.2	0.6	2.9	3.7	3.5	3.3	2.6	1.9	1.8	
Average nominal interest rate on public debt (percent) 7/	5.0	4.5	4.4	4.6	2.7	2.5	2.7	3.0	3.2	3.4	3.5	3.5	4.1	4.9	
Average real interest rate (nominal rate minus change in GDP deflator, percent)	0.3	2.2	3.3	3.5	3.5	6.0	3.9	2.9	2.1	2.1	2.1	1.7	2.0	2.9	
Inflation rate (GDP deflator, percent)	4.7	2.3	1.1	1.0	-0.8	-3.5	-1.2	0.1	1.2	1.2	1.5	1.8	2.1	2.1	
Growth of real primary spending (deflated by GDP deflator, percent)	6.3	3.9	-11.3	-8.6	-5.1	-4.2	-3.4	0.1	-0.5	2.5	0.9	2.6	1.8	1.7	

1/ General government gross debt. Only intra-government holdings are netted out.

2/ Derived as [(r - p(1+g) - g + ae(1+r)]/(1+g+p+gp)) times previous period debt ratio, with r = interest rate; p = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

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 ae(1+r).

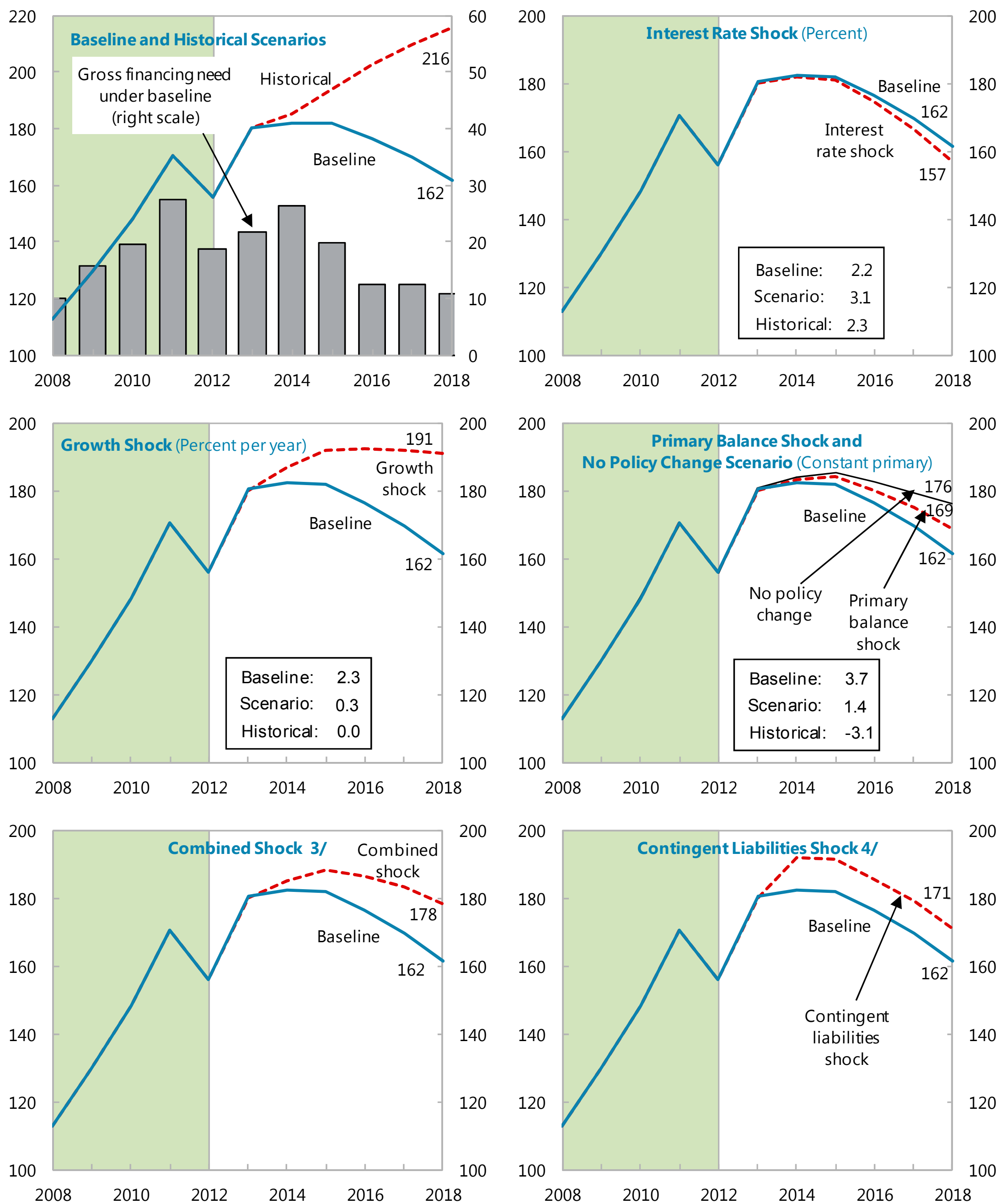
5/ For projections, this line includes exchange rate changes.

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

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

Figure A2. Greece: Public Debt Sustainability: Alternative Scenario, Bound Tests, 2008–18 1/ 2/

(Public debt in percent of GDP)



Sources: IMF staff estimates.

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

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

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

4/ 10 percent of GDP shock to contingent liabilities occur in 2010.

Table A3. Greece: External Debt Sustainability Framework, 2007–21

(Percent of GDP, unless otherwise indicated)

	Actual						Projections									Debt-stabilizing non-interest current account 7/
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	
Baseline: external debt	70.5	76.8	90.5	134.4	148.3	130.6	135.0	132.0	124.5	115.4	105.9	95.8	86.1	77.0	70.7	-5.1
Change in external debt	6.7	6.4	13.7	43.9	13.9	-17.7	4.4	-3.0	-7.4	-9.1	-9.5	-10.1	-9.6	-9.2	-6.3	
Identified external debt-creating flows (4+8+9)	6.1	-1.9	9.2	12.6	16.7	12.2	4.9	-3.4	-8.2	-10.0	-10.1	-8.7	-8.5	-8.3	-7.0	
Current account deficit, excluding interest payments	9.8	9.1	6.0	4.9	3.7	-0.6	-3.8	-4.9	-5.5	-5.9	-6.3	-6.5	-6.6	-6.4	-6.0	
Deficit in balance of goods and services	11.2	11.5	7.8	6.8	6.0	2.5	0.2	-1.4	-2.4	-3.0	-3.5	-3.9	-4.3	-4.6	-4.5	
Exports	21.9	23.1	18.3	20.5	23.4	25.4	27.4	28.3	28.6	28.7	28.9	29.1	29.4	29.6	29.6	
Imports	33.1	34.6	26.2	27.3	29.5	27.9	27.6	26.9	26.2	25.7	25.4	25.2	25.1	25.0	25.2	
Net non-debt creating capital inflows (negative)	-2.4	-0.3	0.0	1.4	0.3	-1.1	-1.2	-1.0	-1.3	-1.5	-1.6	-2.0	-2.1	-2.3	-2.0	
Automatic debt dynamics 1/	-1.3	-10.7	3.2	6.3	12.7	13.9	9.9	2.5	-1.3	-2.6	-2.2	-0.3	0.1	0.4	0.9	
Contribution from nominal interest rate	2.6	2.5	2.5	2.6	3.9	2.6	2.6	2.8	3.0	3.1	3.2	3.0	2.8	2.6	2.4	
Contribution from real GDP growth	-1.8	-10.0	2.4	4.7	10.2	10.2	5.8	-0.8	-3.8	-4.4	-3.9	-3.3	-2.8	-2.2	-1.5	
Contribution from price and exchange rate changes 2/	-2.0	-3.2	-1.7	-1.0	-1.4	1.1	1.5	0.5	-0.6	-1.3	-1.5	-1.5	-1.6	-1.5	-1.4	
Residual, incl. change in gross foreign assets (2-3) 3/	0.6	8.2	4.5	31.2	-2.8	-29.9	-0.5	0.4	0.7	0.9	0.6	-1.4	-1.1	-0.9	0.7	
External debt-to-exports ratio (in percent)	321.8	332.6	494.5	655.3	633.2	515.2	492.3	466.2	435.3	402.6	366.8	328.6	293.3	259.9	238.6	
Gross external financing need (billions of euros) 4/	93.3	122.9	194.4	216.2	239.0	205.6	178.8	158.5	139.2	119.5	105.7	95.6	88.1	78.4	72.1	
Percent of GDP	41.9	52.7	84.1	97.3	114.6	106.1	97.5	86.2	73.2	60.0	50.6	43.6	38.4	32.7	28.9	
Scenario with key variables at their historical averages 5/	...	...	...	...	...	...	131.1	131.1	131.3	131.6	131.6	131.3	131.3	131.3	132.3	-6.7
Key macroeconomic assumptions underlying baseline																
Real GDP growth (percent)	3.0	17.5	-3.1	-4.9	-7.1	-6.4	-4.2	0.6	2.9	3.7	3.5	3.3	3.0	2.6	2.0	
GDP deflator (change in percent)	3.3	4.7	2.3	1.1	1.0	-0.8	-1.1	-0.4	0.4	1.1	1.3	1.4	1.7	1.7	1.9	
Nominal external interest rate (percent) 6/	4.3	4.4	3.3	2.8	2.7	1.6	1.9	2.1	2.4	2.6	2.9	3.0	3.1	3.1	3.3	
Growth of exports (euro terms, percent)	9.6	10.4	-21.5	7.7	7.2	0.6	2.4	3.5	4.5	5.1	5.6	5.8	5.6	5.3	4.0	
Growth of imports (euro terms, percent)	14.3	9.6	-25.2	0.3	1.4	-12.1	-6.4	-2.3	0.7	2.9	3.7	3.9	4.2	4.1	4.6	
Current account balance	-14.6	-14.9	-11.2	-10.1	-9.9	-3.4	-0.8	-0.2	0.1	0.2	0.5	0.9	1.2	1.4	1.1	
Net non-debt creating capital inflows	2.4	0.3	0.0	-1.4	-0.3	1.1	1.2	1.0	1.3	1.5	1.6	2.0	2.1	2.3	2.0	

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 euro 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.

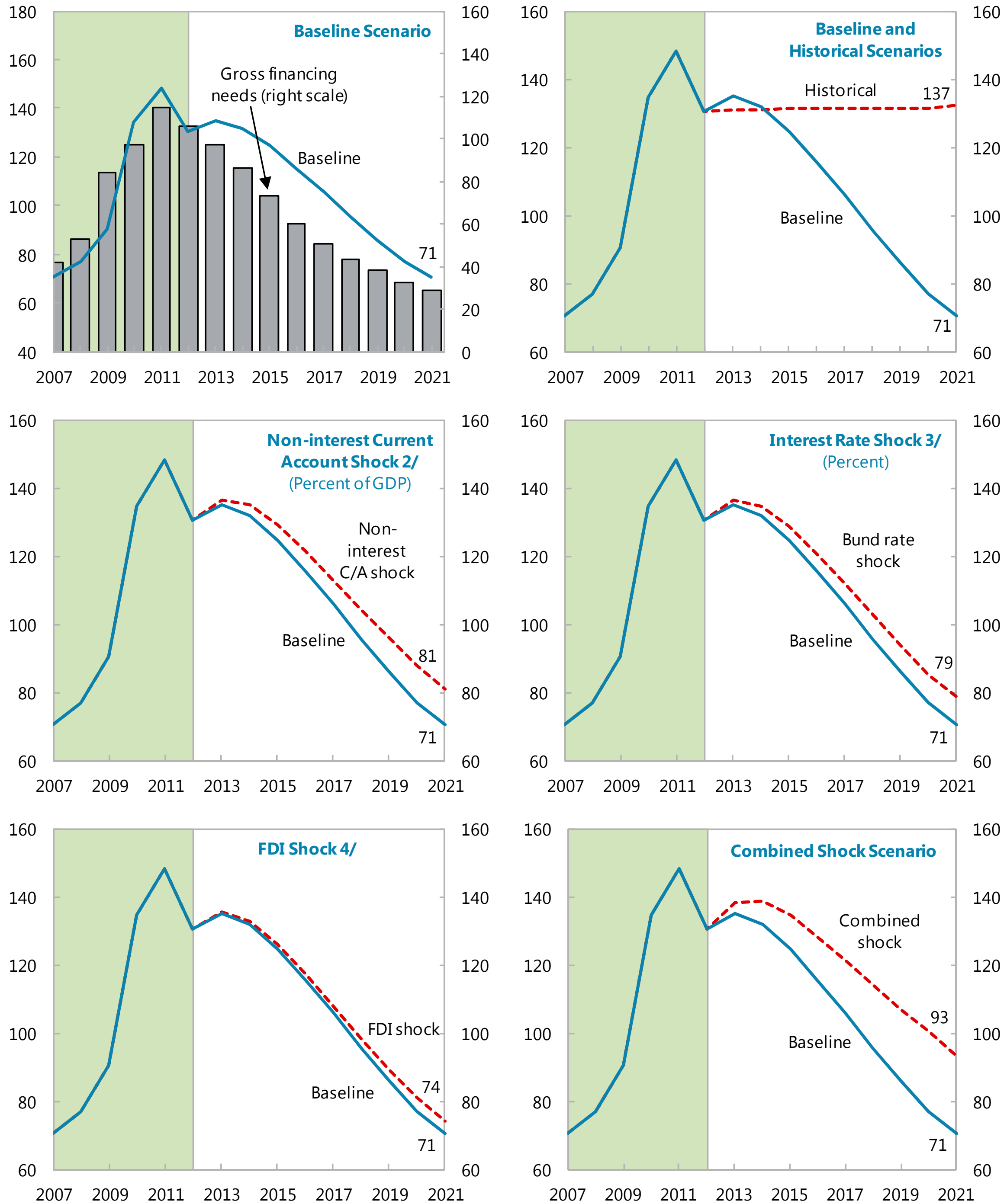
5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

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.

Table A3. Greece: External Debt Sustainability: Baseline Bound Tests, 2007–21

(Net external debt in percent of GDP)



Sources: Greek authorities; and IMF staff estimates.
1/ Shaded areas represent actual/preliminary data. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year (pre-crisis) historical average for the variable is also shown.
2/ Current account balance lower by 1.5 percent of GDP due to delayed program implementation and terms-of-trade shock.
3/ Impact of100bps shock to Bund rates on Greece's official interest rates and income balance.
4/ Decline in FDI due to reduced privatization receipts.

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International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2013 Article IV Consultation, Completes Third Review of the Extended Fund Facility (EFF), and Discusses Ex Post Evaluation of 2010 Stand-By Arrangement (SBA) with Greece

On May 31, 2013, the Executive Board of the International Monetary Fund (IMF) concluded the 2013 Article IV Consultation with Greece[1] and completed the Third Review of the country's performance under an economic program supported by an Extended Fund Facility (EFF) arrangement (see Press Release No. 13/195). The Executive Board also discussed the Ex Post Evaluation of Exceptional Access Under the 2010 Stand-By Arrangement for Greece[2].

Background

Since the last Article IV consultation in mid-2009, Greece has been in a deep economic crisis. This crisis followed from the buildup by 2009 of extraordinary fiscal and external imbalances—the result of fiscal expansion after euro accession, financed by low-cost external borrowing. The

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

[2] The requirement for ex post evaluations (EPEs) was agreed by the IMF Executive Board in September 2002 for members using exceptional access in capital account crises, and extended to any use of exceptional access in February 2003. The aim of an EPE is to determine whether justifications presented at the outset of the individual program were consistent with IMF policies and to review performance under the program. To do this, EPEs seek to provide a critical and frank consideration of two key questions: (i) were the macroeconomic strategy, program design, and financing appropriate to address the challenges the member faced in line with IMF policy, including exceptional access policy?; and (ii) did outcomes under the program meet program objectives?

re-pricing of risk associated with the global financial crisis, large government deficit and debt data revisions, and the deterioration in the fiscal balance triggered the crisis in Greece. The government lost access to capital markets in 2010, and an ambitious multi-year adjustment program was put in place with the support of the European Commission, European Central Bank, and IMF. The program aimed to make the fiscal position sustainable through significant front-loaded consolidation, and to improve competitiveness through comprehensive structural reforms, while safeguarding the financial system. Unprecedented international support was provided—first through a 3-year, €110-billion financing package jointly with euro area members under a Stand-By Arrangement in May 2010, and then through a €173-billion package jointly with euro area members under the Extended Fund Facility in March 2012 (of which about €136 billion was financing over and above the undisbursed portion from the first package).

Important progress has been achieved in stabilizing the Greek economy. The cyclically-adjusted primary balance improved cumulatively by about 15 percent of GDP during 2010–12, and the headline primary deficit is expected to be eliminated in 2013. Far-reaching labor market reforms put in place in early 2012 have contributed to wage corrections and a significant reduction of the competitiveness gap. The external current account deficit improved from about 15 percent of GDP in 2008 to 3.4 percent in 2012. Financial stability has been preserved, including through a large recapitalization of the system. Greece remained in the euro area, its key objective, and associated spillovers that may have had a severe effect on a fragile global economy were relatively well-contained.

But Greece has adjusted mainly through recession, rather than through productivity-enhancing reforms. Several adverse and mutually reinforcing factors contributed to worsening investor sentiment, large deposit outflows, and underperformance of growth in 2011–12; bouts of political turmoil left doubts about domestic support for the program; structural reforms fell well short of expectations; and concerns about the external financing strategy, debt sustainability and Greece’s future in the euro area undermined confidence. These factors amplified the negative output effect of the front-loaded fiscal consolidation and deepened the recession. As a result, Greece experienced one of the deepest peacetime recessions to afflict an advanced economy. Output contracted by 22 percent during 2008–12, unemployment has increased to about 27 percent, and youth unemployment now exceeds 60 percent.

The underperformance of growth made restructuring of the high level of sovereign debt inevitable. By involving both private and official creditors in such a restructuring in 2012, the debt burden was reduced markedly. But public debt still stood at 157 percent of GDP at end-2012. Thus, the commitment by Greece’s European partners to provide further conditional relief, if needed, to bring the projected debt-to-GDP ratio to 124 percent by 2020 and to substantially below 110 percent of GDP by 2022, is critical for ensuring sustainability.

Greece’s recovery is expected to be gradual. Although fiscal adjustment will remain a drag on growth, the lion’s share of structural fiscal adjustment is now behind Greece, and steadfast program implementation can help to turn around expectations, improve liquidity conditions, and

lead to a recovery of investment and net exports. On that basis, growth is projected to contract by 4.2 percent in 2013, but to expand by 0.6 percent in 2014.

Executive Board Assessment

The Executive Directors commended the Greek authorities for the progress thus far in addressing deep-seated vulnerabilities amidst a sharp and socially painful recession. Fiscal adjustment has been exceptional by any international comparison, wage adjustment has facilitated a significant decline in the competitiveness gap, and financial sector stability has been safeguarded. Directors noted nevertheless that the recovery path remains very difficult, on the back of still high levels of unemployment, public debt, and non-performing loans. They urged the authorities to redouble their reform efforts to improve tax and public administration and enhance productivity, noting that these reforms would promote the efficient allocation of resources and boost output, facilitate remaining fiscal adjustment, and make the burden of adjustment more equitable.

Directors noted that Greece is well underway to complete its needed fiscal adjustment. They underscored that a priority now is to tackle tax evasion by reforming the revenue administration to improve collection efficiency and enhance its operational independence, and if necessary, consideration could be given to creating an independent tax agency. Directors encouraged the authorities to save any gains from better tax collection, continue to broaden the tax base, and press ahead with public administration reform, particularly the targeted reduction in staff and replacement of under-performing workers with better qualified staff.

Directors stressed that a critical mass of structural reforms is necessary to raise productivity, lower consumer prices, boost investment, and create much-needed employment opportunities. They observed that progress on labor market reforms has increased wage flexibility. Directors encouraged further steps to facilitate price adjustments commensurate with wage declines through the liberalization of regulated professions and other product and service markets, and to improve the business environment more broadly.

Directors welcomed a significant achievement in bank recapitalization and resolution. Noting that this process will leave the banking system largely under state ownership, they called on the authorities to reinforce the governance framework in the financial sector and, as soon as conditions permit, to re-privatize banks that are under state control. Further efforts are needed to repair balance sheets and restore credit growth, and in this regard, Directors looked forward to the completion of the reform of the insolvency and non-performing loan resolution frameworks.

Directors expressed concern that public debt is projected to remain high well into the next decade and concurred with the assessment that macroeconomic risks are on the downside. In this context, Directors welcomed the assurances from Greece’s European partners that they will consider further measures and assistance, if necessary, to reduce debt to substantially below 110 percent of GDP by 2022, conditional on Greece’s full implementation of all commitments

contained in the program. Directors also welcomed the continued commitment of Greece's European partners to provide adequate support to Greece during the life of the program and beyond until the country has regained market access, provided that Greece fully complies with the requirements and objectives of the adjustment program. Most Directors considered that, should debt sustainability concerns weigh on investor sentiment, even with the framework for debt relief now in place, and strong program implementation by the Greek authorities notwithstanding, consideration of a more front-loaded approach to debt relief would be needed. The macroeconomic and debt outlook must remain under close review.

Directors welcomed the candid assessment of the ex post evaluation of exceptional access under the 2010 Stand-By Arrangement (SBA), and agreed that it provides a good basis for all parties to draw valuable lessons. Directors emphasized in particular the importance of adequate financing, strong program ownership, and implementation capacity in the design of programs. They noted the finding that the SBA-supported program had made overly optimistic assumptions, including about growth, although some considered that to be the case only with the benefit of hindsight. Directors saw merit in better risk-sharing arrangements within the euro area, and noted the benefits of a timely restructuring of sovereign debt with the necessary safeguards to contain spillover risks and moral hazard. Mindful of the need to ensure equal treatment across the Fund's membership, Directors generally saw scope for tailoring the Fund's lending policies to the particular circumstances of monetary unions, including appropriate modalities for collaboration with the union-level institutions.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case. The staff report(use the free Adobe Acrobat Reader to view this pdf file) for the 2013 Article IV Consultation with Greece is also available.

Greece: Selected Economic Indicators, 2009–13

	2009	2010	2011	2012		2013
				Prog.	Est.	Proj.
	(Percentage change, unless otherwise indicated)					
Domestic economy						
Real GDP	-3.1	-4.9	-7.1	-6.0	-6.4	-4.2
Output gap (percent of pot. output)	7.3	3.3	-2.6	-7.3	-7.7	-10.6
Total domestic demand	-5.5	-7.0	-8.7	-8.7	-10.4	-5.6
Private consumption	-1.6	-6.2	-7.7	-7.7	-9.1	-6.9
Public consumption	4.9	-8.7	-5.2	-6.2	-4.2	-4.0
Gross fixed capital formation	-13.7	-15.0	-19.6	-14.4	-19.2	-4.0
Change in stocks (contribution)	-1.2	0.7	-0.4	0.4	0.0	0.4
Foreign balance (contribution)	3.0	3.0	2.4	3.3	3.7	2.6
Exports of goods and services	-19.4	5.2	0.3	-1.2	-2.4	3.0
Imports of goods and services	-20.2	-6.2	-7.3	-11.5	-13.8	-6.4
Unemployment rate (percent) 1/	9.4	12.5	17.5	24.4	24.2	27.0
Employment 1/	-1.0	-2.7	-6.6	-9.2	-8.2	-3.7
Unit labor costs	4.2	-1.1	-3.9	-8.1	-6.1	-6.5
Consumer prices (national definition), period avg.	1.2	4.7	3.3	1.2	1.5	-0.8
Consumer prices (HICP), period average	1.3	4.7	3.1	...	1.0	...
Core prices, period average 2/	2.3	2.6	1.1	...	-0.3	...
GDP deflator	2.3	1.1	1.0	-0.5	-0.8	-1.1
	(Percent of GDP, unless otherwise indicated)					
Balance of payments						
Current account	-11.2	-10.1	-9.9	-4.2	-3.4	-0.8
Structural current account balance	-7.0	-8.3	-10.9	...	-5.4	-4.9
Trade balance	-7.8	-6.8	-6.0	-2.5	-2.5	-0.2
Export of goods and services	18.3	20.5	23.4	25.3	25.4	27.4
Imports of goods and services	-26.2	-27.3	-29.5	-27.8	-27.9	-27.6
Total transfers	0.6	0.1	0.3	0.3	0.7	1.8
Net income receipts	-3.9	-3.5	-4.1	-2.0	-1.6	-2.5
Net international investment position	-86.4	-98.4	-86.1	-94.2	-114.1	-118.9
Public finances (general government)						
Total revenues	38.3	40.6	42.4	43.6	44.1	44.3
Total expenditures	54.0	51.4	52.0	50.3	50.4	48.4
Primary expenditures	48.8	45.5	44.8	45.1	45.4	44.3
Overall balance	-15.6	-10.8	-9.6	-6.7	-6.3	-4.1
Primary balance	-10.5	-4.9	-2.4	-1.5	-1.3	0.0
Cyclically-adjusted primary balance	-13.0	-6.1	-1.3	...	2.2	5.0
Gross debt	130	148	170	158	157	176
Interest rates and credit						
Lending interest rate (percent)3/	5.1	6.1	6.8	...	5.8	6.4
Private credit growth (percent change) 4/	4.2	0.0	-3.1	-7.2	-4.0	-6.5
Exchange rates, end-period (percent change) 3/						
Nominal effective exchange rate	0.4	-3.7	0.0	...	-0.5	0.1
Real effective exchange rate (CPI-based)	1.7	-1.2	-0.7	...	-1.9	-2.1
Real effective exchange rate (man. ULC-based)	1.1	0.8	-6.1	...	-8.4	-8.4
Memorandum items:						
Nominal GDP (billions of euros)	231	222	209	195	194	183
Nominal GDP (percent change)	-0.9	-3.9	-6.1	-6.5	-7.1	-5.3

1/ Based on Labor Force Survey.
2/ Core prices exclude energy, food, alcohol, and tobacco.
3/ Data for 2013 as of March.
4/ Includes securitized or otherwise transferred loans from 2010 onward.

Statement by Thanos Catsambas, Alternate Executive Director for Greece
May 28, 2013

THE THIRD REVIEW OF THE EFF-SUPPORTED PROGRAM

Economic Developments and Prospects. Greece is currently in its sixth year of recession: GDP declined by 6.4 percent in 2012 for a cumulative contraction of 22 percent between 2008 and 2012; it is forecast to decline further by 4.2 percent in 2013. The unemployment rate is close to 27 percent and youth unemployment now exceeds 60 percent. Inflation is anticipated to be steadily lower than the euro area average for both 2013 and 2014. The current-account deficit has declined from 11.2 percent of GDP in 2009 to 3.4 percent in 2012, and is expected to decline further to 0.8 percent in 2013.

These outcomes are the result of an unprecedented adjustment effort, which began strongly in 2010, continued at a slower pace in 2011, was bolstered with the PSI in early 2012, and was reinvigorated under the government of Prime Minister Samaras that has been in power since last June. Thanks to the determined efforts by the authorities, the economic outlook during the last review remained largely unchanged from the previous review, with continued prospects for a gradual return to growth in 2014, supported by inflation well below the euro area average and improved wage flexibility, both of which are helping to restore the competitiveness of the Greek economy.

Fiscal Policy and Management. Fiscal performance is on track to meet the program targets, and the government is committed to fully implement all agreed fiscal measures for 2013-14 that are not yet in place; recent legislation extended the collection of the real estate tax through 2013 via the Public Power Company to ensure an uninterrupted stream of good revenue performance. A very important step towards enhancing the revenue collection mechanism, which the authorities recognized as a weak link in the adjustment effort, was a major reform of the revenue administration to provide it with significantly more autonomy, powers and resources, and the adoption of more effective and enforceable installment schemes. The authorities share the staff views that improved tax collections and minimization of tax evasion and corruption are essential ingredients for a more balanced and fair distribution of adjustment, which would generally enhance the ownership of the adjustment program.

The Banking Sector. Most systemic banks completed the basic steps of the recapitalization process at the end of April; the subscription process is expected to be finalized in the coming weeks. The recapitalization included the purchase of branches of three Cypriot banks that had come under distress in recent months by one Greek bank. The funds provided by the Hellenic Financial Stability Fund should provide adequate capital, even under a significantly adverse scenario, and will thus ensure the safety and soundness of the banking system and its deposits. More generally, the authorities have undertaken to develop a comprehensive strategy for the banking sector following recapitalization by July 15, 2013; the strategy will address, *inter alia*, the issue of possible further mergers among the four systemic banks and

the timetable for disposing the shares held by the Hellenic Financial Stability Fund to the private sector.

Structural Reforms. With the macroeconomic adjustment under control, the authorities are turning their attention to deeper structural reforms, which have been under consideration since the beginning of the program, and which required rigorous analysis and extensive consultations with social partners. One important commitment that had lagged behind is well under way: the administrative reform to improve the quality of the public service and to strengthen accountability by streamlining its structures, removing positions, and reallocating staff. This major reform includes dismissals that are targeted at disciplinary cases and cases of demonstrated incapacity, absenteeism, and poor performance, or that result from closure or mergers of government entities. Other areas of continued structural reforms are (a) continued liberalization of product and service markets, including transport and retail trade, private education, fuel distribution; and (b) electricity sector reforms to ensure financial sustainability and promote competition and efficiency.

Safety Net. The government is committed to protect the most vulnerable segments of the population during these turbulent times. The government is making progress in strengthening the social safety net, including through targeted employment and training programs supported by the EU, pilot programs to extend unemployment benefits and provide minimum income support, a program to provide access to primary health care for the uninsured, and a scheme to reduce the financial burden on indebted low-income households which have been severely affected by the crisis.

In sum, this review succeeded in shifting the focus from further macroeconomic adjustment through recessionary channels to the prospect of viable growth through extensive structural reforms, which will help achieve an annual primary surplus at an early time. When this is realized, the authorities look forward to earlier commitments by Euro Area Member States to consider further initiatives and assistance, if necessary, for achieving an additional and credible reduction of the Greek debt-to-GDP ratio, which should help ensure the long-term sustainability of Greece's public debt.

THE 2013 ARTICLE IV CONSULTATION

Areas of Agreement. My authorities are grateful to the staff for the comprehensive and rigorous Article IV consultation report. They consider it a useful and important supplement to the program discussions. They also appreciate the analytical chapters in the Selected Issues paper, which they consider important contributions to the debate about the development model of Greece "the day after".

My authorities agree with most conclusions in the staff appraisal, and appreciate the emphasis on three major achievements accomplished by Greece: exceptional fiscal adjustment in a short period of time, fundamental changes in the labor market, and preservation of banking sector stability. Combined, progress in these areas has improved Greece's competitiveness and has contained the runaway increase in public debt. With the help of the Fund and its European partners, Greece has begun the process of (re)gaining

sustainability within the Euro zone and is now looking forward to reaching a sustainable growth path based on an economically viable model.

Some Amplification to Staff Conclusions. While the authorities agree with the thrust of the staff remarks and recognize that major challenges remain ahead, they wish to qualify some of the conclusions that are presented in the staff analysis regarding structural reforms.

First, as a matter of general principle, structural reforms are more difficult to implement than macroeconomic adjustment measures, not only because of political considerations but also due to severe capacity constraints. The latter, which should not be underestimated during the early phases of the program, are gradually being overcome thanks to massive technical assistance from Fund staff, the European Task Force, and several bilateral donors. As a result, progress under the coalition government that came to power one year ago has been steadfast: the Spring 2013 Update of the Euro Plus Monitor, produced by Berenberg Bank and the Lisbon Council, *placed Greece on the top spot of its Adjustment Progress Indicator*. In addition, Greece has been ranked as the country with *the highest responsiveness to OECD recommendations between 2010-12.*

Second, the authorities would qualify the characterization that "limited progress has been made in tackling Greece's notorious tax evasion" as follows: while tax compliance and collections remain a formidable challenge, in the past six months there are weekly reports about individuals who have been arrested for major tax evasion offenses. More generally, tax compliance is expected to be strengthened considerably with the January appointment of an independent General Secretary of public revenues, who, as noted earlier, was vested with more autonomy, power and resources to carry out effectively the tax collection process. However, resolution of tax offenses lies with the tax courts, which are beyond the reach of the executive branch, and the government has identified this as an area for further improvement. As staff acknowledges in the Article IV report (para. 33), the authorities, while mindful of the huge task of reforming tax administration within a short time horizon, have "emphasized their political commitment to see the process through".

Third, the authorities recognize the considerable delays in the implementation of employment reforms in the public sector. However, with the April 29 passage of the Omnibus Law, which included quarterly plans for 4,000 mandatory exits in 2013 and 15,000 cumulative through end-2014, the taboo against dismissals in the public sector has in principle been lifted, and the door has been opened for mandatory redundancies. The government sees this new avenue as a long-overdue opportunity to revamp the quality of public services through the replacing of laid-off public servants with qualified staff in key areas such as bank supervision and tax administration.

Doing Business, Privatizations, and the Banking Sector. Beyond tax administration and public sector reforms, the government intends to focus on invigorating Greece's export and import competing industries. The government is committed to reduce barriers to entry into various markets, including opaque and lengthy licensing procedures, and, more generally, to improve the business environment. *The World Bank Group Doing Business Report has raised the rank of Greece to 78 in 2013 from 89 in 2012*.

The privatization process has picked up. The Hellenic Republic Asset Development Fund recently approved the sale of a 33 percent stake in the Football Betting Organization to a private concern for over €700 million. Other privatizations recently completed are State Lotteries (€190 million), Mobile Telephony Licenses (€381 million) and the International Broadcasting center (€81 million). There are also 14 privatizations in the final stages of completion, including the National Gas Utility Corporation, for which established foreign companies have tendered bids. In sum, since the beginning of the program the authorities expect cumulatively €4.2 billion privatization receipts by end-2013, €6.5 billion by end-2014, €7.7 billion by end-2015 and €11.1 billion by end-2016.

The authorities recognize the importance of effective financial intermediation in achieving a strong recovery and a viable growth path**.** The large injection of public capital to the systemic banks is understood as a temporary measure and the government intends to implement re-privatization at the earliest possible stage. More generally, the authorities are working on a reinforced governance framework, supporting strong oversight and supervision, which would also eliminate undue Government interference and attendant problems of directed credit. Moreover, a key priority for the banking system will be to contain and reverse the mounting tide of non-performing loans. The authorities are committed to put in place a framework for dealing with distressed household borrowers. In addition, deposits are replenished through cash that had been removed from the banking system: Greek private-sector bank deposits are 9 percent up from last June's lows and stabilized in May after some outflows in April on Cyprus fears.

Green shoots. While in several areas the picture is mixed, the government believes that 2013 will be the last year of retrenchment and the recession will bottom out in the next few months. Several recent developments point to hopeful signs for economic recovery. First, the real economy is set to acquire much needed liquidity: the government has paid off €2.2 billion of an outstanding €9 billion in arrears to suppliers and the stock of T-bills held by the banking sector declined, thus releasing resources for the financing of private sector activities. Second, work on some major infrastructure projects is restarting, potentially creating thousands of jobs. Third, tourist spending during the upcoming summer season may rise, as the Association of Greek Tourism Enterprises are anticipating 17 million tourist arrivals in 2013, one million more than in 2012. Fourth, two weeks ago the rating company FITCH upgraded both the sovereign rating and the rating of Greece's four systemic banks by one notch (with a stable outlook), stating that " clear progress has been made towards eliminating the twin fiscal and current account deficits and that 'internal devaluation' has at last begun to take hold".

Growth and the Role of Confidence. The authorities fully share the staff's view that restoring growth remains the overarching precondition for the success of the three-year old adjustment effort**.** In turn, growth cannot be achieved without improvement in sentiment. The authorities' top priority is to continue to enhance confidence in the government's resolve to forge ahead with the required reforms, so as to secure broad political stability and thus elicit domestic and foreign investments. The April 29 Omnibus Law mentioned earlier is a testimonial to the support that the government now enjoys among large strata of the

population. The passage of the bill in parliament, despite its far reaching implications for civil servants, has been received only with muted protests, and certainly without vocal street confrontations.

Confidence is rising. The latest euro-zone Economic Sentiment Indicator for Greece rose to 89.2, above the euro-zone average, and the Purchase Managers' Index showed considerable improvement in April (45, up from 42.1 in March), which was the highest level since July 2011. Such improvement in sentiment, coupled with the European partners' commitment to deal effectively with Greece's debt overhang, is the best assurance to dispel Euro exit fears and set the stage for a new page in the country's growth path.

THE EX-POST EVALUATION (EPE) OF THE 2010 STAND-BY ARRANGEMENT

The authorities have found the analysis in the paper insightful and balanced; essentially, following initial resistance by European partners, who had considered the Greece problem an "internal affair" of the Euro zone, the SBA was put together in a very short period of time, without adequate political dialogue and, more importantly, with insufficient contributions by the authorities to tailor conditionality to the peculiarities of the economy and the Greek public administration. Moreover, an ex-ante (or, at least, early) debt restructuring that would have helped mitigate the depth of adjustment and the severity of the recession, was ruled out by Greece in agreement with Euro zone partners. In a nutshell, as the EPE report aptly remarks, the SBA-supported program turned out to be a holding operation until the PSI became inevitable and an EFF-supported program replaced the original arrangement.

The authorities' official and detailed comments appear in Appendix I. They found the concluding section "Possible Lessons" reasonable and constructive, and would like to emphasize the following two areas for future consideration by staff and management:

- Although fiscal adjustment was necessary and structural reforms were essential, especially in the absence of monetary and exchange rate policies, the detailed conditionality in many program areas was at times overwhelming. Going forward, it would be helpful always to ensure that prior actions, not only in fiscal policy and management but in all areas with structural conditionality, are macro-critical for the achievement of the program objectives. At the same time, the authorities acknowledge that the TA provided by Fund staff, especially in fiscal management, has been tailored to the needs of a system that required hands-on assistance and has been important to help them improve much needed capacity for implementation; they hope to continue the strong TA engagement with the Fund.

- Relations with Troika members have generally been smooth, and the authorities acknowledge both the synergies in areas of shared expertise and the respective comparative advantage in structural issues. Based on these considerations, the authorities fully endorse the recommendation for streamlining procedures and documents among the Fund staff and EC and ECB officials.

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GREECE

SELECTED ISSUES

June 2013

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INTERNATIONAL MONETARY FUND

GREECE

May 21, 2013

SELECTED ISSUES

Approved By **The European Department**

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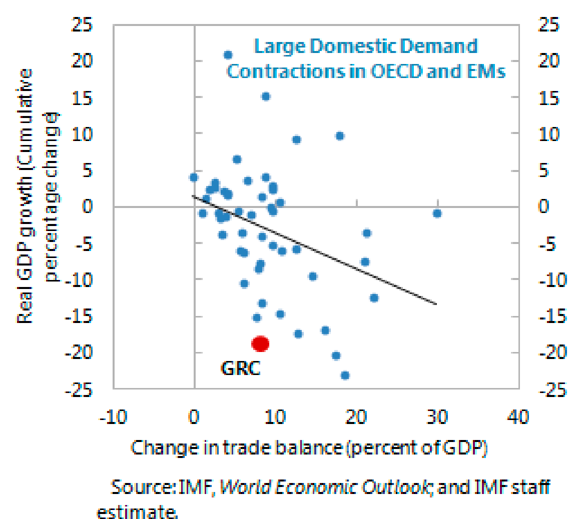
RESTORING GROWTH[1]

Rigidities in Greece's product and labor markets have increased the cost of adjustment to large pre-crisis economic imbalances. Simulations from a calibrated model of the Greek economy confirm that reforms to these markets can play a significant role in stemming output losses and supporting the recovery. In particular, with important labor market reforms having been implemented recently, steadfast implementation of product market reforms is key to reinvigorating growth.

A. What Explains Greece's Adjustment Pattern?

1. Greece has made headway in restoring competitiveness via internal devaluation, but adjustment costs have been high. The improvement in the trade balance by 9 percentage points since 2009 was achieved by contracting output by 22 percent—a much worse trade-off than in other economies. Despite initially encouraging performance, export growth has done little to cushion the impact of domestic demand collapse on the economy. By contrast, other crisis countries (Spain, Portugal, Ireland) have had relatively more success in stimulating exports and avoiding a deep output collapse. The difference can be explained in part by Greece's larger initial imbalances (e.g., the CGER-estimated REER misalignment was higher for Greece than for Spain and Portugal), and hence by the need for a greater reallocation of resources. Such reallocation is inevitably costly in the short-run. Even so, the loss of output has been proportionately higher in Greece.



Source: IMF, *World Economic Outlook*; and IMF staff estimate.

2. To account for the high adjustment costs, we conduct an empirical analysis of growth during large adjustment episodes. Our econometric analysis follows a large literature on growth performance in current account adjustment episodes (e.g., Milesi-Ferretti and Razin, 1998), with two important distinctions. First, we choose a sample based on large domestic demand contractions rather than large current account adjustments. This focuses the analysis on adjustments to negative shocks and eliminates externally-driven current account improvements. Second, we add structural indicators to test for the potential effect of labor and product market rigidities on growth during the adjustment episodes. Adjustment episodes are defined by two criteria: (i) negative domestic demand growth; and (ii) a contraction in the average domestic-absorption-to-GDP ratio by more than 3 percentage points between two consecutive three-year periods. To avoid excess

[1] Prepared by Wojciech Maliszewski.

heterogeneity, the sample is restricted to OECD and emerging market economies. In this exercise, the variables used to explain cumulative growth are as follows:

- **Institutional indicators.** Product and labor market rigidities raise adjustment costs by hindering the reallocation of resources. In our empirical analysis, we include labor and product market regulations at the start of an adjustment episode as proxied, respectively, by the "Labor market regulations" index and the "Freedom to trade internationally" index, both from Economic Freedom of the World Annual Report (Gwartney et al., 2012). Note that, while better indicators of product market regulations are available (e.g., OECD indices of product market regulations), their coverage of countries and of time samples is narrower. We use country rankings in both cases—a higher value indicates more regulated product and labor markets.

- **Exchange rate regime.** Fixed regimes limit or eliminate the nominal exchange rate adjustment channel, potentially increasing costs. We use a dummy for fixed exchange rate regimes based on the IMF's Annual Report on Exchange Arrangements and Exchange Restrictions (AREAER, 2012). Pegged regimes are defined as belonging to three AREAER categories: no separate legal tender, currency board, and conventional pegs. Members of currency unions are also classified as operating under fixed exchange rate.

- **Exchange rate misalignment.** The extent of initial imbalances dictates the size and possibly the speed of the subsequent adjustment. We use the IMF's CGER measure of exchange rate misalignment, and specifically the equilibrium real exchange rate method (Lee et al, 2008).

- **Financial conditions** are potentially an important determinant of adjustment costs, determining both the degree of consumption smoothing and support for investments. Give the potential endogeneity of indicators of financial conditions, and given the focus of the analysis on large domestic demand contractions, we use a dummy indicating banking crisis episodes during or up to two years before the beginning of the adjustment episode (Laeven and Valencia, 2012) as a proxy for the tightening of financing conditions.

- **External shocks.** External conditions are approximated by growth in partner countries (weighted by trade shares). This series, as well as cumulative GDP growth and national accounts data used to select the episodes, are from the IMF's WEO database.

Explaining Cumulative Growth During Episodes of Large Domestic Demand Contractions 1/

Indicator	(1) OLS	(2) Robust Regression 2/	(3) OLS
Freedom to trade internationally (rank)	-0.086*	-0.093*	-0.068
	(0.045)	(0.050)	(0.064)
Labor market regulations (rank)	-0.085*	-0.099*	-0.083
	(0.049)	(0.053)	(0.077)
Exchange rate peg (dummy)	-2.817	-3.252*	...
	(1.700)	(1.852)	...
Exchange rate overvaluation (percent)	-0.130***	-0.132***	-0.087
	(0.044)	(0.048)	(0.063)
External demand (percent change)	0.373**	0.339*	0.643**
	(0.178)	(0.194)	(0.264)
Banking sector crisis (percent)	-6.581***	-6.847***	-3.809
	(1.774)	(1.933)	(3.137)
Constant	3.090	4.343	-0.935
	(2.840)	(3.094)	(3.729)
Observations	42	42	27
R-squared	0.580	0.558	0.460

Source: IMF staff estimates.

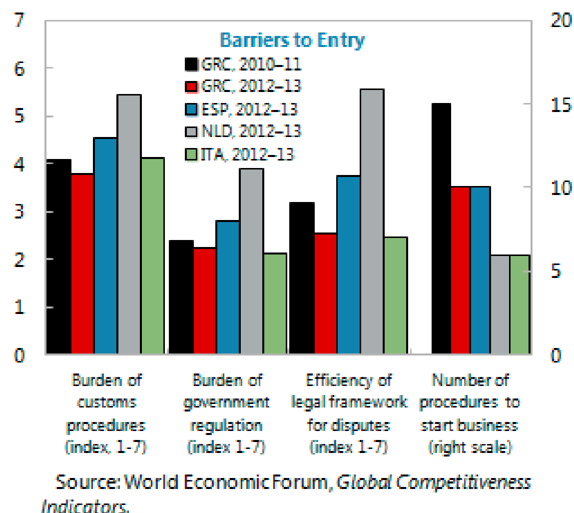
1/ Standard errors in parentheses; *** p<0.01, ** p<0.05, * p<0.1.

2/ Robust regression reestimates the baseline specification using robust regression, which downweights observations with larger absolute residuals using iterative weighted least squares (Andersen, 2008).

3. **The econometric results show that adjustment costs are shaped both by initial conditions and macroeconomic shocks and by the degree of product and labor market flexibility (Table).** Although based on a small sample of adjustment episodes, the results indicate that the degree of overvaluation, external demand growth, and the tightening of financial conditions in the aftermath of banking crises are strongly and significantly linked to adjustment costs. Product and labor market regulations also have a negative and significant impact on growth, and the estimates are fairly robust (as indicated by alternative estimation methods). Pegged regimes also seem to be negatively correlated with growth during the adjustment episode, as indicated by the high and negative coefficient of the peg dummy. To further test whether adjustments under fixed exchange rate regimes—potentially more relevant to draw lessons for Greece—differ from full sample results, the model is re-estimated based on a sample restricted to those episodes under fixed exchange rate regimes. The estimates are less precise—suggesting a wide range of outcomes under fixed exchange rate regimes in the sample—but values and signs of key coefficients remain close to the full sample estimation.

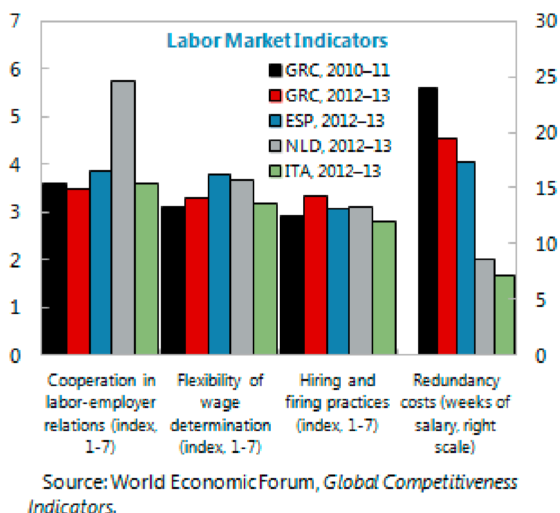
4. **Greece's low score in both product and labor market flexibility indicators suggests that structural rigidities have played an important role in making the adjustment more costly.** While labor market reforms have advanced since the beginning of the crisis, there has been relatively little progress in addressing structural rigidities in product markets. Several factors played a role in restraining product and labor market flexibility:

- **Greece entered the crisis with an overburden of regulation.** The key sources include: (i) important assets have been owned—or their use restricted—by the state, and they remain underutilized (e.g., because of land zoning restrictions) or subject to monopolies (network utilities); (ii) regulations have been excessive, with permitting, licensing and export-import requirements well inferior to EU best practice; and (iii) even beyond explicit requirements, outsiders have been discouraged from entry into new markets by implicit barriers, including excessive bureaucracy, corruption, and opaque tax and labor regulations. These barriers limited competition (including from FDI), keeping prices and margins well above the EU average level, and preserving an economic model based on small and inefficient enterprises.

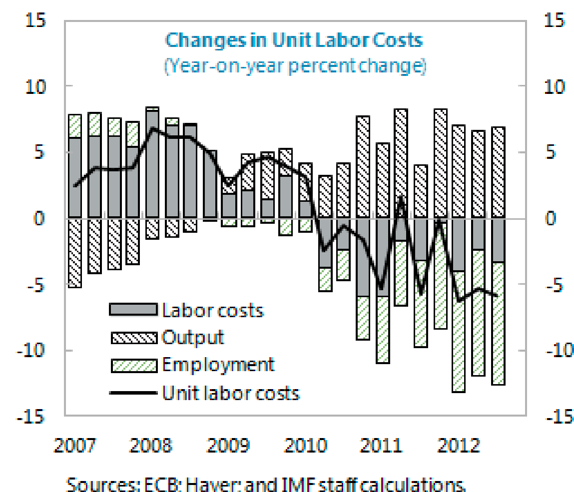


Source: World Economic Forum, *Global Competitiveness Indicators*.

- **Similarly, Greece's labor market regulations were rigid and tended to protect insiders.** The labor market has traditionally suffered from a closed and inflexible system of collective bargaining, very high firing costs (severance payments and redundancy notification periods), a high national minimum wage relative to competitors, and high non-wage labor costs. The reforms under the program have significantly reduced the rigidities, which facilitated wage adjustments and contributed to the reduction in unit labor costs (ULCs).



Source: World Economic Forum, *Global Competitiveness Indicators*.



Sources: ECB; Haver; and IMF staff calculations.

5. Would the elimination of existing distortions limit output losses during the recession and contribute to the recovery? While econometric estimates give a broad-brush picture of the correlation between structural rigidities and growth performance during the adjustment, they are not sufficient to analyze the effects of removing the distortions: the data sample is limited and proxies for potential explanatory factors are imperfect. Given the limited data, the model does not directly capture the response of growth to reforms *reducing* structural rigidities (correlating it instead only with a level). Neither does it consider the sequencing of policies (e.g., labor and product market reforms) that could potentially affect adjustment costs in different ways. To explore these questions, we use a calibrated model of the Greek economy in the next section.

B. Can Structural Reforms Reinvigorate and Sustain Growth?

6. What economic effects can realistically be expected from the implementation of structural reforms? While the initial program for Greece relied heavily on productivity gains (driven by structural reforms) to deliver a quick rebound in growth, the strategy has been subsequently revised to allow for deeper wage and price adjustment, more fully taking into account the authorities' implementation capacity and the transmission channels of reforms. This section addresses two questions: what can structural reforms deliver in terms of growth and improvement in competitiveness, and how fast? We review how structural reforms affect economic performance in theory and previous empirical studies, before turning to Greece-specific simulations.

Theoretical channels and results from previous empirical studies

7. Theoretical results point to benefits from structural reforms, but indicate that they may not materialize immediately:

- **The main theoretical channel through which structural reforms affect economic performance is through a reduction in rents** (Blanchard and Giavazzi, 2001). Removing barriers to entry—which are defined broadly, including excess bureaucracy and other deficiencies in business environment—enhances competition and reduces rents. This brings prices more in line with marginal costs, encouraging managers and workers to operate more efficiently.

- **The process of improving efficiency of the economy is not frictionless.** It involves improving allocative efficiency (moving resources to more productive uses) and productive efficiency (organizing work more effectively, trimming fat and reducing slack). In the process, low-productivity firms exit, releasing resources to be absorbed by more productive firms (who are also better able to compete abroad). Transition costs can be high, particularly when market imperfections in the credit market constrain investments of productive firms, or uncertainty about economic prospects weigh on investments directly.

- **Different forces play a role in increasing long-term productivity growth.** The process of improving allocative and productive efficiency ultimately comes to a stop when the economy reaches the production frontier, and innovation and the introduction of new goods and processes drive growth thereafter.

8. Empirical results are in line with the theory, indicating that the effects of structural reforms build up gradually:

- **In the long run, product and labor market reforms can have positive effects** on growth, employment, and productivity (e.g., Bouis and Duval, 2011; Barnes et al; 2011; OECD, 2012; Hobza and Mourre, 2010);

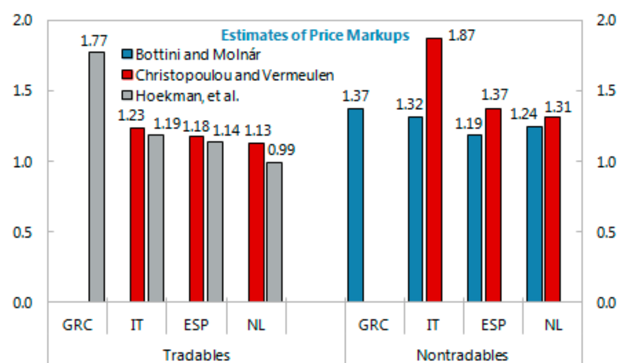
- **In the short run, the impact is smaller because of adjustment costs**, especially in the case of labor market reforms (Cacciatore et al, 2012), and particularly when these are undertaken during recessions (Bouis et al, 2012);

- **There are complementarities between product and labor market reforms**: a broad reform package would be more beneficial than individual reforms as the former could help lower transitional costs (Cacciatore et al, 2012). They would also improve the distributional consequences that might otherwise arise if wage declines are not matched with proportional price declines.

9. Greece-specific empirical results point to potentially sizeable positive effects of structural reforms on GDP and productivity. In particular, using a calibrated model, Zonzilos (2010) finds that product and labor market reforms could boost GDP level by about 10 percent in the steady state, and also help restore price competitiveness. This is in line with previous empirical studies.

Model setup and simulation

10. The impact of product and labor market reforms in Greece is simulated using the IMF's Global Integrated Monetary and Fiscal model (GIMF). This DSGE model (see Box 1) can help illuminate transmission channels and analyze the sequencing of reforms. Given the presence of monopolistic competition in both firms and labor markets, the GIMF is well suited to analyze the effects of structural reforms reducing price and wage markups (because, as discussed above, structural reforms are usually framed in terms of making the markets more competitive, for example, through reducing entry barriers). Our simulation framework is similar to Lusinyan and Muir (2012).



Sources: Bottini and Molnár (2010); Christopoulou and Vermeulen (2012); and Hoekman, et al. (2001).

11. The standard calibration of GIMF is augmented with Greek-specific information. To reflect the negative impact of the crisis on the financial system, it is assumed that liquidity constrained households make up 50 percent of all households (compared to 25 percent for the euro area). The markups are calibrated to be consistent with empirical studies and previous results in the literature: the non-tradable sector price markup is 60 percent versus 35 percent for the rest of the euro area; and 20 percent—against 15 percent in the euro area—for the tradable sector. For the wage markup, we follow the assumption in Forni et al. (2010) and use the same values as for the non-tradable sector price markup. Steady state ratios are calibrated to 2011 values, with some modifications. In particular, the persistently high current account deficit is assumed to be eliminated in the steady state through higher exports and the debt-to-GDP ratio is assumed to decline to the euro area level in the steady state.

Box 1. GIMF Model

GIMF is a multi-country Dynamic Stochastic General Equilibrium (DSGE) model with optimizing behavior by households and firms, and intertemporal stock-flow accounting (Kumhof et al., 2010):

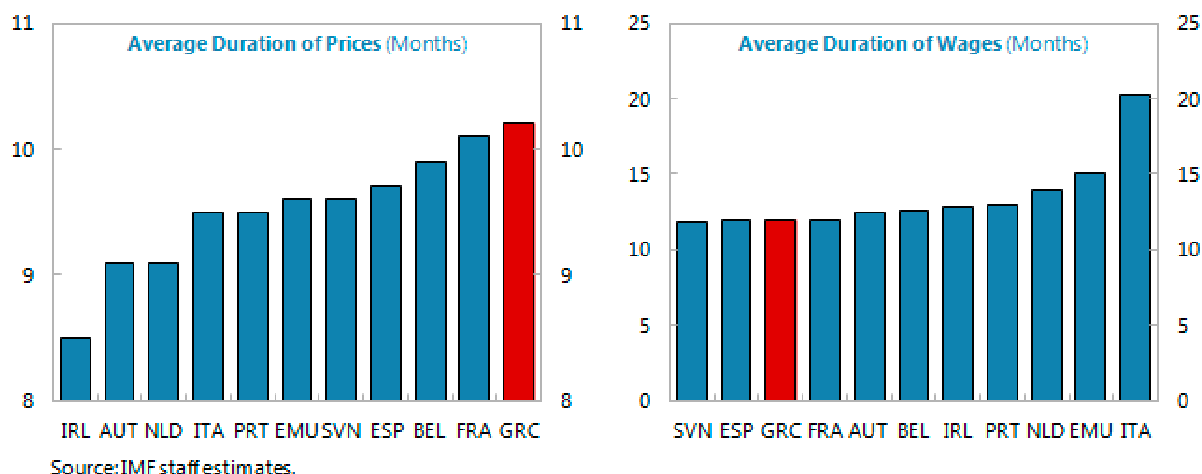
- Frictions in the form of sticky prices and wages, real adjustment costs, liquidity-constrained households, and finite-planning horizons of households imply an important role for monetary and fiscal policy in economic stabilization (the assumption of finite horizons separates GIMF from standard monetary DSGE models and allows it to have well-defined steady states where countries can be long-run debtors or creditors).
- The non-Ricardian features of the model provide non-neutrality in both spending-based and revenue-based fiscal measures, which makes the model particularly suitable to analyze fiscal policy questions (fiscal policy can affect the level of economic activity in the short run).
- Government debt is only held domestically, as nominal, non-contingent, one-period bonds denominated in domestic currency. The only assets traded internationally are nominal, non-contingent, one-period bonds denominated in U.S. dollars that can be issued by the U.S. government and by private agents in any region.
- Firms employ capital and labor to produce tradable and nontradable intermediate goods. They are owned domestically (equity is not traded in domestic financial markets; instead, households receive lump-sum dividend payments).
- A financial sector a la Bernanke, Gertler, and Gilchrist (1999) incorporates a procyclical financial accelerator, with the cost of external finance of firms rising with their indebtedness.
- The version of GIMF used in this paper comprises 3 regions: Greece, the euro area, and the rest of the world.

12. Several simulations are analyzed. In a baseline simulation, there are no structural reforms. In a second simulation, only labor market reforms only are analyzed. A third simulation adds to the second simulation by analyzing product market reforms as well, albeit with hesitant and delayed implementation of these reforms. A final simulation looks at the effect of credible, upfront implementation of both labor and product market reforms.

13. In line with theoretical results and previous studies, the reforms are modeled as a reduction in rents. We assume that increased competition in the product and labor markets brings margins down. The key assumption here is the extent to which specific reforms could translate into markups. While a one-to-one mapping of specific reforms to reduction in rents is difficult to achieve, cross-country econometric results point to significant effects of reforms on markups. For instance, Griffiths and Harrison (2004) find that reductions in costs of doing business, regulatory trade barriers, labor market regulations, and government bureaucracy significantly reduce price markups in a sample of OECD countries. E.g., the 1995-2000 reforms in Germany to reduce costs of starting a business are estimated to have reduced the markup by 2 percentage points. The effects of wage markups are more difficult to establish empirically, but Stewart (1990) for instance presents evidence that markups are higher in unionized establishments facing less competition. Theoretical results also suggest that reforms to reduce the difficulty of hiring and firing, a lower wage replacement ratio, and increasing competition in product markets contribute to lower wage markups.

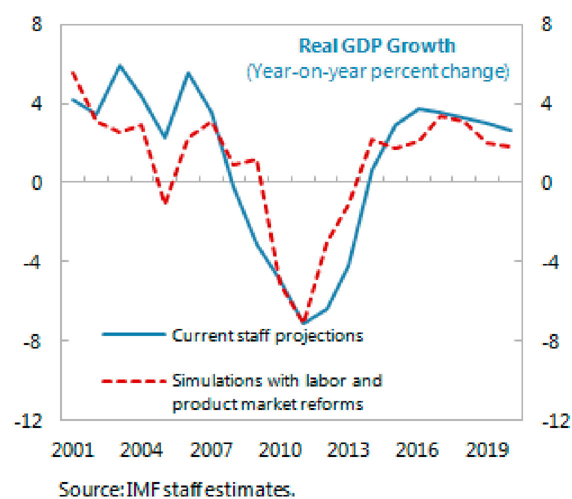
14. We assume that the reforms close roughly half the gap between the Greece and the rest of the euro area over a five-year period. The reforms to labor markets already underway and to product markets currently in the pipeline are similar to the set of reforms affecting the markups identified in the empirical literature. The advances made to date in labor market reforms give support to this assumption on timing and their implementation path is assumed to be known with certainty by economic agents. But, given slow progress on product market reforms, the simulations distinguish between product market reforms that are not entirely credible (which limits the upfront benefits from the reforms) from those that are implemented fully and upfront. In the former, economic agents regard already implemented changes as permanent, but view further reforms with uncertainty in the near term.

15. We also assume that structural reforms reduce wage and price rigidities. While increasing competition ultimately lowers prices and wages, the speed of change is affected by nominal rigidities. These are a function of the degree of competition itself, but also of institutional regulations, such as minimum wages or price regulations. Before the crisis, price rigidities in Greece appeared much higher than in the rest of the euro area, while wage rigidities were in line with other countries. However, with typically more constraints to deflation and cuts in nominal wages compared to just slowdowns in price and wage dynamics, the inability of real wages to adjust downward is more constraining in severe recessions. We assume that wage and price rigidities are reduced by about 30 percent as part of the reform process..



Source: IMF staff estimates.

16. Importantly, to mimic the recession dynamics observed in Greece, we add shocks to the model. The fiscal adjustment—modeled to match the dynamics of the cyclically-adjusted primary balance in the adjustment—primes the downturn. However, it does not generate sufficient persistence to model Greece's recession. This suggests that key explanators for Greece's growth performance during the crisis go well beyond fiscal multipliers to include the range of severe confidence shocks hitting the economy in 2011–12, affecting investments and consumption both directly and through a liquidity squeeze. To align model-simulated growth path with actual data, we thus add shocks to investment, consumption, and financing.



Source: IMF staff estimates.

C. Simulation Results

17. Labor market reforms bring modest benefits in terms of output, but significantly reduce current account deficits (Figure 1). Without greater competition in the product market, the increased flexibility in the labor market has only marginal effects on prices, which drop by about ¾ of a percentage point after 5 years and by 2 percent by 2030. Output increases are also modest (about half a percent after 5 years and 3 percent by 2030). Employment increases though, as lower wage markups induce a switch from capital to labor in inputs to production. There is a strong reduction in current account deficits, driven by both reductions in imports and a modest increase in exports (as initial real wage declines limit consumption and investment, while supporting demand for labor and domestic supply).

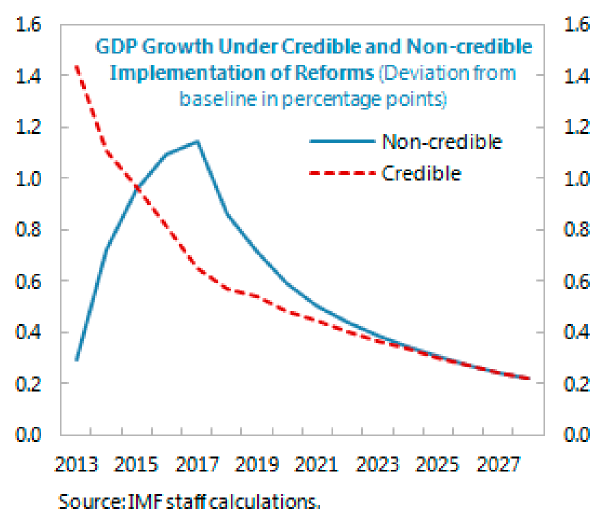
18. Product market reforms reduce prices and boost output. Lower barriers to entry encourage competition, reducing prices by 1¾ percent in the medium term and by over 6 percent by 2030. The reduction in prices and stronger demand for labor increase real incomes, boosting consumption. Investments increase in anticipation of the future stronger demand from the external sector and consumption. Output growth is strong, averaging about half a percentage point more than in the baseline without reforms, with the cumulative effects of over 3 and 6½ percentage points after five years and by 2030, respectively. Higher investments and consumption would initially lead to a deterioration of the current account, reversed when the new production capacity comes on stream. The latter would increase exports: initial gains would be modest—given capacity constraints—but would rise in the medium to long term, helped by strong competitiveness gains.

19. The results of the two reforms are additive, producing significantly higher output and lower prices, while improving external current account with a lag. Output growth is as much as ½ percentage point per year higher than in the baseline without reforms, with the cumulative impact of over 10 percent by 2030. Prices drop by over 6 percent cumulatively during this period. As noted, the current account deteriorates initially, reflecting largely the effects of product market reforms on investment and consumption, only to improve when the new export capacity—encouraged by improved competitiveness—comes on stream.

20. The simulated effects of reforms are in line with developments in the Greek economy. While identifying the effects of reforms is made difficult by the number of adverse shocks affecting the economy and the dynamics of the recession occurring simultaneously, economic developments following the implementation of labor market reforms are in line with model predictions: it led to large reductions in wages combined with the improvement in the current account through import compression, without markedly stemming output declines. Given uneven and delayed implementation of product market reforms, it is not unexpected that output gains are not visible.

21. The results are also consistent with long-term projected growth under the program. While the effect of reforms on growth ultimately taper off, they are still significant well beyond 2020. The cumulative effect of combined reforms on output reaches about 10 percent after 2030. The gradual accumulation of gains from reforms supports the projected TFP growth under the program, which is consistent with previous empirical results indicating relatively long payoff periods from structural reforms (Barnes et al., 2011). The assumed medium-term productivity growth in Greece is also consistent with results reported in other countries undertaking structural reforms (e.g., ¾ percent per year in Germany and 1½ percent in Netherlands). The still high productivity gap to the core of Europe indicates that the potential for catch-up growth is high, and gains from reforms could even exceed estimates from the model.

22. Growth could be frontloaded with more credible reform implementation. Alternative simulations in which economic agents fully anticipate future reforms boost growth though expectations of future recovery. The effect is strong: growth in the first year of reform implementation (assuming that both labor and product market reforms are implemented simultaneously) would be 1 percentage point higher compared to the non-credible implementation of reforms in our baseline simulations (long-term effects would be close in both scenarios).



Source: IMF staff calculations.

D. Conclusions

23. Greece's high adjustment costs can be explained in part by structural rigidities. While a number of factors have played a role in accounting for Greece's growth performance in the past few years, pervasive structural rigidities have raised the cost of adjustment. Their effect has been direct and indirect: they likely contributed to the significant imbalances before the crisis, which made the adjustment painful given the scale of imbalances that needed to be corrected. They also likely created disincentives for an efficient reallocation of resources (by preserving rents) and increasing price and wage rigidities (delaying the necessary nominal adjustment).

24. The impact of structural reforms on GDP can be sizeable. We confirm earlier findings from the literature using the IMF's Global Integrated Monetary and Fiscal model (GIMF) showing that policies that would close roughly half the gap in product and labor markets with the rest of the euro area could raise real GDP by about 4 percent after 5 years and by 10 percent in the long run. This is a significant boost to the economy, especially beyond the projected cyclical upturn when the labor force begins to shrink. It is also in line with previous econometric studies. It is smaller, however, than gains expected at the initiation of the program in 2010, reflecting more realistic assumptions about both the pace of implementation and the transmission channels. With reforms currently in place, staff's latest projections are in line with model-based simulations.

25. A decisive implementation of product market reforms would have a measurable impact on output dynamics, inflation, and competitiveness. The early implementation of reforms in the labor market led to sharp reductions in wages, stemmed employment losses, and reduced current account. But a broader set of product market reforms is needed to meaningfully reinvigorate growth. Such reforms would have a meaningful impact on the speed of recovery (as credible product market reforms encourage investments in anticipation of future gains and exports boosted by the new capacity and improvements in competitiveness) and also on growth beyond the cyclical rebound, as gains from structural reforms are projected to materialize gradually.

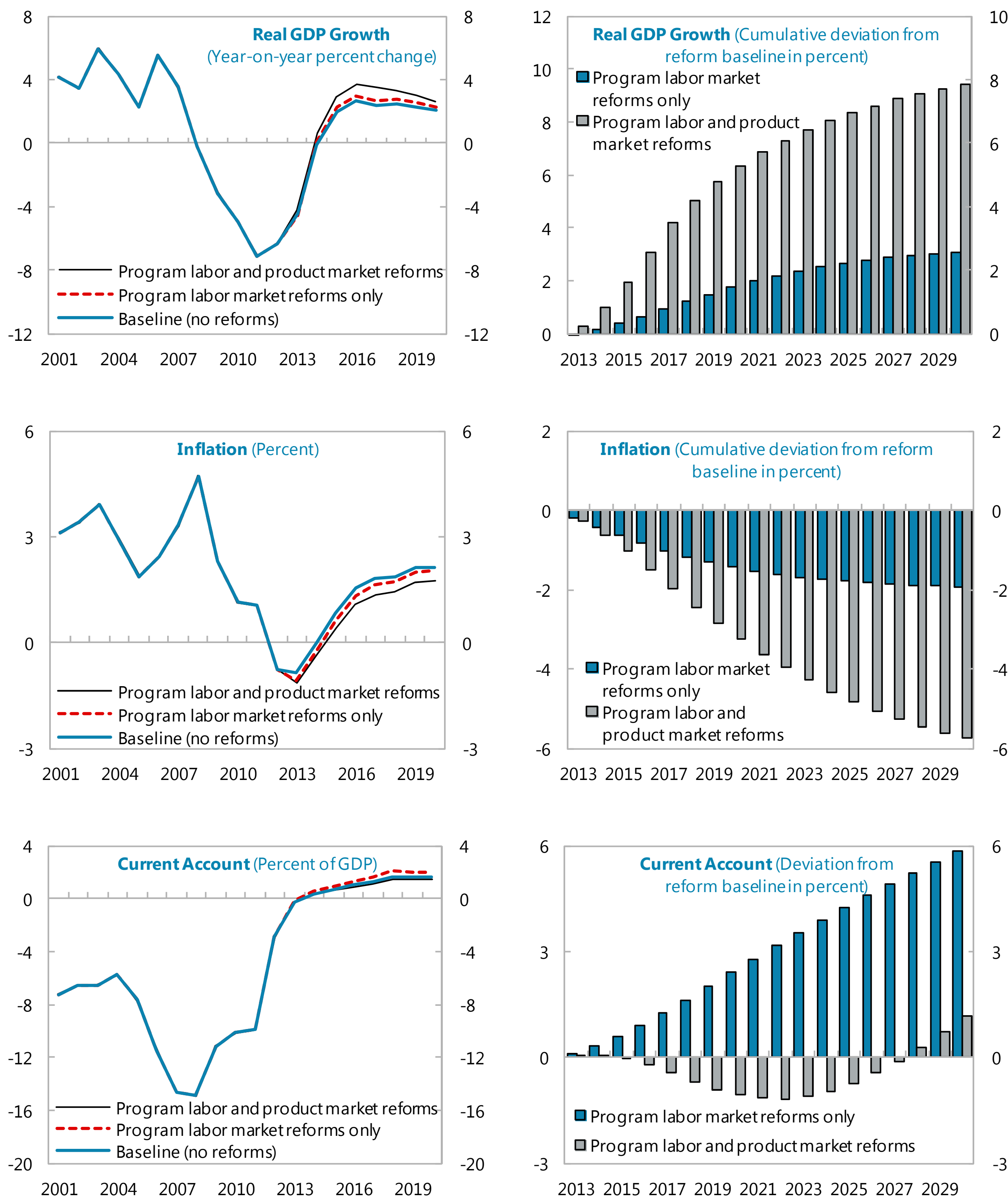
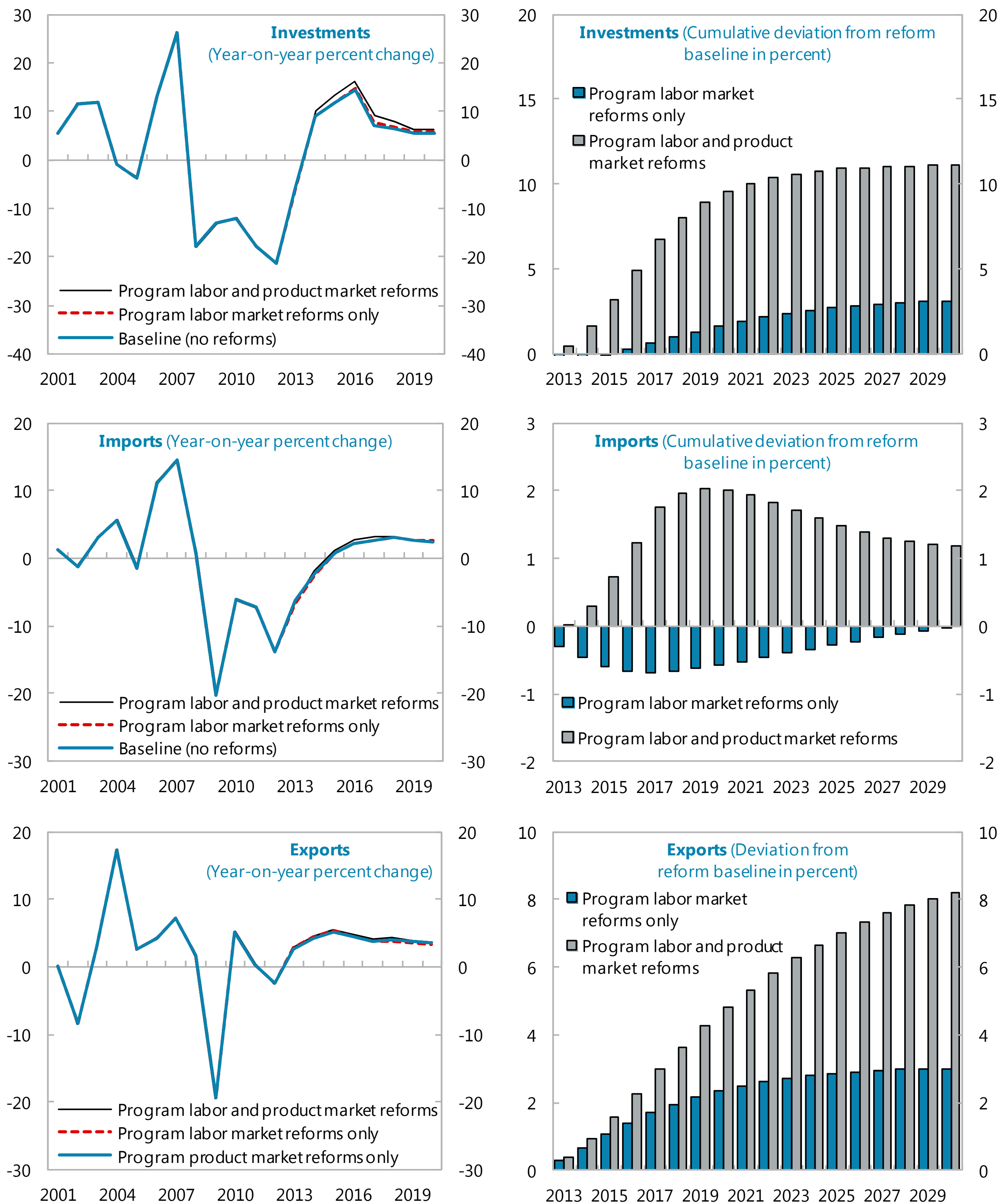


Figure 1. Simulation Results, 2013–20
Real GDP Growth
(Year-on-year percent change)
Program labor and product market reforms
Program labor market reforms only
Baseline (no reforms)
Real GDP Growth (Cumulative deviation from reform baseline in percent)
Program labor market reforms only
Program labor and product market reforms
Inflation (Percent)
Program labor and product market reforms
Program labor market reforms only
Baseline (no reforms)
Inflation (Cumulative deviation from reform baseline in percent)
Program labor market reforms only
Program labor and product market reforms
Current Account (Percent of GDP)
Program labor and product market reforms
Program labor market reforms only
Baseline (no reforms)
Current Account (Deviation from reform baseline in percent)
Program labor market reforms only
Program labor and product market reforms
Source: IMF staff estimates.

Figure 1. Simulation Results, 2013–20 (concluded)



Source: IMF staff estimates.

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REVENUE ADMINISTRATION AND FISCAL CONSOLIDATION[1]

Greece has undertaken a very strong fiscal effort. During 2009–12, the primary balance improved by over 9 percent of GDP, or 15 percent in cyclically-adjusted terms. Further improvement of some 4¼ percent of GDP is needed over 2013–16 in the cyclically-adjusted primary balance to meet medium-term targets, making this one of the largest fiscal adjustment programs to date. This effort has been achieved primarily by raising tax rates to high levels and reducing wages, pensions, and other spending. Broadening the tax base and improving tax collection are also essential pillars on which some progress has been made and on which more is needed to ensure durability, fairness, and high quality of the adjustment. This paper describes the problems, progress to date, and agenda for work in Greece's revenue administration.

A. Why Improving Revenue Administration is Critical for Greece

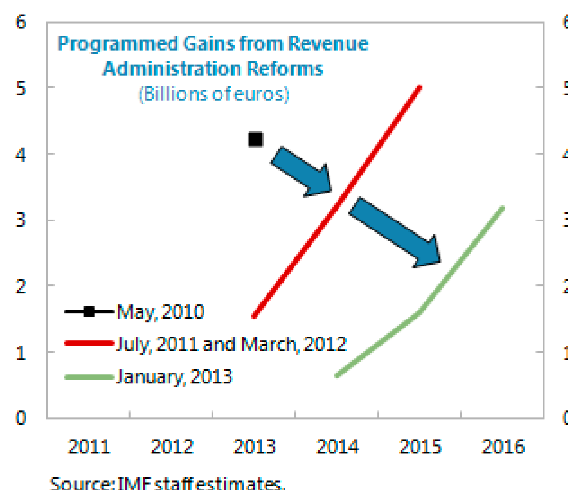
1. **Further fiscal effort is needed to achieve debt sustainability, and tax collection gains are expected to play a key role**. Going forward, to achieve the headline primary surplus target of 4½ percent of GDP by 2016, additional savings of 3¼ percent of GDP will need to be identified. Almost half of this amount is slated to come from better tax collection. Given already compressed expenditure levels and high tax rates in Greece, the scope for further measures in these areas is somewhat more limited.

2. **Better tax collection is crucial to ensure broad-based public support for the adjustment effort**. The distribution of the revenue burden across society, and perception that everyone is paying their fair share, plays a key role in gaining support for the fiscal adjustment mix. This is an issue at both the level of the individual and at the level of businesses. To date in Greece, the main adjustment burden has been carried by easy-to-tax salaried employees and pensioners, while the richer, such as the self-employed (e.g., doctors, lawyers), and other high wealth individuals have continued to stay outside the tax net.

3. **Stronger revenue administration would have macroeconomic benefits.** Weaknesses in the revenue administration have encouraged small scale and inefficient economic units, which can evade taxes more easily (often only the owner or the family is involved in running the business). But such small scale operations tend to have a very low return and productivity. Poor collection also implies a need to maintain high tax rates in the formal economy, which hurts the competitiveness of larger, export-oriented companies.

[1] Prepared by Stephanie Eble (EUR) and Iva Petrova (FAD).

4. The need for reform is urgent. The program assumed from its onset that about 2 percent of GDP in savings would come from revenue administration reforms. However, yields from those reforms have been persistently shifted outward in time and reduced in amount because of slow progress. Slow progress reflected a lack of political commitment to take an unequivocal anti-evasion stance, the absence of leadership in a very decentralized institution, resistance to reform within the administration, weak implementation of reform laws, excessive legal formalism, and nontransparent laws and practices. Given the lead time in implementing those reforms, without imminent action, the latest trajectory for revenue gains could yet again be at risk.



Source: IMF staff estimates.

5. The paper is organized as follows: The next section discusses the scope for raising revenue and where in the collection process is revenue being lost. The third section analyzes the rationale for evading taxes in Greece. The fourth section discusses the reforms underway to enhance revenue collection. The fifth section analyses what factors have been important to bring those changes about, drawing on country experiences. The final section concludes.

B. Revenue Losses in Greece and the Scope for Higher Collection

6. Several empirical studies on the tax gap point to large scale tax avoidance and evasion in Greece.

- Schneider and Buehn (2012) in a cross-country study estimate the size of the shadow economy during 1999–2010 at around 27 percent of GDP, compared to an OECD average of 20.2 percent. Key explanatory variables in the case of Greece are the degree of self-employment, the indirect tax burden, the high unemployment rate, and tax morale. Self-employment appears the most significantly correlated variable with the size of the shadow economy in Greece, while tax morale—an important explanatory variable in other advanced countries—does not score as high as one might desire.

- Based on banks' perception of true income, Artavanis et al. (2012) estimate that annual unreported income exceeds €28 billion. They find that occupations most prone to tax evasion in Greece are lawyers, doctors, accountants, private tutors, and engineers.

- Further, Papageorgiou et al. (2011) find that, despite high statutory rates, effective tax rates in Greece are much lower than in the euro area, suggesting a high level of tax evasion and avoidance.

7. There are many (often discretionary) exemptions in the tax code that erode the tax base. While there has been a significant effort at streamlining non-productive and distortive tax exemptions, important ones in the areas of personal income, VAT and capital taxation remain, amounting to 2½ percent of GDP in 2011. In particular, for VAT, a super-reduced rate of 6.5 percent applies to hotels, medicine and books/news papers. For all Aegean islands, the VAT rates are reduced by 30 percent, i.e., a VAT of 16/9/5 percent compared to 23/13/6.5 percent on the mainland. With respect to PIT, remaining exemptions relate to having the status of a pensioner and disability, which have been subject to widespread misuse (the ongoing review of the disability status is only expected to be completed by 2016). CIT exemptions are subject to a high element of discretion and generous rules (e.g., treating government grants as expenditure for tax purposes, offsetting of income from other investments, etc.) and are not incorporated in the medium-term fiscal framework. Overall, there is scope for further streamlining non-productive, untargeted, and discretionary tax expenditures, and possibly replacing them with accelerated depreciation rules.

Tax Expenditure

(Millions of euros)

	2008	2009	2010	2011
1. Direct taxes	5,758	4,653	3,501	3,175
Income taxes	3,814	2,875	2,068	1,742
PIT	3,522	2,642	1,964	1,625
CIT	292	233	104	116
Capital (incl. property)	1,944	1,778	1,433	1,433
2. Indirect taxes	3,086	3,551	3,327	2,354
Transaction taxes	682	603	491	1,096
VAT	565	543	455	1,077
Other (vehicles)	118	60	36	19
Consumption taxes	2,404	2,948	2,837	1,258
Total (1+2)	8,844	8,204	6,829	5,529

Sources: Ministry of Finance; and IMF staff estimates.

8. Further, tax avoidance schemes are used to reduce tax obligations. Ambiguities, loopholes, and interpretations of the law are frequently exploited to reduce tax obligations. For example, social security contributions for the self-employed are much lower than those for salaried employees, since the contribution to their funds is not related to income but to years of participation. This makes it attractive to work as self-employed, including because of the weak link between benefits and contributions. Also, since imputed income is often used for the purpose of taxation, there is less of an incentive to declare one's true income, especially as certain real estate investments and equity capital contributions are exempted from the calculation of the presumptive tax base. Furthermore, real estate transaction taxes use the objective, rather than the market, value as the tax base. The discounted VAT rates for the Aegean islands are also open to tax avoidance opportunities, as purchases consumed on the mainland can be channeled through them. Finally, transfer pricing is commonly used by Greek companies to route profits to low-tax jurisdictions.

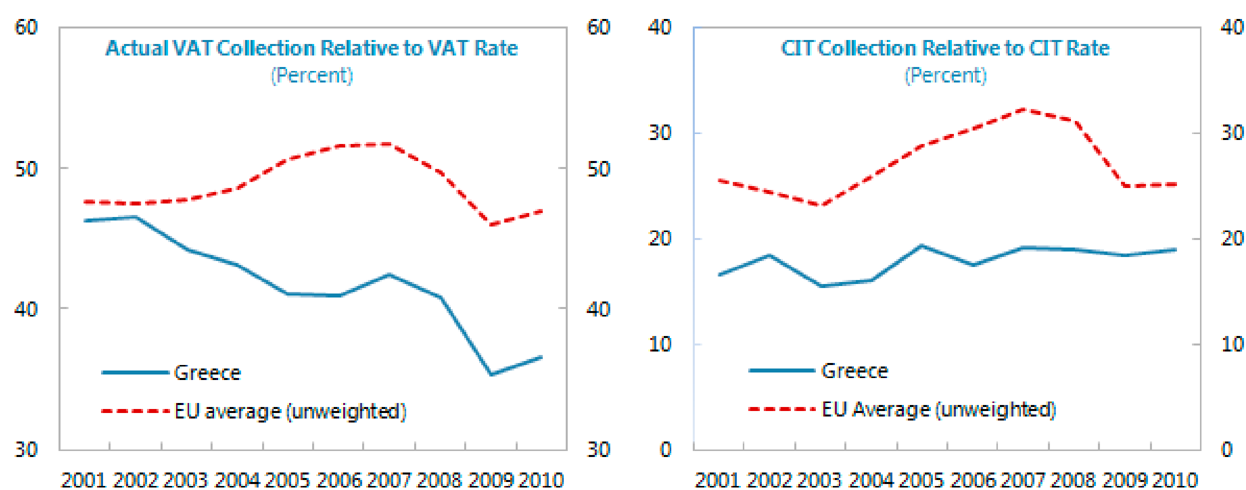
Table 1. Where is Greece Losing All Its Tax Revenue?

Channel	Explanation	Estimated Annual Loss
Tax exemptions	Several exemptions for VAT and PIT. Discretionary investment incentives.	2.5% of GDP in 2011
Tax avoidance schemes	Status of self-employed versus salaried employee. Presumptive taxation and objective values. Location specific VAT rates.	....
Non-declaration of taxes	Non-declared labor income and income of liberal professions. Non-filling of VAT. Unrecorded and under recorded transactions.	4%–5% of GDP (Avanidis et al)
Assessed debt through audits is discounted	No audits of the auditors. No tracking of the originally detected amount, discounts, and finally assessed amount. Up to 80 percent reduction of interest and penalty charges on undeclared liabilities.	0.1% of GDP (only a small share of tax liability is collected through audits)
Large share of assessed debt remains unpaid	Insufficient focus of collection effort on new and collectable debts.	5% of GDP
Administrative delays	Extension of filing/payment deadlines. Many and generous deferred payment arrangements. Lengthy court proceedings.	.....

Source: IMF staff estimates.

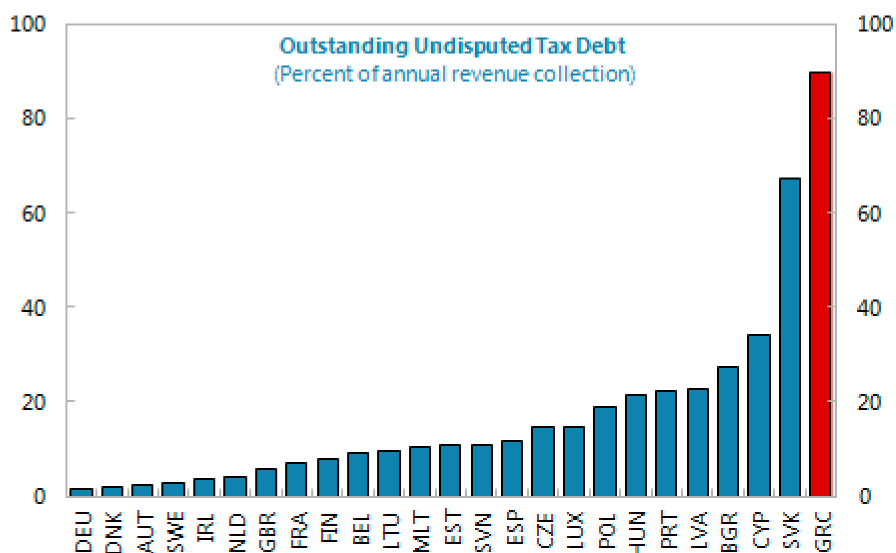
9. Standard indicators suggest that there remains significant scope for raising revenue in Greece via stronger collections:

- **VAT and CIT productivity in Greece are very low by EU standards,** in part reflecting reduced and multiple rates and exemptions.



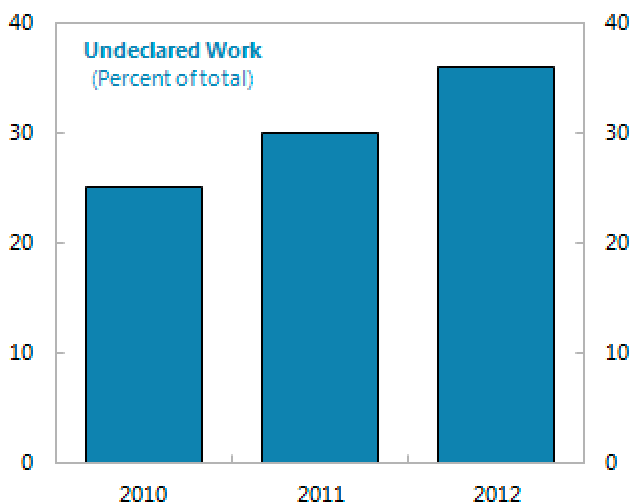
Sources: OECD; IMF, *World Economic Outlook*; and IMF staff estimates.

- **Tax debt in Greece is very high by international standards,** as tax payers fail to pay even what has been assessed.



Source: OECD.

- **A large share of income is never declared**. Inspections by the Labor Inspectorate (SEPE) suggest that about every third employee is not registered. Furthermore, the average declared income of the self-employed is close to the minimum income and well below the GDP per capita, suggesting that a large share of the actual income remains undeclared. Sectors with high "propensity to use undeclared work" are tourism, catering, construction, agriculture, homecare, and commerce. According to Artavanis et al. (2012), actual income could be up to 2½ times larger than that declared by doctors, engineers, and private tutors.



Source: Labor Inspectorate.

Implied Income to Reported Income

Profession	Income Multiplier
Doctors and medicine	2.45
Engineering and science	2.4
Education	2.55
Accounting and financial services	2.22
Law	2.24
Fabrication	2.26
Media and art	2.22
Lodging and restaurants	1.99
Construction	1.85
Business services	1.62
Transport	1.51
Agriculture	1.75
Personal services and pharmacy	1.49
Retail	1.27
Others	1.22

Source: Artavanis, et al., 2012.

10. Because of weak enforcement, a large share of the assessed tax remains unpaid. In 2012, new debt of €13.1 billion accrued, or 25 percent of total assessed taxes. Of this, only some €1.4 billion were collected (less than 12 percent of revenue). Similarly, for social security contributions, the gap between actual collections and the assessed amount reached 15 percent for IKA, 25 percent for the self-employed fund ETAA, and 65 percent for the agricultural fund OGA in 2012. Overall, unpaid obligations reached €56 billion for taxes and more than €12 billion for social security contributions at end-2012. Enforced collection focuses on the oldest claims, irrespective of their low collectability compared with new debts. Further, the available instruments to enforce collection are inadequate by international standards. Since 14 percent of the debts represent 92 percent of debt value, there is a need for scarce human resources to focus on these debts and for other debt to be subject to automated interventions. As insufficient resources are dedicated to the collection of new debt, such debt quickly becomes uncollectable. Technical assistance advice to dedicate greater resources—at least 10 percent in local tax offices—to collection has also remained unaddressed, and the workforce continues to be dedicated mostly to the assessment of debt.

C. What Explains the Large Amount of Tax Evasion in Greece?

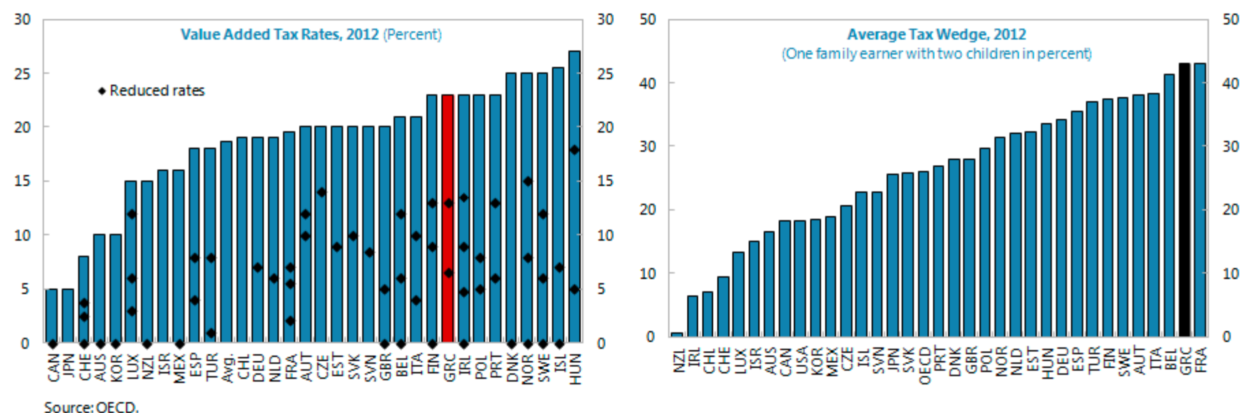
11. Evasion has generally been modeled as driven by costs and benefits. On the benefit side are the lower tax payments explained by higher tax rate; on the cost side are penalties combined with the probability of actually being detected. The optimal tax evasion behavior can be described by the following equation (Yitzhaki, 1974):

$$\frac{U'(Y_A)}{U'(Y_U)} = \frac{(1-p)t}{p\theta}$$

where, Y_A denotes audited income, Y_U denotes unaudited income, p represents the probability of detection, t is tax rate, and θ is the penalty on evaded income.

12. In Greece, the benefits of evasion are comparatively high and the costs are comparatively low.

- **High tax rates.** High rates create a strong incentive to not declare, since the marginal benefit from hiding any income is high. Tax rates in Greece are at the top end of the OECD range. A tax wedge on salaried employees of 43 percent compares with an OECD average of 26 percent, and the standard VAT rate of 23 percent places Greece among the three advanced countries with the highest VAT rates.



Source: OECD.

- **Low probability of detection.** Historically, there have been a number of problems with conducting audits, such as: (i) focusing on non-filers and non-active companies, with minimal prospects of collecting additional assessed taxes, leaving high-risk cases unlikely to be audited; and (ii) limited probability of detecting undeclared tax liability when an audit is carried out, due to limited use of third party information to detect inconsistencies between declared and actual wealth and income, and lack of access to bank account information. Audits focus on bookkeeping formalities rather than assessment of tax liabilities, reducing auditor productivity.

- **Low effective penalties.** While penalties stipulated in the law are generally high in Greece, the probability is very low that these penalties will be fully applied and enforced. For instance, when an audit order has already been sent out, one can still apply for an amnesty on audits. In addition, if an audit detects undeclared liability, the local tax office manager may reduce the penalties for non-compliance (about 100 percent of the tax liability) and the interest for late payment (standard rate per month of 1 percent, not compounded) by up to 80 percent. If the taxpayer settles the final liability immediately, the taxpayer receives a 5 percent cash rebate on the total amount paid and faces little risk of prosecution. If this liability becomes overdue the taxpayer can participate in an installment scheme, which offers additional discounts to the penalties or interest by 50 percent if paid immediately. This reduces the effective interest rate well below commercial lending rates, making it cheaper to not declare taxable incomes even in the case that the actual tax liability is eventually detected (Table 2, Figure 1).

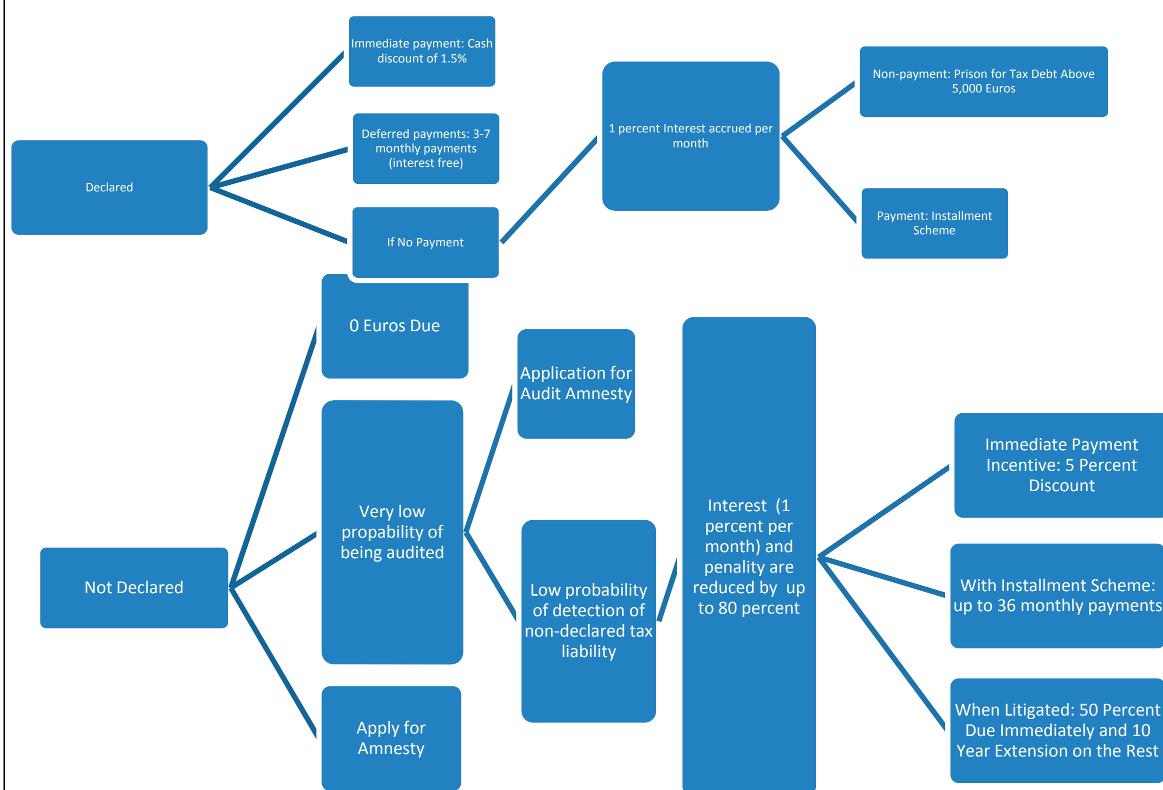
Table 2. Costs of Alternative Tax Payment Schemes: Bank Loan Deferral Scheme or Payment Following Audits

(Example for actual tax liability of 100 euros)

	Payments Due									
Year	1	2	3	4	5	6	7	8	9	10
1. Tax liability declared and financed through unsecured bank loan (12 percent interest)	**100**	**112**	**125**	**140**	**157**	**176**	**197**	**221**	**248**	**277**
2. Tax liability declared and financed through installment scheme (1 percent interest per month)	**100**	**112**	**124**	**136**	**148**	**160**	**172**	**184**	**196**	**208**
3. Non-declared tax liability detected										
Tax liability	100	100	100	100	100	100	100	100	100	100
Penalty (about 100 percent of tax liability)	100	100	100	100	100	100	100	100	100	100
Standard interest rate (1 percent per month, up to 200 percent of tax liability)	24	48	72	96	120	144	168	192	200	200
Total liability (tax liability plus surchages)	224	248	272	296	320	344	368	392	400	400
66 percent discount on penalty and interest charges (up to 80 percent)	-83	-99	-115	-131	-147	-163	-178	-194	-200	-200
Final liability due	141	149	157	165	173	181	190	198	200	200
Immediate payment (5 percent discount on total amount)	**134**	**142**	**150**	**157**	**165**	**172**	**180**	**188**	**190**	**190**
If only 50 percent of actual tax liability detected	67	71	75	79	82	86	90	94	95	95
Payment of overdue obligations under installment scheme (50 percent discount on interest and penalties)	**121**	**125**	**129**	**133**	**137**	**141**	**145**	**149**	**150**	**150**
If only 50 percent of actual tax liability detected	60	62	64	66	68	70	72	74	75	75

Source: IMF staff estimates.

Figure 1. Tax Evasions—A Decision Tree



- **Amnesty**. Frequent use of amnesty schemes has created self-fulfilling expectations of more generous future schemes. For instance, under the last big scheme of 2010 a minor additional tax liability could be paid in exchange for not having the tax returns audited.

13. Other social and economic factors identified in empirical studies can also help to explain evasion in Greece.

- **Weak social norm of compliance and a tax system perceived as unfair.** For instance, Andreoni et al. (1998) find that "the taxpayer's perception of the fairness of the tax system and burden, and that there are moral rules and sentiments" are key factors to explain compliance. With respect to Greece, the lack of political will to tackle tax evasion of certain groups is often perceived as an element of injustice of the system.

- **High dissatisfaction with government services and public goods.** If the individual does not perceive that he gets anything in return from the government, the incentives not to pay taxes are high. Greece has an oversized and inefficient public sector. The level of corruption in the government is high, with Transparency International ranking Greece as the most corrupt country in the EU. The quality of the services delivered by the administration to its citizen is low, requiring often side-payments, queuing time and excessive bureaucratic procedures. As a consequence, citizens depend heavily on costly private services, including for education, health and motorways.

- **Pressure for business survival**. Companies face competition from a large share of companies that do not charge or pocket the VAT, do not pay the high labor tax wedge of 43 percent and avoid CIT/PIT on their income, and are thus able to provide the product or service at much lower prices. Further, the cyclical impact of the deep recession on companies is putting further pressure on companies to evade taxes in order to survive.

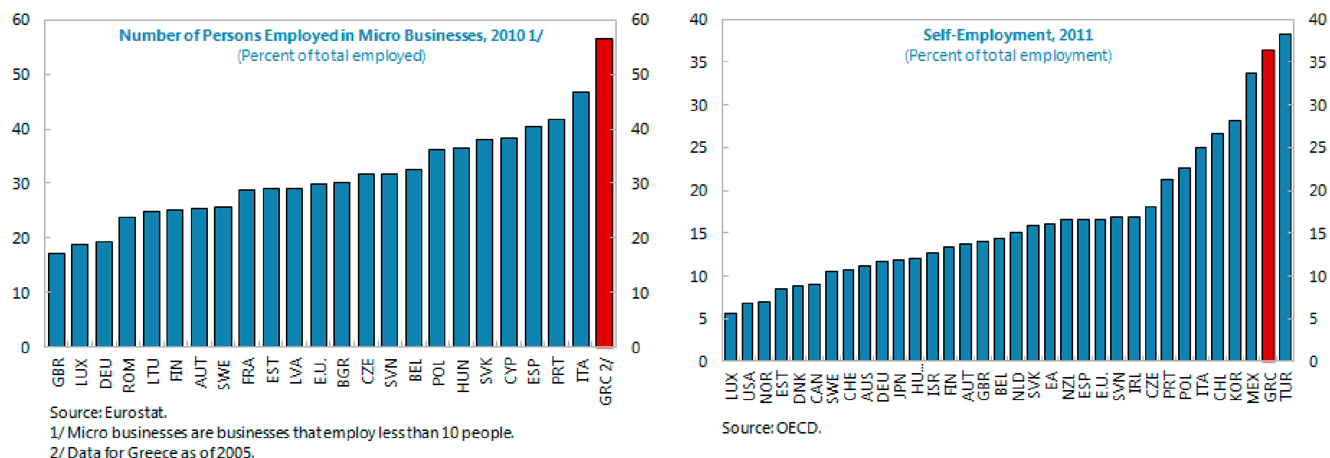
Table 3. Irrationality of Paying Taxes

	Compliant Tax Payer	Tax Avoider and Evader
Staying in business	Charges a 23 percent VAT rate on the sale of goods and services, insures all its employees with a tax wedge of 43 percent and declares all its profits. The company will be subject to unfair competition from businesses not being compliant with their tax obligations. Eventually it will go out of business.	Does not impose any VAT, or pockets the VAT, and employment is informal. Even though the company is not very productive, it can stay in business because it benefits from very high margins.
Paying penalties for undeclared work is cheaper than paying contributions	Pays social security contribution for all its employees. The tax wedge on labor amounts up to 43 percent.	On average, every company is visited by the labor inspectorate every ten years. If undeclared employment is detected, the average penalty for an informal employee is Euro500. This is only one month of payment in social security contributions and PIT for a minimum income earner. By law, the labor inspectorate can close business, but this is rarely done.
Not declaring has lower penalties than declaring and not being able to pay	Declares all tax obligations. If he/she does not have the resources to pay the tax debts, borrows from the bank or accrues a tax liability with a monthly interest rate of 1 percent, and the risk of prison charges.	It is estimated that only a small part of the undeclared income is detected in tax audits. The undeclared tax liability as a result of the tax audit assessment will be due only in up to 36 monthly installments. If the taxpayer decides to pay immediately he will receive a cash rebate of 5 percent. The interest and penalty charges can be negotiated to a minimum and if the taxpayer actually pays the tax due there is rarely any risk for him to be prosecuted.
Amnesty schemes are offered	Stays current on all tax obligations.	Waits for the next amnesty scheme. If he/she cannot comply with the payment schedule of the amnesty scheme, then drops out and waits for the next one.
Installment schemes	Pays tax obligations in time, and if needed borrows at market rates from the bank to meet the tax obligations.	Takes advantage of very generous installement schemes, which do not compound interests and offer generous discounts if the total tax liability is repaid.
Going to court is better than paying taxes	After the additional tax debt has been assessed through an audit this must be paid within 36 monthly installments.	Tax payer goes to Court with a projected hearing data in--on average--10 years. In a large share of the tax cases, the court decides in favor of the tax payer.
Deadlines are always extended	Files and pays taxes in time.	Waits for an extension of the filing and payment deadlines or an installment scheme.

Source: IMF staff.

14. The result of the costs and benefits in Greece is widespread evasion. Over time, economic organizations have shifted to facilitate to this. The shift in economic organizations has in turn fed back onto the tax administration's ability to detect and enforce, creating a vicious cycle.

15. Indeed, in Greece, about 35 percent of the labor force is self employed, compared to a European average of 14 percent. This is mainly driven by tax avoidance and evasion schemes, as self employed carry a lower tax burden and find it easier to hide their income. Further, in Greece about 55 percent of the employees work in companies of less than 10 employees.



Source: Eurostat.
1/ Micro businesses are businesses that employ less than 10 people.
2/ Data for Greece as of 2005.

Source: OECD.

D. The Way Forward

16. In general, the organization, procedures, and operations in every tax administration change over time. Reforms are needed to keep up with new challenges in tax compliance and with evolving needs for taxpayer services. Revenue administration reforms have also picked up in the last several years in many advanced countries with a view to reduce costs and support fiscal consolidation. A reform strategy depends on the size of the tax gap and the already existing organizational effectiveness of each revenue administration (Table 4, Silvani and Baer, 1997).

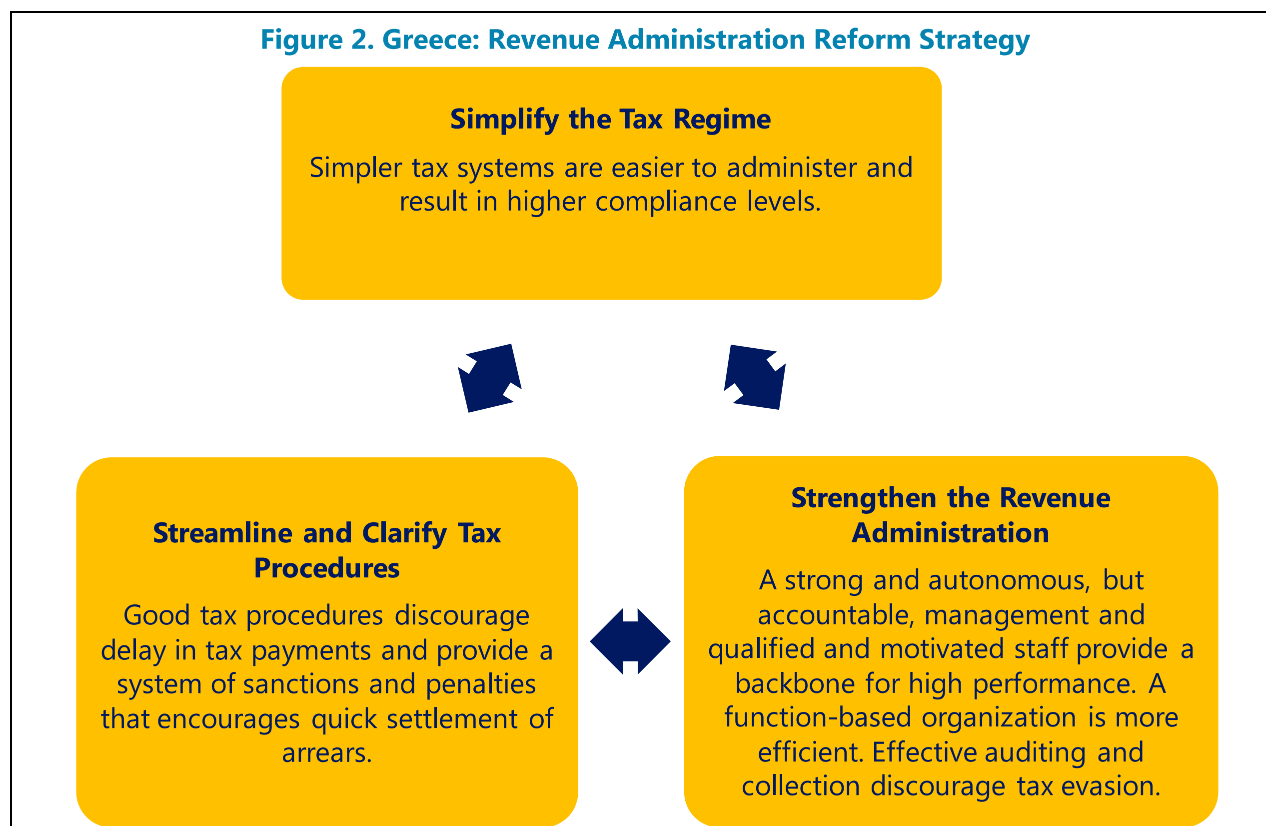
17. Greece needs a holistic approach to revenue administration reform to achieve effectiveness and flexibility and respond to the outstanding fiscal consolidation needs. A comprehensive reform strategy is the only possible course, given deep-rooted problems of mismanagement, staff qualification and integrity, and lack of taxpayers' compliance. It is also the only solution to aligning Greece with advanced country practices. Such a comprehensive strategy was provided in 2011 technical assistance advice (IMF, 2011), aiming at: (i) reducing tax evasion and the shadow economy; (ii) improving effectiveness in revenue collection; (iii) eradicating corruption to restore the tax authorities' credibility and taxpayers' confidence; (iv) encouraging voluntary tax compliance; and (v) improving the redistributive effects of the tax system. As problems of political interference and resistance also appeared to run deep, in 2012, technical assistance further determined the need for a minimum level of autonomy of the revenue administration to ensure that a reform strategy can be carried forward (IMF-EC, 2012).

Table 4. Criteria for Tax Administration Reform

Tax Gap	Tax Administration Features	Country Examples	Reform Type
<10 %	• Organization if well structured, managed, and financed • Staff is qualified and trained • Sanctions are adequate and applied • IT systems are effective • Taxpayer services are widely available	• France, 2008 • Netherlands, 2010 • U.K., 2010/11	Adjusting the organization and/or operations to maintain flexibility and meet new challenges.
10–20%	• Organization if well structured, managed, and financed • Staff is qualified and trained • Sanctions are adequate and applied • IT systems are effective • Taxpayer services are available	• Austria, 2011 • Czech Republic, 2012 • Poland, 2011	Reducing operating costs; taking advantage of new technology; improving enforcement of large, small and unregistered taxpayers.
20–30%	• Weak organization and management • Staff may be qualified, but uses corrupt practices • Information exists but ineffectively used to control compliance • IT systems exist but not fully used	• Latvia, 2008, 2011 • Lithuania, 2010 • Slovak Republic, 2012	Organizational, procedural, and management reforms to improve effectiveness of operations, change taxpayer behavior.
> 30%	• Lack of financial and material resources • Poorly qualified and trained staff • Ineffective procedures • Non-implementation of measures to improve compliance • High turnover of technical staff • Corrupt practices • No taxpayer services	• Peru, 1991 • Bulgaria, 2000 • Georgia, 2005 • Greece, 2010	A radical and comprehensive reform to modernize all laws , systems, and processes affecting tax collection and creating a well equipped and trained workforce to efficiently and transparently administer the tax system.

Sources: Brondolo et al., 2008; Durand, 1996; EC, 2009; IOTA Tax Tribune, Issue 28, 2011; OECD, 2011; Silvani and Baer, 1997; and. World Bank, 2000 and 2009.

18. In light of the broader problems with the tax system in Greece, the comprehensive reform strategy extends beyond tax administration reforms. To improve the effectiveness of the tax administration, it seeks to: (i) simplify the existing tax legislation; (ii) simplify tax procedures; and (iii) reform the governance, organization, and operations of the tax administration (Figure 2). The simpler tax policy regime and tax procedures rules provide greater incentives for taxpayers to comply with their tax obligations and are easier to administer.



- ***Simplifying the tax policy regime***. A new income tax legislation adopted in January 2013 reduced the number of personal income tax brackets from 8 to 3 and eliminated a number of tax credits and deductions. It also reduced the number of tax rates at which different types of capital income are charged. Reforms in the coming months will overhaul the existing Income Tax Code and its amendments into a single piece of legislation and eventually consolidate provisions on tax incentives currently existing in other laws, and simplify the progressive surcharges on rental taxation and overall income. By June 2013, property taxes will also undergo a major reform consolidating the existing state-level property tax (FAP), the extraordinary real estate tax collected by PPC through electricity bills, and the real estate transaction tax. This reform will simplify the multiple rules currently used to assess property tax obligations, establish a common broad base for property taxation, and eliminate widespread uncertainties in tax assessments. Going forward, a simplification of the VAT regime is also needed to reduce the opportunity for arbitrage toward lower rates and create a more stable tax base over the business cycle.

- ***Streamlining tax procedures***. The new tax procedures code (TPC) takes over legal provisions that previously existed in the income tax code, tightening provisions for audit, assessment, provision of information, collection enforcement, and dispute resolution. These provisions are intended to clarify filing and payment procedures and set clear deadlines, ease the collection of information relevant for tax assessments, strengthen the ability of the revenue administration to place a lien on a taxpayer’s property and dispose of the property to satisfy a tax obligation, impose an interest that compensates the government for the opportunity cost of belated tax

revenue, and charge penalties on late tax and filing obligations in a transparent manner. The bookkeeping code was also simplified in November 2012, and is expected to be streamlined further shortly after the adoption of the TPC.

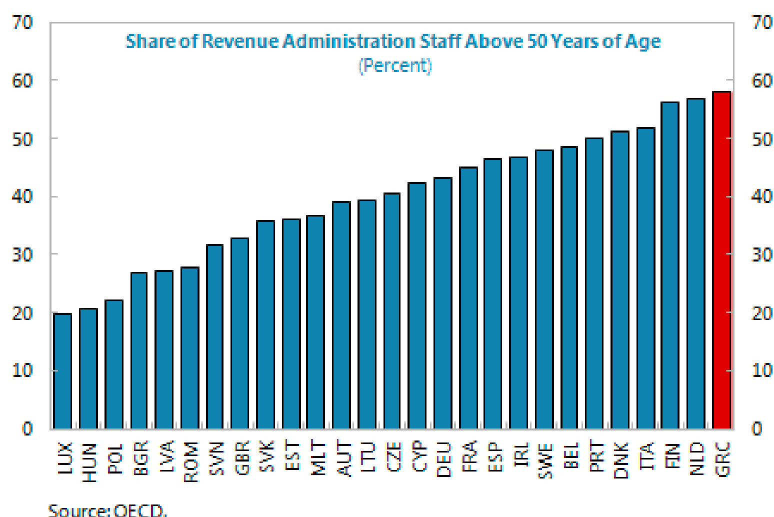
19. Strengthening revenue administration has several components:

- ***Operational reforms.*** There is a need to improve detectability of tax evasion by: (i) adopting segmentation strategies that focus resources where the tax risks are the greatest (e.g., largest taxpayers, high-wealth individuals, and high income self-employed); (ii) improving the incentives and qualifications of staff in these units; (iii) increasing collection of third party information; and (iv) using risk-based approach to audit. Enforcement also needs to be strengthened by: (i) improving debt collection; (ii) adhering strictly to the no amnesty commitment; (iii) introducing installment arrangements in line with international practice; (iv) adhering to filing deadlines; (v) improving dispute resolution and judicial process; and (vi) developing taxpayer assistance strategies to improve voluntary tax compliance. Legislative changes to upgrade operations have already been made. Legal constraints to write-off uncollectable amounts of tax debt have now been removed. Legal obstacles to auditing those cases that represent the highest revenue risk have also been dismantled. Legislation creating formal audit centers for large taxpayers and high-wealth individuals has been passed. Legislation to use indirect audit methods and establish the actual income of taxpayers—rather than rely excessively on presumptive methods of taxation—has also been adopted. Finally, a new legislative framework for installment schemes has been adopted, which is intended to depart from the vicious cycle of extending amnesty schemes.

- ***Autonomy and organization.*** There is a need to remove completely political interference from revenue administration. A law passed in 2012 established the General Secretariat for Public Revenue and required transferring powers from the Minister to the Secretary General over implementation of customs and tax laws related to revenue collection; provided for the Secretary General to appoint heads of units; and required that the Secretary General be a non-political appointment for 5 years. Further legislative changes in March and April 2013 gave powers to the Secretary General to make changes of organizational units without constraints imposed by the Ministry of Administrative Reform (MAREG). Accountability of the revenue administration is strengthened by the provision to establish an advisory board to the Secretary General.

- ***Resources and staffing.*** The Greek revenue administration is aging—with more than 50 percent of staff exceeding 50 years of age. Skills are also lacking across main functions, such as audit and debt collection. However, upgrading staff is notoriously difficult due to a low-entry level pay and a flat grade for auditors, which do not create sufficient incentives for existing and new staff to perform complex tasks. For example, in comparison with revenue administrations in other advanced countries—where the minimum remuneration of an auditor is about 134 percent of GDP per capita, tax auditors in Greece are paid significantly less—at less than 50 percent of GDP per capita. Auditor pay scale distinguishes multiple grades, and auditor remuneration reaches 340 percent of per capita GDP at the highest grades (OECD, 2006). Under newly passed

legislation, the Secretary General is now allowed to determine the grading and promotion system of the revenue administration, which will allow changing staff incentives and encouraging skilled staff to take challenging audit and debt collection functions. The appointment process for staff—while is still under the control of ASEP and constrained by the overall general government hiring constraints—will also be determined by the Secretary General. A code of ethics for the revenue administration that determines standards for professional integrity of staff and an anti-corruption plan for the entire public administration have also been adopted.



Source: OECD.

20. Despite significant legislative effort, the reform continues to be challenging. While started in 2010, it has continuously faced both political and internal resistance to change. The reform has been marred by lack of direction, management, and control from headquarters, especially in periods of political uncertainty: the revenue administration had no head for most of 2012. The process to reshape the organization by scaling down powerful local tax offices and toward a function-based organization has been very slow. As a result, the revenue administration continues to operate under mostly decentralized control, in which eradicating corruption remains a major challenge. Efforts to upgrade the quality of audit staff through both external recruitment and internal certification have mostly failed due to union resistance and management inability to effectively reassign staff.

E. Change: How and How Quickly Can It Happen?

21. Other countries offer useful lessons on the key ingredients for successful transformations:

- ***Unequivocal political support to reform is a common factor for success*** (Table 5). The reform undertaken in Hungary in the early 1990s, which sought to improve collection and audit capacity and upgrade the IT system, saw rapid initial progress under the powerful supervision of the president of the tax administration agency. The agency had been established in the late 1980s as a semi-autonomous organization, with non-political leadership having sufficient powers to implement organizational reforms. However, a government change led to a change in governance, as the position of the president of the tax administration became a political appointment. Political interference in agency affairs continued throughout the mid-1990s, which caused reform delays and eventually hampered the adoption of new audit selection methods.

Table 5. Country Experiences with Institutional Reforms

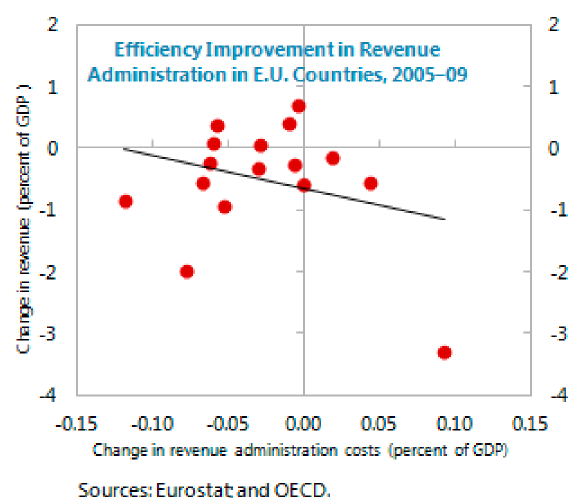
Country	Type of Reform	Period
	Revenue Administration Reforms	
Latvia	Consolidating regional offices and reducing the structure of the organization from 23 to 15, mostly functional, units.	2008–09
Bulgaria	• New unified revenue administration; consolidating 340 offices into 29; upgrading functions; merging SSC collection into tax administration; IT platform.	2000–09
	• Further reduction of offices from 29 to 7.	2009
Chile	Activating an anti-evasion plan, expanding large taxpayer audit staff; new decentralized work force for cash economy measures; information technology upgrades.	2002–09
Georgia	Reorganized tax headquarters and field units; New tax code and simplified administrative procedures; abolishing compulsory audit of all annual filings and adopting a risk-based approach to tax audits; compulsory electronic filing; new two stage administrative dispute resolution mechanism.	2005–07
FYR, Macedonia	New tax procedures law; restructuring of headquarters and field offices; Creating large taxpayer office; flexibility in hiring, firing, rewarding staff; integrating collection of social insurance contributions to tax agency.	2005–09
Peru	Creating an independent revenue administration agency directly reporting to the president with full budget flexibility.	1991–95
Hungary	• Comprehensive: reorganizing the HQ office; creating an LTU; improving VAT and PIT procedures: new arrears management approach.	1993–96
	• IT upgrade; Improving audit selection.	1996–98

Sources: Durand, 1996; IOTA Tax Tribune, Issue 28, 2011; and World Bank, 2000 and 2009.

- ***A reform program office charged with reform implementation is needed to break through stiff resistance***. Many modernization programs fail due to failure to manage the complexity of reform while keeping up with the overwhelming nature of the day to day business demands on a few key leaders. The reform of the Peruvian revenue administration in 1991 is one of the best examples of efficient transformation within a public service. The country was engulfed in a crisis that exacerbated already deeply bureaucratic and corrupt practices. The policy team in charge of the revenue administration reforms had the highest political support and comprised a number of reformed-minded members with spotless reputation and strong technical skills. The team developed and carried out a sweeping plan since experience had already shown that incremental changes were prone to setbacks, resistance, loss of political support, and reform fatigue. The element of surprise—both for taxpayers who saw unyielding new revenue

administration staff and for the labor union that resisted the change—yielded results and was possible due to a careful selection of a new generation of university educated recruits to handle difficult compliance cases.

- ***Timing is essential.*** Swift reform implementation has been shown to secure an early gain from demonstrating political will and value for money. Bulgaria's transformation of the revenue administration took almost 10 years. Despite impressive efficiency gains made during the period, the revenue agency remained hampered by large operating costs in the wake of the global financial crisis. Of 29 existing regional offices, only 7 collected 80 percent of revenues. A decision to further rationalize the organization of the revenue agency would support the government's objective to keep public administration costs low while improving efficiency. However, as memories of the previous long-lasting reforms were still fresh, the reorganization had to be completed rapidly to avoid resistance, high staff turnover, drop in morale, and efficiency loss. This was done in four months at the end of 2009, containing reform costs within the current fiscal year and budget envelope.
- ***Reforms should focus on the areas that have the highest revenue potential.*** Reforms in a number of countries have shown large revenue gains once the institutional organization was shifted from a regional to a function based model and refocused on large tax payers, debtors with large tax liabilities to the government, and stronger enforcement. In Indonesia, given the lack of capacity to introduce comprehensive reforms, the authorities initially focused only on collection and audit of large taxpayers. Strengthening enforced collection raised the revenue ratio by ¼ percent of GDP, while the establishment of a large taxpayer unit increased revenues by ¾ percent of GDP over 4 years. Revenue gains could be higher over a longer period of time—Bulgaria increased tax and SSC collection by 5 percentage points of GDP, and VAT collection alone, where non-compliance had been rampant, by 3 percentage points of GDP over a 6-year period. In the most successful cases, such as Georgia where tax revenues increased by 6 percent of GDP in 2005-07, substantial revenue gains could be achieved even within a medium-term horizon. Experience in the European Union more broadly has also shown that rationalization of revenue administration costs has been associated with an increase in the revenue ratio in the subsequent year, most of which is in indirect taxes.[2] Therefore, there is a strong argument to focus resources on narrowing the VAT gap.



Sources: Eurostat; and OECD.

[2] Based on panel data estimation using annual data for the 27 EU countries during 2007-2011 with the dependent variable being tax revenue to GDP and independent variables being cost of tax administration as a share of GDP and the number of hours needed to complete tax filing and payment requirements. The results show that a decline in tax

(continued)

- ***Staff reductions in the revenue administration can help improve the quality of staff and overall efficiency.*** Cost reductions have been a main factor to undertake revenue administration reforms in advanced countries and in several emerging economies in recent years (OECD 2011). In 2008, the Latvian revenue administration refocused the organizational model on functional basis, removing the need to maintain large support staff in regional offices. The reorganization led to a staff reduction by 10 percent while the reform was still ongoing in 2008–2009, and an additional reduction of 13 percent in the following 2 years. The rationalization of regional offices in Bulgaria brought a reduction of staff by 8 percent in 2009 alone, which added to a 13 percent reduction from the previously completed reforms. In some cases, the rationalization also required demotion of mid-level managers due to the smaller office network. The reforms in Peru in the early 1990s led to the dismissal of 2/3 of the existing staff. In all cases, resources released from the reduction of staff were used to improve the incentives, qualifications, and career prospects of employees who were reallocated to the newly created functional units.

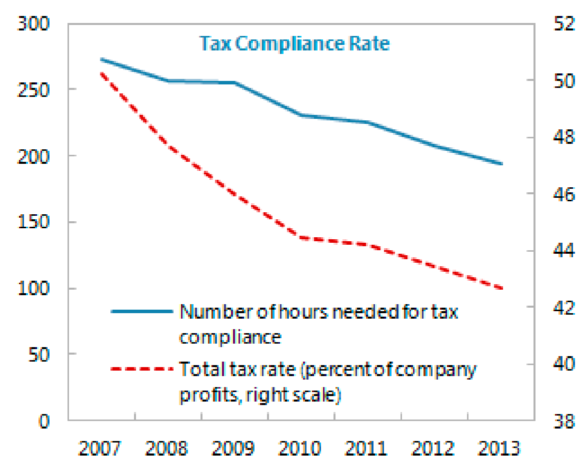
- ***A new generation of tax administration officials changes the culture and creates a new public image of the revenue administration.*** During the reform carried out in Peru in the early 1990s, strict criteria were set for recruitment of new staff. More than 15,000 applicants were tested, many interviewed, and only 3 percent selected. The recruitment was carried out by the revenue administration's training institute, which then completed specialized training in legal matters, audit, tax collection, and ethics. Comprehensive reforms in other countries—Georgia, Bulgaria, and the Baltic countries—also introduced new hiring, grading, promotion and training policies seeking to establish a new professional workforce. Codes of ethics, strict reprimands for accepting gifts—even outright dismissal as in Peru—and regular rotation of auditors also helped raise the level of professionalism and integrity in these countries.

- ***Passing through the organizational reforms allows the revenue administration strategy to focus on better compliance even in the most difficult circumstances.*** The 2009 crisis found Latvia with a 23-percent reduction in revenues and almost 3 percentage point of GDP reduction of the revenue ratio relative to 2008. Nonetheless, the 2008–2009 reforms allowed taxpayer categories with large risk of non-compliance to be identified more easily. It also helped reallocate resources faster to tasks that would require greater emphasis—reinforcing tax debt recovery, filing processes, audit, and measures to combat criminal activities. Before the crisis hit, Estonia had also undergone organizational changes merging core functions, reducing support staff, and focusing on efficient tax debt collection and a new tax refund system. These changes provided a good platform to handle large tax arrears, including by providing installment plans to viable enterprises. Small debt installment arrangements were provided on the basis of automatic risk criteria, while specialized staff was reallocated to handle more complex cases, where assessment of business viability was more difficult. The new VAT refund system also allowed

administration costs by 0.1 percent of GDP is associated with an increase in the revenue ratio by 0.8 percent of GDP and in indirect taxes by 0.7 percent of GDP in the subsequent year.

more efficient scrutiny of high-risk VAT refund claims. A plan to improve compliance in Peru was also possible only after the first stage of reorganization was completed. This is because a good compliance plan relies both on strict law enforcement and capacity of revenue administration to provide quality taxpayer services.

- ***Tax rate reductions should be used to support the reforms.*** The improvement in voluntary tax compliance and increased collection efficiency in Bulgaria allowed reduction of tax and social contribution rates. This helped reduce business informality by about 30 percent in 2002–2008. Reduction in tax compliance costs—a comprehensive tax reform combined with introduction of e-filing—has helped buoy tax revenues in Georgia and reduce the tax burden on companies by more than 20 percentage points of company profits since 2007. In advanced economies, experience in the EU since 2007 has also shown that reforms that have aimed at reducing revenue administration costs and compliance costs for the taxpayers—in terms of hours spent—have lead to an increase in revenue and a subsequent reduction in the tax burden on companies. In particular, IMF staff estimates suggest that a decline in the hours needed for compliance by 100 could increase the revenue ratio by about 0.2 percent of GDP and allow a reduction in the tax burden on businesses—the ratio of total taxes payable by a business as a share of profits—by 1.3 percentage points.[3]



Source: Price Waterhouse Coopers, Paying Taxes 2007–13.

F. Conclusions

22. Experience in other countries shows that a change in tax administration requires significant effort and could take time. The review of the empirical factors has shown that the prevalence of tax evasion in Greece is partly the result of administrative capacity and partly because of fundamental flaws in the design of the incentive and penalty structure of tax administration. While several factors are less under the control of the Greek government (e.g., decentralized economic structure), others can be addressed immediately through changing and enforcing laws:

- ***Simplifying the tax system to remove tax avoidance schemes and ambiguities.*** This provides certainty for the taxpayers and reduces the administrative costs for tax administration, including litigation costs for tax assessment disputes.

[3] The results are based on a panel data estimation using annual data for the 27 EU countries during 2007-2011 with the dependent variable total tax rate and the independent variables cost of tax administration as a share of GDP and the number of hours needed to complete tax filing and payment requirements.

- ***Establishing a legal and institutional framework that makes it rational to comply with the tax law.*** This includes increasing the effective penalties, improving the enforcement mechanism, and adhering to a policy of no new amnesty schemes. Over time, improved revenue collection should provide the basis for reducing the high marginal tax rates, which will further increase the incentives to comply.

23. More complex reforms relate to:

- ***Changing the governance of the revenue administration.*** Change should come from the top, where strong leadership is important to break with old practices, design a more flexible organization that can fight tax evasion, and provide the right incentives to staff.

- ***Focus the revenue administration on those functions that have the greatest revenue potential.*** This requires placing more effort and greater resources in the audit centers for large tax payers and high-wealth individuals, where the risk of non-compliance is the greatest. Boosting the large debtor unit will help improve enforcement as well as maximize the compliance with the newly introduced installment schemes.

- ***Fighting corruption within the administration.*** This will increase the share of tax payments that end up with the government, but also will create incentives to comply as the money paid is used for services to the tax payer rather than misused by a few individuals.

24. Finally, reforms in other parts of the public administration will help with synergies. The efficiency of the judicial system may determine whether efforts to improve detectability and enforcement will yield results. Reforms in public financial management in general could boost budget flexibility of the revenue administration. Reforms in real estate regulation and taxation will help with enforcement and tax and SSC debt collection. The whole-of-government anti-corruption plan is key to create a new culture of integrity in a public administration where mobility is set to become an important feature in the near future.

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HOW CAN THE FINANCIAL SECTOR SUPPORT RECOVERY?[1]

Evidence from past financial and economic crises suggests credit growth is likely to take several years to recover. Other countries have achieved growth even as credit shrank, but so called "creditless recoveries" tend to be weak. Based on empirical models from the literature, we find that Greece is likely to go through such an episode. The priority, therefore, should be to minimize its duration. Experience shows that dealing with non-performing loans decisively and promptly is a critical precondition for a resumption of bank lending. Given Greece's high NPLs, this points to the need for a strong focus on designing and implementing debt restructuring frameworks as well as improving banks' loan resolution practices. These steps will be necessary to remove doubts about the sufficiency of bank capital and restore balance sheet health so that Greece's banks are positioned to support the economic recovery.

A. Introduction

1. **Unlocking credit is key to financial sector support for growth in Greece.** The overall growth strategy relies on shifting resources from less to more productive uses. The financial sector can facilitate this process by financing necessary investment. In this paper, we discuss what international experience suggests about the prospects of credit growth in Greece in the short to medium term. We also focus on one critical aspect of the authorities' adjustment program in ensuring effective functioning of the financial sector going forward, i.e., the design of a framework for private sector debt restructuring. We discuss some of the legal and institutional obstacles currently in place in Greece that would prevent an effective debt restructuring process, and review international experience and best practices in this area.

B. Creditless Recoveries: Is there a Contradiction?

2. **Credit growth is expected to lag the recovery in output by at least two years and grow more slowly than nominal GDP for some time in the medium term** (see Figure 1, and Box 1). This raises two important questions: First, is this projection consistent with our output growth assumptions, and second, is it in line with the experience of other countries emerging from crises?

3. **International experience shows that a flat or even falling credit is not inconsistent with output growth.** In fact, creditless recoveries, as they are referred to in the literature, are not uncommon. Several studies in recent years have documented the frequency and determinants of creditless recoveries. Abiad et al. (2011) find that one in five recessions is followed by a creditless recovery (based on a sample of advanced, emerging and lower income countries). Bijsterbosch and

[1] Prepared by Maral Shamloo.

Dahlhaus (2011) find that one in four recoveries is creditless (in a sample of low to middle income countries).[2] Both studies find that this frequency doubles if the recession is preceded by a banking crisis. Examples include Indonesia, Malaysia and Thailand in the aftermath of the Asian crisis, and Argentina and Uruguay in the aftermath of the Argentine sovereign default. More recently, Latvia, Iceland, and Ireland all experienced creditless recoveries. Real credit growth in Latvia and Ireland is still shrinking fast, despite positive GDP growth for both economies since 2010. In Iceland, real credit continued to shrink until early 2012, 6 quarters after GDP growth turned positive, and has slowed down since (see Figure 2).

4. There are different ways in which output growth can be supported even in the absence of growth in banking sector credit:

- **First, firms may finance themselves using non-bank resources.** For instance, firms can use internal capital generation, FDI or trade credit, or raise funds in capital markets. This substitution may lead to the observation of creditless recoveries when credit is measured as bank credit only. This theory is consistent with the findings of Abiad et al. (2011) that, during creditless recoveries, industries that are more dependent on external finance tend to grow disproportionately less than those that are more self-financed. In Greece, internal capital generation could be an important source for financing investment, at least for the non-SME sector (SMEs make up a large fraction of Greek enterprises). The Greek non-financial corporate sector has a large and positive net international investment position (around 30 of GDP). Greek corporates' net-savings (after investment) is also very large compared to the stock of credit. Net annual savings of Greek corporates was on average 11 percent of the stock of corporate sector credit, and this shot up to close to 20 percent in 2012, both due to a contraction in the credit stock and due to less investment by the firms. By comparison, Euro area firms were net borrowers in 2012 (Figure 3).

- **Second, creditless recoveries may be associated with a process of reallocation from some sectors to others.** If this is the case, gross credit flows will go undetected when looking at net flows (see Claessens, et al., 2008). In Greece, as the economy shifts from non-tradable sectors such as construction to more tradable sectors (such as export sector and services), banks can reduce credit to certain industries and channel it toward others. If there are differences in productivity, this reallocation will be accompanied by growth. Indeed, this process is already underway. The 15 percent reduction in overall outstanding credit since mid-2010 masks sectoral differences in credit allocation. Publicly owned industries such as utilities as well as the mostly privately-owned tourism sector have expanded their balance sheets at the expense of even larger than average deleveraging in the wholesale and retail trade sectors, non-shipping transportation and professional and support activities.[3]

[2] Also see Calvo et al. (2006a and b), Biggs et al. (2009), Coricelli and Roland (2011), and Claessens et al. (2008).

[3] The stock of credit to shipping industry has also reduced dramatically. But this is due to shipping firms substituting credit from Greek banks for foreign ones, for cost reasons.

- **Third, if GDP recovers mainly through absorption of unused capacity as opposed to new investment, the recovery may be creditless** (see Calvo et al., 2006a, 2006b). In Greece, capacity utilization has decreased (see Figure 3), indicating that an initial rebound in activity might not require new investment.

5. This is not to say that creditless recoveries are desirable or costless. Several studies find that creditless recoveries tend to be weak, with subsequent growth on average a third lower than in normal recoveries. Importantly, Abiad et al. (2011) find that investment—which is more likely to depend on credit than consumption—makes a disproportionately smaller contribution to growth in creditless recoveries relative to other recoveries. This does not bode well if the growth strategy is an investment-based one.

6. Based on established patterns associated with creditless recoveries, it seems very likely that Greece will experience one (see Box 2). Research suggests that creditless recoveries are often preceded by large output losses, banking crises, and high private sector indebtedness. We use two econometric models to forecast the likelihood of a creditless recovery for Greece, based on factors found to be closely correlated with such episodes, and their contribution to the probability of such occurrences. Both of these models indicate that there is a very high probability that the stock of real credit will shrink for the next three years in Greece. Three main factors contribute to the high likelihood that Greece will see a reduction in the stock of real credit going forward. First, and by far the most important, is the concurrence of a banking crisis with the recession; second, is the large reduction in real GDP; and third, is the relatively high credit to GDP ratio. The latter is due to the fact that GDP has shrunk by close to 25 percent since the onset of the crisis, whereas the reduction in credit has been considerably milder so far.

Box 1. Credit Projections in the Macroframework

Our baseline projections show a negative growth in private sector credit until Q2 of 2016, 8 quarters after GDP growth turns positive (see Figure 1). Our projections are based on the following assumptions:

- In 2013, the projected fall in deposits (-1.2 percent, y-o-y in December) is significantly lower than the contraction in nominal GDP (-5.4 percent, y-o-y in December), based on our assumptions about a partial return of private sector deposits that left the system in 2011–12, mainly due to confidence reasons. This trend is assumed throughout the year.

- From 2013 to the end of 2016, private sector deposits are assumed to grow at the same rate as nominal GDP, stabilizing at 92 percent of GDP which is in line with 2008 average.

- Credit flows are calibrated to achieve two objectives: i) reduction in central bank financing to 15 percent of total liabilities, in line with the stated aim of the old funding plans[1]; and ii) a reduction in the loan to deposit ratio towards its pre-crisis long-time average of 80. Credit thus is projected to grow more slowly than deposits.

- In terms of components of credit growth, a reduction in credit for housing and consumer lending is assumed. This is based on our assumptions about a further correction in property prices, and slower improvement in household disposable income compared to nominal GDP.

Credit and Deposit Growth Rates

	Average, 2005–08	2009	2010	2011	2012	2013	2014	2015	2016
						Proj.			
	(Year-on-year percent change)								
Real private sector credit growth	14.6	-2.2	2.1	-4.6	-7.7	-6.3	-2.5	-1.4	0.5
Nominal private sector credit growth	19.1	0.0	3.3	-3.6	-8.4	-7.3	-2.8	-1.0	1.6
Housing	33.4	3.7	-0.1	-2.6	-4.8	-8.7	-4.7	-2.9	-0.4
Nonfinancial corporations	13.0	-0.3	-5.9	-3.0	-10.8	-5.4	-0.6	1.3	3.8
Consumers	26.8	-1.1	-3.7	-7.9	-8.0	-10.2	-6.1	-4.4	-2.0
Deposit growth	15.1	-0.5	0.5	-17.1	-5.8	-1.2	0.4	3.9	5.8
	(Percent)								
Ratios									
Credit to GDP	91.6	108.0	116.1	119.2	117.5	115.2	111.7	107.0	103.6
Central bank liabilities to total liabilities	3.3	10.1	19.0	16.1	27.4	21.6	19.1	15.8	12.8

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

[1] The funding plans were developed by the EC/ECB/IMF in coordination with the Greek banks in 2011 as a way to monitor and project the banks' funding profile going forward. They had to be abandoned in the autumn of 2011 when accelerated deposit outflows and political uncertainty made these projections increasingly difficult.

Box 2. Estimating the Likelihood of a Creditless Recovery for Greece

To estimate the probability that Greece's recovery will not be accompanied by a pick-up in credit, we use some of the macro determinants for creditless recoveries identified in two panel probit models estimated by Bijsterbosch and Dahlhaus (2011) (henceforth BD) and Abiad, et al. (2011) (henceforth ADL).
The baseline specification in both models is a static panel probit model, i.e.,

$$y_{it}^{*} = X_{it}\,\beta + \varepsilon_{it}$$

$$y_{it} = I(y_{it}^{*} > 0), i = 1, \dots, N, t = 1, \dots, T$$

where $I(y_{it}^{*} > 0)$ is an indicator function which transforms the latent variable y_{it}^{*} into a binary variable y_{it}. y_{it} indicates whether country *i* at time *t* has entered a creditless recovery. BD's estimation is based on the following definitions. First, they identify a "trough" year when GDP is at its lowest in cyclical terms and at least one standard deviation below zero, where cyclical GDP is defined as deviation from trend. Denoting the year of the trough as *t*, the onset of a recovery is defined as *t+1*. Second, they identify creditless recovery as one where the real private credit level in *t* is higher than in *t+3*, in other words, creditless recovery is defined as an average reduction in real private credit for the three years after the trough.

Table (1) shows the estimated coefficients of BD's probit model under different specifications. Their results show that creditless recoveries are typically preceded by large declines in economic activity and financial stress, suggesting that impaired financial intermediation may play a key role in lackluster credit flows that follow.

The ADL model is a simple probit estimate where the dependent variable is a dummy indicating whether the recovery from the downturn was creditless, where such episodes are again defined as average negative growth in real private sector credit for three years. The regressors include two dummies indicating whether the downturn was preceded by a banking crisis and a credit boom, and a measure of the severity of the downturn, the peak-to-trough percent change in real GDP.[1]

Table (2) shows the estimated coefficients. Based on this, ADL conclude that the likelihood of creditless recoveries increases when the downturn was preceded by a credit boom or a banking crisis. Consistent with financial accelerator models, the more severe the downturn, the greater the likelihood that subsequent credit growth will be weak.

[1] Credit booms are defined according to the methodology developed in Mendoza and Terrones (2008). Banking crises are as defined by Laeven and Valencia (2008).

Box 2. Estimating the Likelihood of a Creditless Recovery for Greece (continued)

Results

To apply the BD model to Greece, we need to first identify the trough year according to their definition, i.e., when the output gap is at its largest. According to our estimates, this corresponds to 2013, when the output gap reaches -10 percent. Thus, applying the authors' definition of a creditless recovery, the probit model predicts the probability that real private sector credit in 2016 will be lower than in 2013.

We take the regression coefficients and use Greek data to estimate the probability that the latent variable is greater than zero given a standard normal distribution of the errors. The inputs to both models are shown in the last columns of tables (1) and (2).

Tables (3) and (4) show the resulting probabilities under different specifications for the BD and ADL models, respectively. In the case of the BD model, under the authors' preferred specification (specification 4, which has the highest Pseudo R2), the probability that Greece will enter into a creditless recovery is 61 percent. Is this a strong result? Under this specification, the authors' estimated probability of a Type I error for a threshold of 50 percent is 0.4 percent, i.e., based on their sample, the probability of a false alarm — given the model prediction of 61 percent likelihood for a creditless recovery — is negligible.

Using the ADL results, we find that applying their specification (5) with the highest Psuedo-R2 to Greek data implies a creditless recovery probability of 79 percent. Although ADL do not report the probability of Type I error associated with different threshold levels, their chosen threshold for predictive probability is 40 percent, indicating that the 80 percent probability projected for Greece is associated with a very low Type I error.

Note that BD exclude advanced economies from their sample. ADL find that creditless recoveries are more common in low income countries and emerging markets than in advanced economies (25 percent in the former compared to only about 10 percent in the latter). Therefore, it could be argued that using BD coefficients to predict the probability of a creditless recovery for Greece suffers from an upward bias. Even so, advanced economies generally have a large capacity to provide liquidity and capital to their financial institutions since they issue their own hard currency, but Greece's capacity as a member of a currency union and with no fiscal space is constrained.

The probit model estimated by ADL has the advantage that it is based on data from emerging and advanced countries. However, the disadvantage is that their pseudo-R2 is smaller, indicating a smaller predictive power compared to the BD estimates.

Nevertheless, both models indicate that Greece today looks much more similar to previous crisis cases where a recovery in credit lagged output, than to those that saw a swift return of bank lending.

Box 2. Estimating the Likelihood of a Creditless Recovery for Greece (concluded)

Table 1. Bijsterbosch and Dahlhaus (BD) Panel Probit Estimation

	(1)	(2)	(3)	(4)	Greece (2013)
Real GDP growth	-9.49	-8.87	-9.43	-11.24	-4.21
Credit to GDP	0.64	0.56	0.56	0.67	115.15
Currency crisis	...	1.10	0.87	0.90	0.00
Banking crisis	...	1.20	1.37	1.34	1.00
Current account to GDP	...	...	-1.63	-1.69	-0.72
Investment growth	...	...	...	-0.18	-3.96
Export growth	...	...	...	0.09	0.93
Constant	-2.11	-2.24	-2.31	-2.33	n.a.
Pseudo R2	0.24	0.36	0.39	0.43	n.a.

Source: IMF staff estimates.

Table 2. Abiad, et al. (ADL) Panel Probit Estimation

	(1)	(2)	(3)	(4)	(5)	Greece
Banking crisis	1.112	...	...	1.035	0.931	1.0
Credit boom	...	0.602	...	0.458	0.440	0.0
Peak-to-trough percentage change in GDP	...	...	-0.048	...	-0.045	-23.5
Constant	-1.029	-0.990	-1.023	-1.084	-1.187	1.0
Pseudo R2	0.060	0.020	0.120	0.070	0.170	n.a.

Source: IMF staff estimates.

Table 3. Estimated Latent Variables and Probabilities for Greece (2013) Using Implied BD Model

	(1)	(2)	(3)	(4)
$X_i\beta$	-0.97	-0.02	0.11	0.28
$\Phi(X_i\beta)$	0.17	0.49	0.55	0.61

Source: IMF staff estimates.

Table 4. Estimated Latent Variables and Probabilities for Greece Using Implied ADL Model

	(1)	(2)	(3)	(4)	(5)
$X_i\beta$	0.08	-0.99	0.11	-0.05	0.81
$\Phi(X_i\beta)$	0.53	0.16	0.54	0.48	0.79

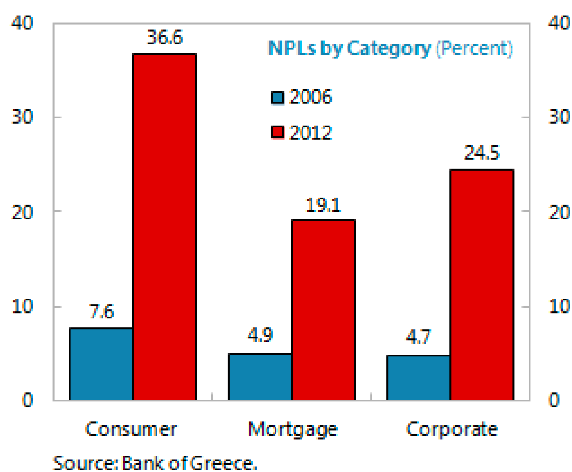
Source: IMF staff estimates.

C. Policies

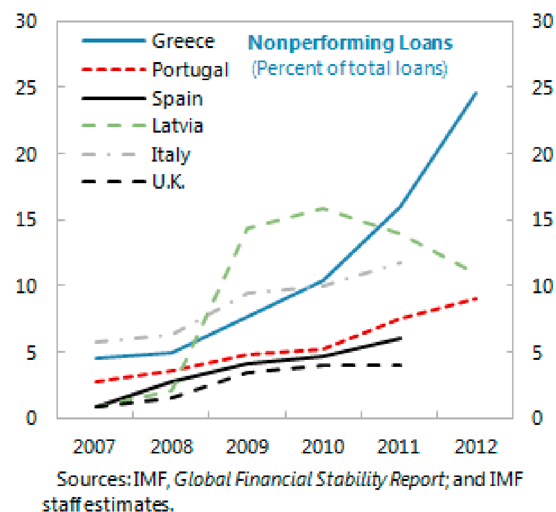
7. Research suggests that creditless recoveries are the result of impaired financial intermediation and their lower growth performance is the outcome of constraints on the supply of credit (see Kannan (2009), Abiad et al. (2008) and Claessens et al. (2008)). Creditless recoveries double in frequency after banking crises, suggesting that they are associated with disruptions in credit supply. Firm-level evidence confirms this: firms more reliant on external financing, or those with fewer assets eligible as loan collateral, or industries that are populated by smaller firms, grow more slowly during creditless recoveries compared to firms or industries that rely on other sources of finance. Investment makes a disproportionately lower contribution to growth than in "normal" recoveries and productivity is adversely affected. This result is also consistent with "financial accelerator" models where financial intermediation is disproportionately affected in downturns, reinforcing the slowdown in economic activity.

8. Policies aimed at restoring credit supply should lead to fewer credit constraints and higher growth. Creditless recoveries are significantly weaker than normal recoveries. To the extent that credit supply constraints contribute to slow recovery of credit, and thus output, policy measures that facilitate financial intermediation will help a stronger recovery. In particular, policy measures should aim at removing the obstacles to efficient financial intermediation, which will vary from case to case.

9. Going forward, funding, capital, and an NPL burden will impose constraints on the Greek banking sector's ability to lend. Greek banks lost access to wholesale funding markets in 2010 and had to replace €65 billion in maturing liabilities through divesting foreign assets. The funding gap became wider with deposit outflows in 2011 and 2012, during which time the banks lost close to a third of their deposits. As a result, they relied heaving on central bank financing. As banks return to normalcy, the speed with which they reduce their reliance on central bank financing may prove to be a constraint on their ability to extend new loans. Banks face uncertainties regarding the adequacy of their capital too. The 2011 stress test was conducted under milder assumptions about macroeconomic developments than those realized. As a result, NPLs have risen more rapidly than anticipated, and banks may be unwilling to take on more risk until they have successfully dealt with their existing NPLs. These problems are inter-related: NPLs affect bank capital directly through provisioning needs, through reduced profits (which when the banks are incurring losses translate directly into more capital needs), and through an increase in risk weighted assets. High NPL ratios also imply higher funding costs for the banks when they return to markets.



Source: Bank of Greece.



Sources: IMF, *Global Financial Stability Report*; and IMF staff estimates.

10. In Greece, the priority for restoring a healthy financial sector is dealing with the banks' balance sheet stresses through restructuring programs. Asset quality is the single most important risk factor for capital adequacy. Implied losses from existing NPLs already exceed the projected 3-year losses assumed by the BlackRock exercise. So unless the banks are able to arrest or significantly slow down the deterioration in their loan portfolio, or limit the losses arising from troubled loans, for instance through effective restructuring programs, they may face capital shortfalls. Restructuring the loans of viable but over-indebted borrowers is critical for easing the private sector's debt overhang, as well as addressing the large stock of existing and potential NPLs on banks' balance sheets. Given the important role that debt restructuring and NPL resolution play in the health of financial sector, for the remainder of this paper we focus on the elements of a successful debt restructuring framework and policy lessons learned from international experience.

11. NPLs are a drag on credit growth and normal functioning of the banking system for many reasons. Even if banks have sufficient capital to deal with their NPLs, a high volume of troubled assets on the banks' books causes problems:

- **Uncertainty.** High NPLs cast doubts about the adequacy of bank capital. This uncertainty will translate to a higher risk premium on banks' funding, as well as a reduced willingness of the banks to lend.

- **Business focus of the banks.** Banks being engaged in resolving or restructuring NPLs on a large scale would detract them from a focus on identifying and financing new business opportunities.

- **Misallocation of capital.** If NPLs are a result of investment in non-viable projects, the most efficient way forward would be to recognize the sunk-cost and put any resources from recovery of these loans to more efficient uses. The same applies to collateral: asset price adjustments during crises often create disincentives for banks to execute collateral in the hope of a recovery or to avoid fire sales. However, holding on to such assets risks locking resources that could otherwise be deployed for new credit in an asset that is not likely to recover in value soon.

12. In the absence of coordinated action after a systemic crisis, NPL resolution tends to proceed more slowly than desirable. There are externalities associated with NPL resolution which are not accrued to individual banks, such as faster credit growth, removal of debt overhang, and allocation of resources to more productive sectors by deleveraging away from non-viable businesses. Furthermore, there is a coordination failure. From an individual bank's point of view, it may be optimal to delay recognizing a loss, since loss given default is likely at its highest at the bottom of the cycle. However, from a macroeconomic perspective, unless losses are recognized, resources remain locked in less productive sectors/non-viable projects, dampening the recovery. Moreover, each individual bank may be reluctant to recognize their losses unless their competitors do the same. As a result, the non-cooperative or non-coordinated outcome is likely to be suboptimal.

13. In Greece, several legal and institutional challenges need to be addressed for an effective debt restructuring, some of which are being addressed under the program. Notwithstanding the pending adoption of the recent facilitation program, and the forthcoming modifications to the household insolvency scheme, Greece faces many institutional barriers that may impede NPL resolution efforts or lead to higher losses for banks, prolonged debt overhang for the private sector, and overall slower credit growth going forward. We discuss three main policy areas where particular attention is needed, and offer some international perspective.

Improving banks' capabilities in dealing with NPLs

14. Under the program, the HFSF will conduct a detailed review of individual banks' procedures, using the services of a distressed asset specialist. The review will cover all aspects of banks' NPL resolution policies and procedures in detail, including the adequacy and effectiveness of workout strategies, collateral and business valuation, and the effectiveness of the staff. This section is not meant to pre-judge the outcomes of this asset review, which will take into consideration individual banks' portfolios as well as legal and institutional factors specific to Greece, but to offer some international experience in this area.

15. Although outsourcing NPL resolution yields better recoveries in mature markets, many banks in smaller markets chose to deal with their NPLs in-house in the aftermath of the global financial crisis. Experience from mature markets points to better recovery when NPLs are outsourced. Several factors can explain this: banks might be reluctant to deal with their NPLs and "evergreen" their bad assets. Outside firms may pursue a risk based approach to restructuring, focusing on those loans with the highest probability of return, whereas banks are more reluctant to admit that a loan has gone bad, expending too many resources on loans with little chance of recovery. Alternatively, the banks and the distressed asset specialists might have different incentives and ultimately methods to deal with bad debts. For instance, offering haircuts on principal of the loan might create a moral hazard for those clients that have on-going business with the bank, but is a powerful restructuring tool. Finally, banks may refrain from aggressive debt-enforcement for reputational reasons. Notwithstanding this fact, the Working Group on NPLs in Central, Eastern and Southeastern Europe (CESE) found that countries in this region chose to deal with their NPLs in-house. The group found that a lack of interest from outside investors or the absence of a market for

distressed assets was the main contributor to this decision. The CESE loan portfolios were typically small, and collateral valuation problems meant that prices offered by outside investors were significantly below what the banks thought they could recover themselves. Also, banks often underestimated the value of the time and resources they had to devote to NPL resolution, leading them to quote higher prices for their portfolios.

16. In Greece, prospects for outsourcing NPL resolution seem limited; thus, the banks should focus on enhancing their in-house NPL resolution capabilities. At least some of the factors preventing a wider outsourcing of NPL resolutions in CESE are likely to apply to Greece too. The authorities have emphasized the absence of distressed asset buyers as a potential market failure. As we will discuss in the next section, problems with collateral valuation and enforcement are also likely to discourage potential buyers. For these reasons, banks should focus on strengthening their in-house resolution practices, as large-scale alternatives seem unlikely at this stage.

17. The alternative approach of establishing a state-owned Asset Management Company (AMC) does not seem appropriate for Greece either. In order to deal with their banks' large stock of NPLs, Ireland and Spain established state-owned AMCs. The advantages are (i) economies of scale in administering workouts, particularly if the loans are similar (as is the case in both Ireland (mortgages) and Spain (Real Estate Development or RED loans)), (ii) benefits from granting special powers to a government agency to expedite loan resolution, and (iii) breaking the bank-client link that could impede an efficient transfer of assets. Yet, a state-owned AMC is less likely to be the right solution for Greece, for several reasons: i) Unlike in Spain and Ireland, the majority of NPLs in Greece are in the SME category, where loans vary significantly in their business type and industry and specific knowledge about each firm or business is crucial; ii) large financing needs for these businesses is not a concern (as is the case for RED loans in Spain or property developers in Ireland); and iii) AMCs could be more expensive upfront, if assets are bought at a price higher than the "market" value implied by collateral and value of the loan; these additional resources were not envisioned in the financial sector envelope.

Improving debt enforcement and collateral recovery

18. A general standstill in the property market, the main source of collateral in the Greek banking sector, impedes the NPL resolution process. Several legal and institutional factors exacerbate the absence of activity in the real estate market, potentially contributing to a further fall in prices or at best a prolonged stagnation of this market (see Box 3). This is a problem: for borrowers who cannot "trade-down" their property even if they have positive equity but are no longer able to service their debt; for the banks who cannot evaluate the value of their collateral or execute it; and for the regulator who cannot evaluate whether provisioning levels are sufficient. Indeed, BlackRock conducted drive-by valuations of a representative sample of mortgages during its asset quality review exercise and concluded that properties valued by the banks using the Bank of Greece Index (PropIndex) were overvalued by approximately 13 percent on average across all residential mortgage loans.

19. In Greece, enforcement of collateral is hampered by many legal obstacles, and improvements in line with international best practices are necessary. Moratoria on auctions of repossessed assets create moral hazard for those borrowers that are able to pay but are unwilling to do so. These are being addressed by the authorities' program. However, foreclosures still rely on judicial procedures that take too long (BlackRock estimated that it takes, on average, 51 months between the time that a loan becomes non-performing until it is liquidated); executing collateral (once the moratoria are removed) is only possible through auctions and cannot be conducted through a sales agent, imposing significant additional haircuts for the lenders; and there are minimum auction prices based on the objective value of the property that is currently significantly above its market price. All of these practices impose large enforcement costs on the banks, increasing their loss given defaults and ultimately the capital needed to write-off those NPLs secured with property. An overhaul of the debt enforcement possibilities might be necessary to take into account the established best practices in the area, which offer a range of judicial, non-judicial or mixed tools for collection and enforcement methods.

Box 3. Real Estate Market Reforms

The real estate market in Greece has come to a standstill. According to the BoG, the number of appraisals conducted by banks in 2012 was less than 20 percent of the level observed in 2007; transactions could have fallen even more as some of the appraisals were conducted for loan restructurings or revaluation of residential collateral.

In addition to the drop in activity for cyclical reasons, several problems afflict property markets in Greece which exacerbate the malfunctioning of the real estate market: i) the law puts a minimum price on auctions of foreclosed real estate based on its tax (objective) value; ii) high objective values relative to market values imply that even if a prospective buyer is able to afford a property based on its current market value, he might not be able to afford the associated costs, dampening demand; iii) transaction costs are very high by European standards, at around 20 percent of the property value, and pose an impediment to market transactions, be it executing collateral or sale of a property by a borrower who cannot afford the mortgage payments; iv) the two moratoria on auctions protecting any security on a variety of loans (not only mortgages); and v) high liquidation haircuts, as repossessed property can only be sold in an auction, as opposed to through a real estate agent.

Furthermore, excessive protection for the tenants is prohibitive to rentals, which could potentially allow banks to reduce losses or draw some cash flow from seized collateral before eventual auctioning. For commercial property, the tenant can stay in a property for 16 years by law, even if the contract specifies otherwise. For lawyers and doctors, a 12-year period applies.

Designing an effective out-of-court restructuring mechanism

20. Greece is missing an effective out-of-court debt restructuring mechanism for households. In a systemic crisis like the one afflicting Greece, the capacity of the judicial system to ensure a rapid recovery for distressed borrowers may be limited. Under the current legal framework, there is a provision for household borrowers to negotiate with their creditors before going to court. However, this framework suffers from serious flaws. First, it requires unanimity of creditors, allowing for even small hold-outs to block the process. Second, by making the court procedure extremely debtor friendly (small payments — unrelated to affordability — while debtors wait for a court

hearing combined with a slow judicial process, suspension of executory measures if the debtor files for an appeal, and little guidance to judges on affordability criteria), it offers no incentives for the debtors to come to a mutual agreement with the creditors. Some of these aspects are being addressed under the authorities' program by revisions to the current framework. Under the program, the authorities will introduce an initiative which would, in stages, overhaul the framework for out-of-court restructuring of household debt.

21. A framework for out-of-court debt restructuring for corporate debt will also become necessary. Greece recently enacted reforms to its corporate insolvency framework, which seems broadly in-line with international best practices. However, given the burden of SME debt, a speedy and cost effective alternative to the formal insolvency procedures is necessary. A variety of options are available to the authorities. Informal workouts could be strengthened by contractual or statutory provisions or by different mechanisms that combine the advantages of both formal and informal approaches to indebtedness problems ("hybrid procedures"). There are established international best practices in this area (e.g., the INSOL Principles, London Approach, Jakarta Initiative, and Istanbul Approach, among others), which need to be taken into account when designing the framework in Greece.

22. A successful out-of-court restructuring mechanism requires a set of enabling legislation. Such laws create an environment that encourages participants to engage in the out-of-court restructuring negotiations rather than resort to judicial routes. Examples include non-punitive tax treatment of write-offs or losses, provisions that give creditors reliable recourse to enforcement, regulatory measures on risk management practices to ensure that banks and financial institutions recognize their losses as soon as possible, and requiring timely and detailed financial disclosure of distressed enterprises (see Box 4 for a set of Principles devised by the World Bank as part of the World Bank Insolvency Initiative standards which forms the basis for its comparative studies of insolvency systems and their efficacy and Box 5 for a set of Principles underlying Latvia's successful out-of-court restructuring mechanism for the corporate sector).

23. Evidence suggests that recent initiatives taken by many European countries to complement their formal insolvency frameworks have been successful. These efforts have included issuing guidelines or establishing a legally binding framework given the limited capacity of the judicial system. For instance, in Iceland and Latvia data suggests tangible progress and wide participation (IMF, 2011, Report of the Working Group on NPLs in Central, Eastern and Southeastern Europe, 2012).

Box 4. World Bank Principles B3 and B5.2 for Out-of-Court Restructuring Mechanisms

Principle B3

Corporate workouts and restructurings should be supported by an enabling environment, one that encourages participants to engage in consensual arrangements designed to restore an enterprise to financial viability. An environment that enables debt and enterprise restructuring includes laws and procedures that:

B3.1 Require disclosure of or ensure access to timely, reliable, and accurate financial information on the distressed enterprise;

B3.2 Encourage lending to, investment in, or recapitalization of viable financially distressed enterprises;

B3.3 Flexibly accommodate a broad range of restructuring activities, involving asset sales, discounted debt sales, debt write-offs, debt reschedulings, debt and enterprise restructurings, and exchange offerings (debt-to-debt and debt-to-equity exchanges);

B3.4 Provide favorable or neutral tax treatment with respect to losses or write-offs that are necessary to achieve a debt restructuring based on the real market value of the assets subject to the transaction;

B3.5 Address regulatory impediments that may affect enterprise reorganizations; and

B3.6 Give creditors reliable recourse to enforcement, as outlined in Section A, and to liquidation and/or reorganization proceedings, as outlined in Section C.

Principle B5.2 In addition, good risk-management practices should be encouraged by regulators of financial institutions and supported by norms that facilitate effective internal procedures and practices supporting the prompt and efficient recovery and resolution of nonperforming loans and distressed assets.

Box 5. Latvia: Out of Court Company Debt Restructuring Principles[1]

Principle 1: Debt restructuring is a compromise, not a right - Out of court debt restructuring must be initiated only if the debtor's financial problems can be solved and their business can continue in the long term. A debtor should turn to the creditors in order to discuss available options.

Principle 2: Good faith - Negotiations between the debtor and the relevant creditors must take place in good faith in order to create a constructive solution.

Principle 3: Unified approach - The interests of all parties should be observed if a unified approach is taken to solving the issues. Creditors may facilitate coordination of the issues by forming a coordination work group. In more complex situations, the parties should consider the option of inviting professionals who can consult with and advise the parties and the relevant creditors.

Principle 4: Negotiation with the debtor - The creditors must appoint one person (usually it is the creditor which has the largest claim against the debtor, with experience in negotiating debt restructuring, or it may be a neutral third party), who will conduct negotiations with the debtor, and will ensure that the relevant creditors receive the information provided by the debtor. It must be taken into account that if necessary, in the event that there is a dispute between the interested parties, they may turn to an arbitration procedure.

Principle 5: Moratorium period - All relevant creditors must be prepared to cooperate with the debtor as well as with each other in order to provide the debtor with enough time (identifying a deadline) in which to prepare options for solving financial problems (hereinafter – moratorium period). Granting this moratorium period is not the right of the debtor, but is a concession granted by the creditors. The beginning date is called the first date of the moratorium period. It is necessary to identify the length of the moratorium period, providing enough time to prepare the plan as mentioned in Principle 11, or to constitute how much time would be necessary to prepare such a plan.

Principle 6: Priority of new resources - If, during the moratorium period, or in accordance with the suggestions put forth as a part of the restructuring process, additional assets are given to the creditor, then the grantor of this loan shall have the option to request security for the loan.

Principle 7: Creditors do not take action during the moratorium period - All relevant creditors do not take any actions to submit court claims against the debtor or to reduce their claims against the debtor during the moratorium period.

Principle 8: Debtor's pledge to the creditors during the moratorium period - During the moratorium period, the debtor promises not to take any actions which may negatively affect the proposed debt repayment to the relevant creditors (to all, or either of them individually) in relation to the state at the beginning of the moratorium period.

Principle 9: The debtor's complete transparency during the moratorium period - During the moratorium period, the debtor shall provide the relevant creditors and advisers with access to all information regarding assets, liabilities, and business transactions and forecasts.

Principle 10: Information confidentiality - Information regarding the debtor's assets, liabilities, and business transactions and forecasts, as well as proposals for solving the problems must be available to the relevant creditors and must be confidential, unless it is publicly available information.

Box 5. Latvia: Out of Court Company Debt Restructuring Principles (concluded)

Principle 11: Debt restructuring plan - It is the obligation of the debtor and his advisers to prepare proposals for debt restructuring which are based on a business plan that contains information regarding the necessary steps that need to be taken to solve the debtor's financial problems. The business plan must be based on sound and feasible forecasts, which indicate the debtor's ability to increase cash flow to the point that is necessary to execute the debt restructuring plan (and not delaying the insolvency process).

Principle 12: Settlement proposals correspond with the party's rights - When creating proposals for solving the debtor's financial difficulties, the parties must take into account the rights of the creditor and the amount of outstanding obligations at the beginning date of the moratorium period.

[1] http://www.tm.gov.lv/en/jaunumi/tm_info.html?news_id=3305

D. Conclusions

24. In this paper, we have examined the determinants of "creditless recoveries" — episodes when recovery in output after a recession is not accompanied by a recovery in credit to the private sector — and their relevance for Greece. Using two estimated panel probit models in the literature, we find that Greece is very likely to experience such an episode.

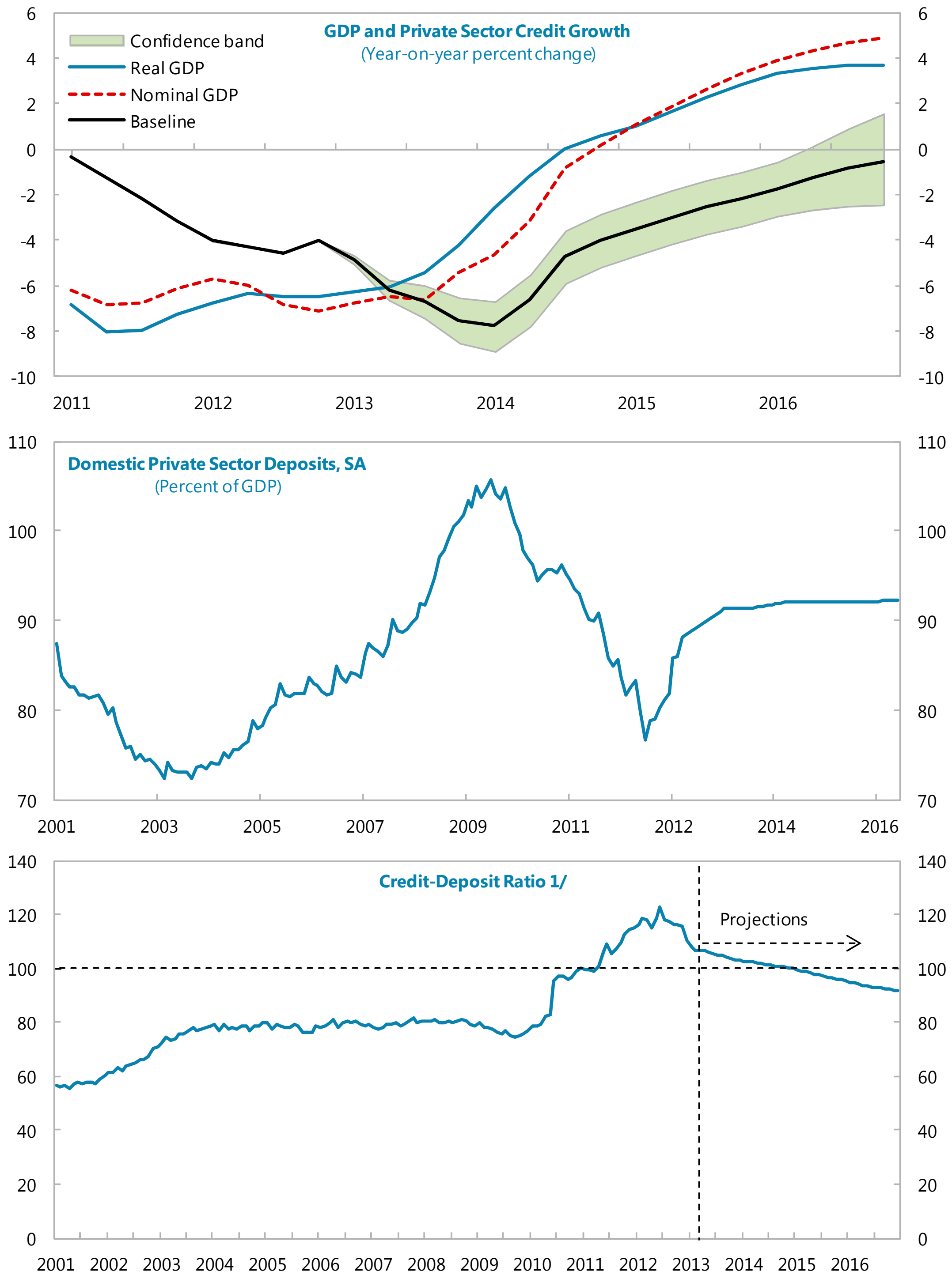
25. Creditless recoveries are generally associated with disruptions in the supply of credit and financial distress. Bottlenecks in credit supply contribute to the weaker recovery that ensues. Therefore, policies aimed at easing such constraints should help recovery in credit, and in turn output.

26. In Greece, the priority for restoring a healthy financial sector is dealing with the banks' balance sheet stresses through recapitalization and a targeted and well designed restructuring program. A large stock of non-performing assets left unresolved, creates a drag on credit growth and the functioning of banking system, and brings into question the adequacy of bank capital.

27. We offer some international experience in three specific policy areas that are important elements of an effective debt restructuring framework:

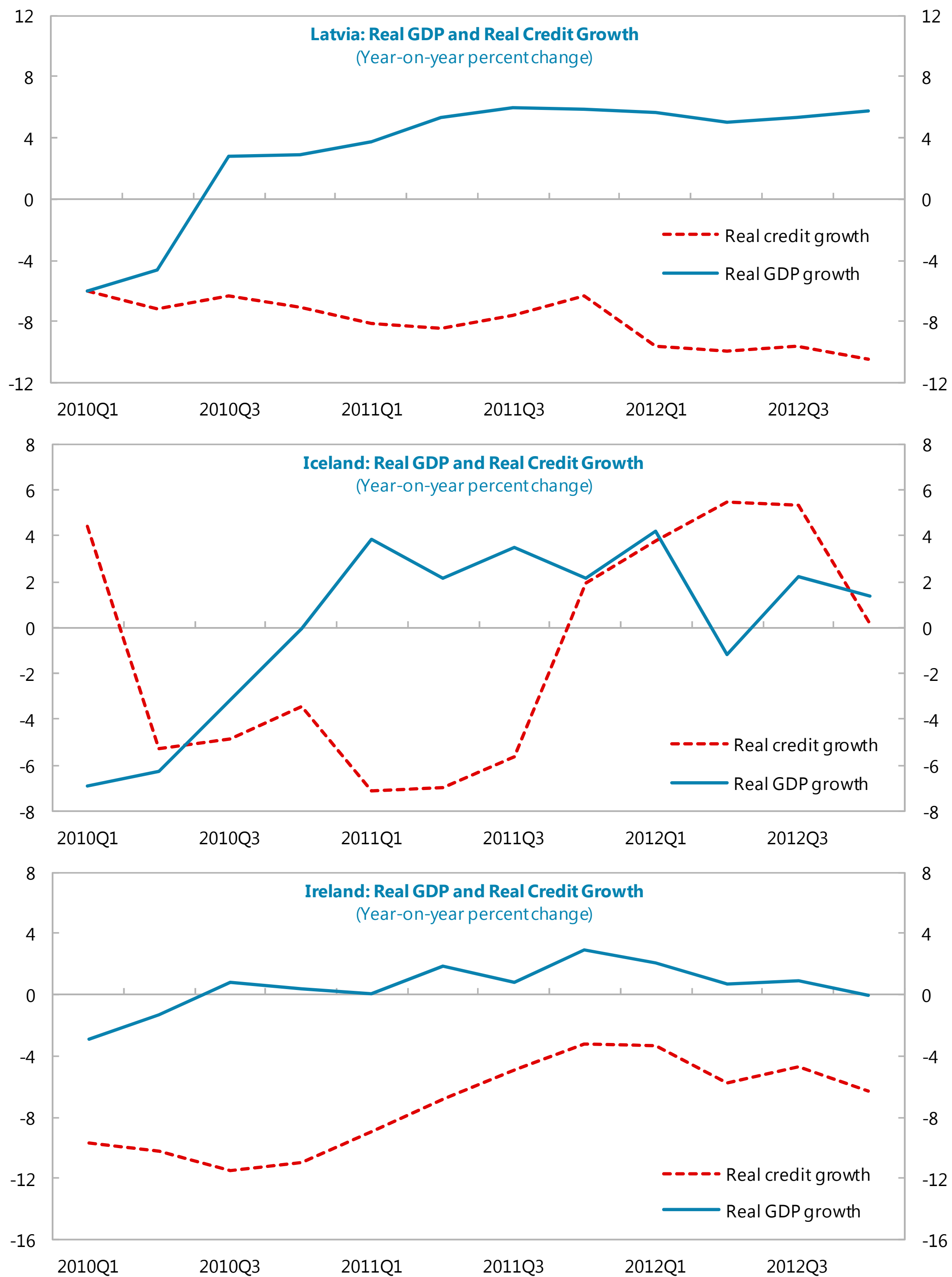
- Ensuring that banks have sufficient resources and expertise to deal with their NPLs in house. The distressed asset review envisaged under the authorities' program is an important step in ensuring this element.
- Improving debt recovery and collateral enforcement, in particular, by addressing the constraints in the real estate market.
- Designing an effective out-of-court restructuring mechanism for the corporate sector and the supporting enabling legislation that would encourage creditors and borrowers to reach settlement outside the court in a speedy and cost-effective manner.

Figure 1. Greece: Finacial Sector Projections, 2001–16



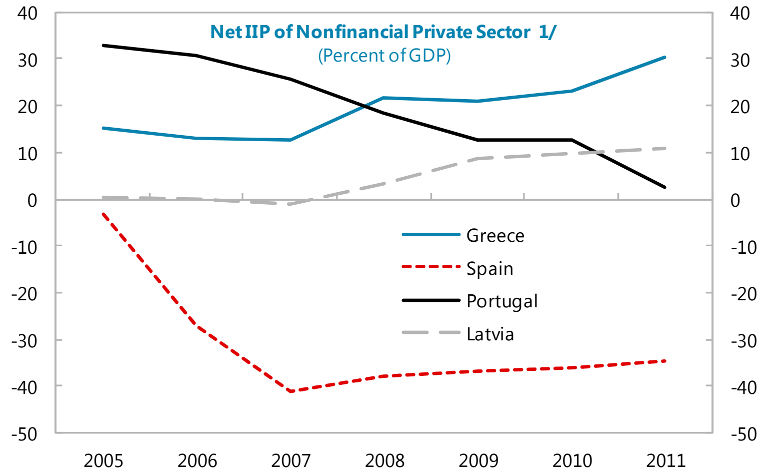
Sources: Bank of Greece; ElStat; and IMF staff calculations and projections.
1/ Credit (loans + securities) on non-MFIs as a ratio to deposits and repos of non-MFIs.

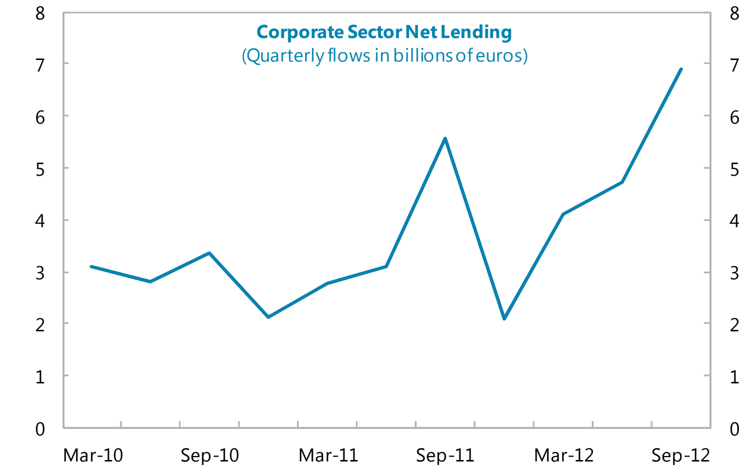
Figure 2. Credit and GDP Evolution in Latvia, Iceland, and Ireland, 2010–12

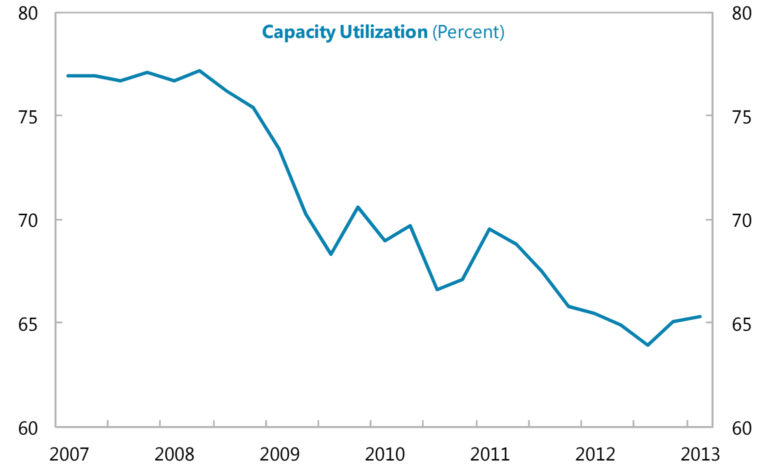


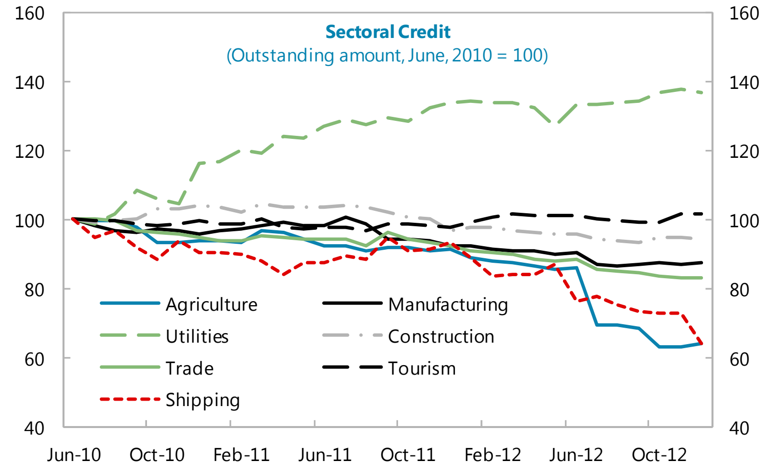
Sources: Haver; IMF, World Economic Outlook; and IMF staff estimates.

Figure 3. Greece: Non-Bank Financing and Sectoral Reallocation, 2005–13









Sources: Bank of Greece; Elstat; and IMF staff calculations.
1/ Net of following items: direct investment (all sectors), portfolio investment (other sectors only) and other investment (other sectors only).

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Greece: Ex Post Evaluation of Exceptional Access under the 2010 Stand-By Arrangement

This ex post evaluation of exceptional access under the 2010 stand-by arrangement on Greece was prepared by a staff team of the International Monetary Fund. It is based on the information available at the time it was completed on May 20, 2013. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of Greece or the Executive Board of the IMF.

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INTERNATIONAL MONETARY FUND

GREECE

May 20, 2013

EX POST EVALUATION OF EXCEPTIONAL ACCESS UNDER THE 2010 STAND-BY ARRANGEMENT

EXECUTIVE SUMMARY

The primary objective of Greece's May 2010 program supported by a Stand-By Arrangement (SBA) was to restore market confidence and lay the foundations for sound medium-term growth through strong and sustained fiscal consolidation and deep structural reforms, while safeguarding financial sector stability and reducing the risk of international systemic spillovers. Greece was to stay in the euro area and an estimated 20-30 percent competitiveness gap would be addressed through wage adjustment and productivity gains.

There were notable successes during the SBA-supported program (May 2010–March 2012). Strong fiscal consolidation was achieved and the pension system was put on a viable footing. Greece remained in the euro area, which was its stated political preference. Spillovers that might have had a severe effect on the global economy were relatively well-contained, aided by multilateral efforts to build firewalls.

However, there were also notable failures. Market confidence was not restored, the banking system lost 30 percent of its deposits, and the economy encountered a much-deeper-than-expected recession with exceptionally high unemployment. Public debt remained too high and eventually had to be restructured, with collateral damage for bank balance sheets that were also weakened by the recession. Competitiveness improved somewhat on the back of falling wages, but structural reforms stalled and productivity gains proved elusive.

Given the danger of contagion, the report judges the program to have been a necessity, even though the Fund had misgivings about debt sustainability. There was, however, a tension between the need to support Greece and the concern that debt was not sustainable with high probability (a condition for exceptional access). In response, the exceptional access criterion was amended to lower the bar for debt sustainability in systemic cases. The baseline still showed debt to be sustainable, as is required for all Fund programs. In the event, macro outcomes were far below the

baseline and while some of this was due to exogenous factors, the baseline macro projections can also be criticized for being too optimistic.

The report considers the broad thrust of policies under the program to have been appropriate. Rapid fiscal adjustment was unavoidable given that the Greece had lost market access and official financing was as large as politically feasible. Competitiveness-boosting measures were also essential, as were fiscal structural reforms to support deficit reduction. However, the depth of ownership of the program and the capacity to implement structural reforms were overestimated.

Greece's SBA suggests the need to explore the case for refining the Fund's lending policies and framework to better accommodate the circumstances of monetary unions. A particular challenge is to find ways to translate promises of conditional assistance from partner countries into formal program agreements.

There are also political economy lessons to be learned. Greece's recent experience demonstrates the importance of spreading the burden of adjustment across different strata of society in order to build support for a program. The obstacles encountered in implementing reforms also illustrate the critical importance of ownership of a program, a lesson that is common to the findings of many previous EPEs.

Other lessons drawn concern the need to find ways to streamline the Troika process in the future and for Fund staff to be more skeptical about official data during regular surveillance. The detailed nature of the structural fiscal conditionality in the Greek program also bears scrutiny given the premium attached to parsimony in Fund conditionality.

Authorized for distribution by **the European Department and the Strategy, Policy, and Review Department**

Prepared by an interdepartmental staff team consisting of J. Gordon (head, OBP), I. Karpowicz (OBP), S. Lanau (SPR), J. Manning (EUR), W. McGrew (EUR), M. Nozaki (FAD), and M. Shamloo (EUR), with assistance from A. Shtuni (OBP) and C. Piatakovas (EUR).

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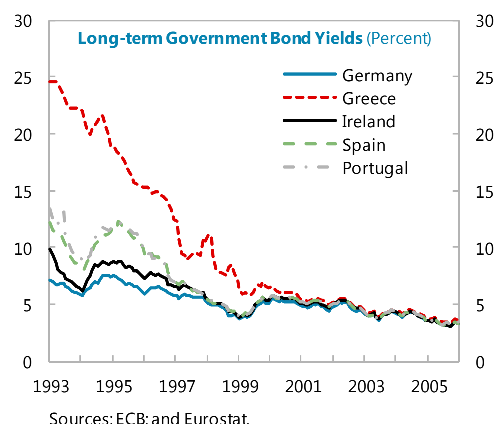
1. An Ex-Post Evaluation (EPE) of Exceptional Access under Greece's 2010 Stand-By Arrangement (SBA) is timely. The Fund's rules require an EPE of exceptional access decisions within a year of the arrangement ending. This requirement is intended to ensure uniformity of treatment across members and that no large program escapes evaluation. Greece's SBA-supported program, approved in May 2010 and cancelled in March 2012, was an exceptionally large program with access of €30 billion and warrants evaluation even though the SBA was immediately succeeded by an extended arrangement under the Extended Fund Facility (EFF). As with all EPEs, the purpose of the report is (i) to review performance against program objectives; and (ii) to evaluate program design encompassing the macroeconomic strategy, program architecture, adequacy of financing, and the case made for exceptional access.

BACKGROUND TO THE CRISIS

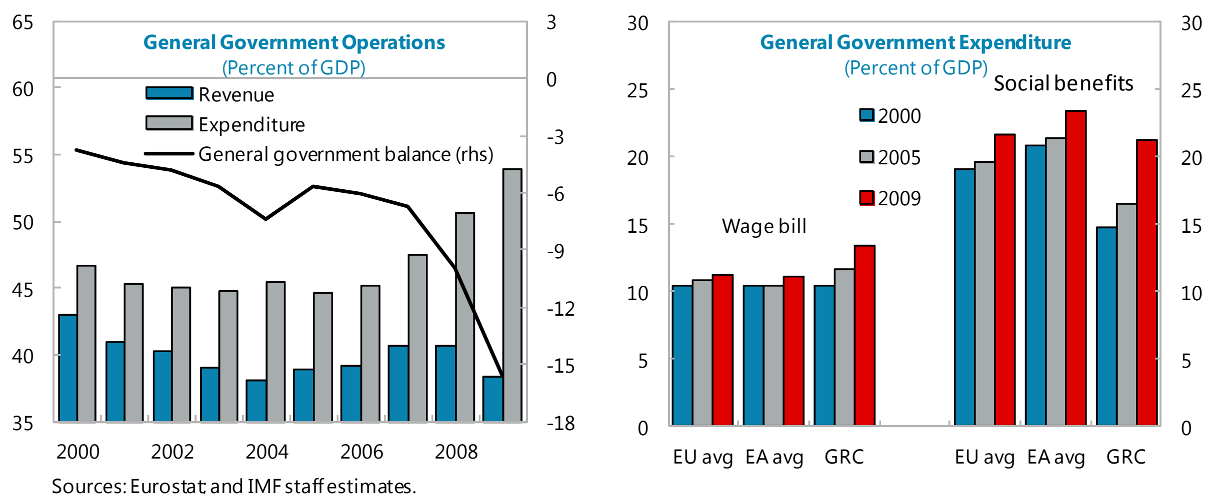
A. The build-up of imbalances

2. Euro accession led to an economic boom in Greece. Adoption of the euro and loose global credit conditions in the 2000s allowed Greece easy access to foreign borrowing that financed a significant expansion of government spending. Robust private credit growth following financial liberalization also served to boost household consumption. Real GDP growth averaged 4 percent from 2000–07, higher than in all euro area countries save Ireland and Luxembourg. Although asset price inflation and household indebtedness remained moderate, government debt mounted rapidly.



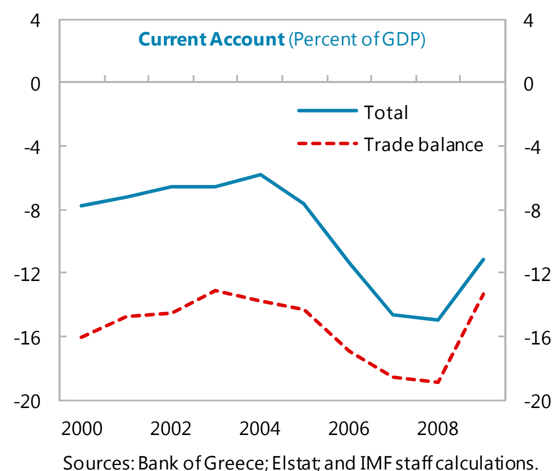
Sources: ECB; and Eurostat.

3. Fiscal policy was pro-cyclical. Some argue that Greece was the country that gained most from euro adoption (Fernandez-Villaverde *et al*, 2013) with borrowing costs falling sharply. As a direct fiscal dividend, government interest expenditure dropped from 11½ percent of GDP in the mid-1990s to 5 percent of GDP in the mid-2000s. However, these savings were more than swallowed up by increased spending on wages and pensions. The economy turned down in the wake of the Lehman crisis and the general government deficit reached 15½ percent of GDP (after incorporating data revisions), up from 4 percent of GDP in 2001. Public debt was 129 percent of GDP at end-2009, with 75 percent held by foreigners. There were also significant contingent liabilities due to public enterprises borrowing under state guarantee, while the pension system had become underfunded as a result of increasingly generous entitlements and an aging population.



Sources: Eurostat; and IMF staff estimates.

4. The current account deficit deteriorated. The counterpart to the decline in government saving was a sharply widening current account deficit that reached 15 percent of GDP in 2008. The sustained economic boom and a lack of competition in domestic goods and services markets kept wage and price inflation consistently above euro averages. Competitiveness, as measured by the unit labor cost (ULC) -based real effective exchange rate (REER), declined by 20-30 percent in the decade following euro adoption.



Sources: Bank of Greece; Elstat; and IMF staff calculations.

5. There were also serious doubts about the quality of Greek deficit and debt statistics. Data concerns had flared up in 2004 when upward revisions to the fiscal deficit numbers raised questions about whether Greece had ever met the Maastricht deficit criterion of an annual fiscal deficit of 3 percent of GDP. The European Commission (EC) attempted to coax Greece into reducing its deficit via the Excessive Deficit Procedure of the Stability and Growth Pact.

B. Crisis triggers

6. The global financial crisis endangered Greece's government-led growth model. Greece's economic boom was propelled by large foreign-funded fiscal deficits that enabled demand to outpace output. The global crisis threatened the continued financing of this growth model. After the Lehman shock in September 2008, spreads on Greek government bonds over 10-year bunds jumped to 300 bps compared to about 50 bps before the crisis. Standard and Poor's downgraded Greece from A+ to A in January 2009 citing a loss of competitiveness worsened by the global financial crisis. Against this backdrop, Greece had become extremely vulnerable to a stop in private capital flows.

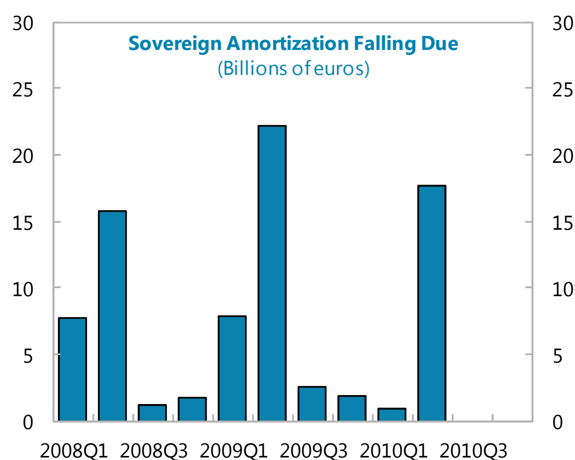
7. Data revisions unsettled markets. In October 2009, a new government took office and announced that the fiscal problem had been significantly understated. The projected budget deficit for 2009 was revised up from 4 to 12½ percent of GDP (still 3 percentage points short of the final estimate). Public debt estimates were also marked up sharply. Fitch responded by downgrading Greece's sovereign rating from A- to BBB+. Global markets, already roiled by events in Dubai in November 2009, sold off further. Scrutiny of Greek high sovereign indebtedness was extended to other euro area countries.

C. Crisis response

8. Initially, the authorities sought a European solution. In December 2009, Greece committed to achieving fiscal consolidation via a Stability Program with the EC. At the same time, the Greek authorities ruled out the possibility of seeking Fund help. The euro area authorities seemed of like mind, indicating that financial assistance from the Fund was not "appropriate or welcome" (see Mackenzie, 2010). Nonetheless, the new government recognized that tax administration and expenditure management were extremely weak and sought technical advice from the Fund. Missions that visited Athens in early 2010 provided initial roadmaps for fiscal structural reforms.

9. Greece agreed to a fiscal consolidation plan with the EC. Greece's 2010 Stability Program submitted to the EC in January 2010 aimed to cut the deficit from 12½ percent of GDP to 8¾ percent of GDP in 2010 and by a further 3 percentage points in 2011 and in 2012 (the "4-3-3" plan). To begin the process, the authorities announced the freezing of public sector wages, partial cancellation of civil servant bonuses, and increases in indirect taxes.

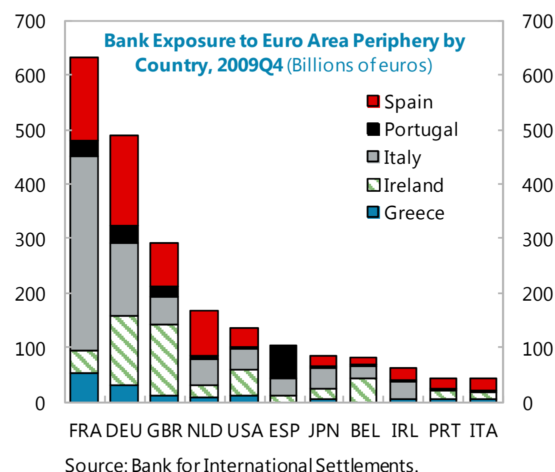
10. Markets, however, doubted whether these steps would be adequate. Financing conditions became progressively more difficult. Greece was able to raise €5 billion on two occasions in March 2010 at spreads of about 300 bps, but by the second issue, the foreign bid had dropped off appreciably. Spreads in the secondary market rose further in April, while large amortizations were coming due in May.



Source: IMF Country Report No. 09/244.

11. Against this backdrop, a request for a Fund program was made. The euro zone decided in April 2010 that the Fund should be a formal part of Greece's rescue. Following negotiations with the newly-established Troika (the Fund, the EC and the European Central Bank (ECB)), agreement on a program to assist Greece was reached in early May. Total financing was €110 billion, of which the Fund committed €30 billion under an SBA (approved May 9). The remainder of the financing took the form of bilateral loans from euro area countries to be pooled by the EC under the Greek Loan Facility.

12. The process of building a firewall began. Contagion from Greece was a major concern for euro area members given the considerable exposure of their banks to the sovereign debt of the euro area periphery.[1] To prevent the crisis spilling over, the euro area initiated the creation of a financial safety net for its member countries. In early May 2010, agreement was reached to set up the European Financial Stability Facility (EFSF) with €500 billion in financing.[2] Euro area and Fund officials confirmed that these resources could be supplemented by an additional €250 billion in lending from the Fund provided on a country by country basis.



Source: Bank for International Settlements.

13. Additional assistance came from the ECB. The ECB's contribution was to set up the Securities Markets Program (SMP) in May 2010 that would purchase public debt securities in secondary markets. The ECB also relaxed its eligibility requirements so that Greek government debt instruments remained eligible as collateral for central bank financing despite now being below investment grade.

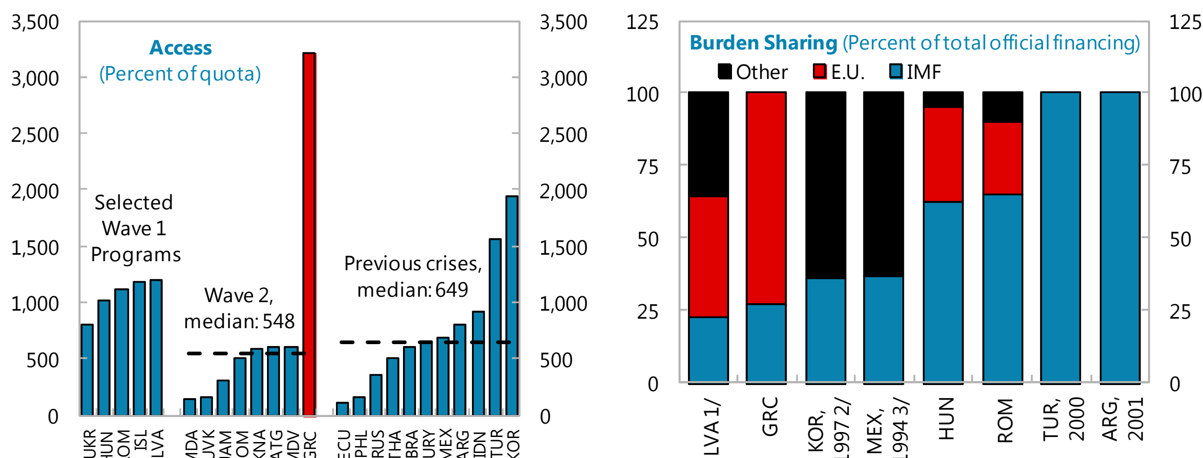
[1] The ECB argued that the financial integration associated with monetary union - a benefit during normal times – served to intensify systemic spillover effects during periods of stress. See ECB (2011).

[2] The EFSF was incorporated as a company in Luxembourg on June 7, 2010 with a lending capacity of €440 billion that would be combined with loans from the European Financial Stabilization Mechanism (EFSM) of €60 billion. The EFSF was created as a temporary rescue mechanism; in December 2010, a decision to create a permanent crisis resolution mechanism, the European Stabilization Mechanism (ESM), was announced.

AN EXCEPTIONAL FUND PROGRAM

14. Greece's SBA-supported program was exceptional for a number of reasons:

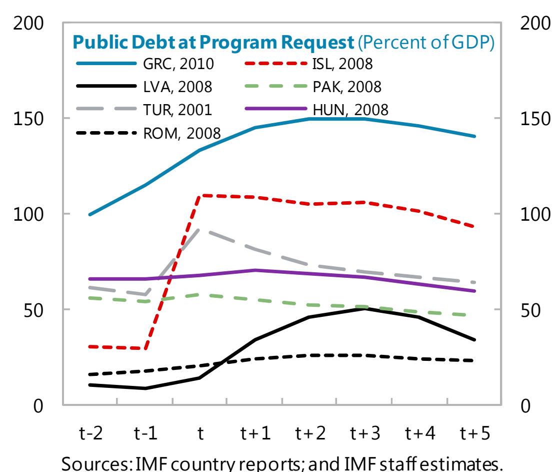
- **Access was the largest in Fund history**. Despite representing less than 30 percent of the financing, Fund access was €30 billion, or 3,212 percent of quota. This was the largest Fund program ever relative to quota.



Sources: IMF country reports; and IMF staff estimates.
1/ Other includes €3.1 billion from EU, €1.8 billion from Nordic Countries, €0.4 billion from CZE, POL, and EST, and €0.5 billion from WB and EBRD.
2/ Other includes $5 billion from U.S., $10 billion from each WB and BoJ, $4 billion from ADB, and the rest from other G7.
3/ Other includes $20 billion from U.S., $10 billion from BIS and $1 billion from Bank of Canada.

- **It was the first ever program with a member of the euro area.** A Fund program supporting a member that had fixed its exchange rate was not unprecedented (for example, Latvia), nor was a program with a continuing member of a currency union (recent examples are St. Kitts, Benin, and Burkina Faso). Greece stood out because it is a euro area member and the euro is a reserve currency.

- **The Troika set up was novel.** The Fund had recently joined forces with the EC in programs with EU members outside the euro area (Hungary, Latvia, and Romania). However, Greece was the first program in which the ECB was formally involved.



Sources: IMF country reports; and IMF staff estimates.

- **Public debt would remain exceptionally high during the program period.** Despite a large fiscal adjustment, public debt was expected to keep rising during the program reflecting the difficult trajectory that an internal devaluation implies for debt sustainability: under a fixed exchange rate, the

disinflation or deflation necessary to restore competitiveness serves to increase the debt-GDP ratio, a trend aggravated by the contraction in real GDP. This implied a public debt profile unlike other large Fund programs with the exception of Latvia which had also fixed its exchange rate. However, public debt in Latvia was appreciably lower. In Greece, debt would peak at 149 percent of GDP only in 2013. A pending data revision was expected to raise this projection by 5–7 percentage points.

- **The program required the Fund's rules for exceptional access to be modified**. To justify exceptional access, four criteria had to be met: (1) exceptional balance of payments pressures; (2) a high probability that public debt is sustainable in the medium term; (3) good prospects of regaining access to private capital markets; and (4) a reasonably strong prospect of the program's success. The sticking point for staff was Criterion 2: even with implementation of agreed policies, uncertainties were so significant that staff was unable to vouch that public debt was sustainable with high probability. But staff favored going ahead with exceptional access because of the fear that spillovers from Greece would threaten the euro area and the global economy. A proviso was therefore added to Criterion 2 that where debt was not sustainable with high probability, a high risk of international spillover effects provided an alternative justification for exceptional access. Unusually, although this is entirely legal, this change in Fund policy was made in the context of the Greece SBA Board meeting.

PROGRAM STRATEGY AND IMPLEMENTATION

15. Greece embarked on a far-reaching program of reforms in May 2010. Under the program supported by the SBA, Greece adopted an ambitious multi-year adjustment program to lower the fiscal deficit and public debt ratio, reduce domestic demand in line with supply capacity, and increase supply and competitiveness so as to invigorate investment, exports, and private sector growth. A brief history of developments under the program is provided in Box 1 which views developments under the SBA-supported program through the prism of Greece's sovereign spreads.

16. The first pillar of the program was to drastically shrink the fiscal deficit. Fiscal adjustment was complicated by an expected 3 percentage point of GDP rise in government interest payments over 2010-14 reflecting the replacement of low-interest debt with more expensive official (and eventually private) borrowing.[3] For debt to start declining, the required adjustment in the primary balance by 2014 was 14½ percentage points of GDP. To achieve this adjustment, revenue and expenditure measures amounting to 11 percent of GDP were identified that would come on top of the 5 percent of GDP in measures implemented in the first half of

[3] Interest rates on the loans by euro area member states were 300 basis points over the swap rate for up to 3 years' maturity and 400 basis points above for longer maturities.

2010. Reforms to tax administration and public financial management would support this effort. Major changes would also be made to the pension system to ensure its viability

17. The second pillar of the program consisted of structural reforms. Given Greece's commitment to stay in the euro and the absence of an exchange rate lever, structural reforms were necessary to facilitate internal devaluation and boost economic growth. Specific reforms were identified to increase competition in labor and product markets, boost productivity, and improve the business environment. Positive GDP growth was projected from 2012.

18. The third pillar of the program was to preserve financial stability. The banks were viewed as vulnerable to the downturn and to an adverse feedback loop from the sovereign. The Hellenic Financial Stabilization Fund (HFSF) was set up to provide capital to banks as needed. The program included €10 billion that would be available to provide resources to the HFSF if and when such needs arose.

19. The program aimed to place Greece's debt on a sustainable path. The combination of large fiscal adjustment and growth-enhancing structural reforms was projected to cut public debt to 120 percent of GDP by 2020. The program also envisaged a significant adjustment in the external current account, although this would be gradual since competitiveness would be regained slowly and external interest payments would rise. Program financing included €110 billion that was calculated as sufficient to cover the remaining fiscal deficit, the needs of the HFSF, and all government bonds falling due in 2010 and 2011. Market access was assumed to be regained in 2012.

20. The report is structured as follows. A review of program outcomes (page 12) shows that Greece's SBA-supported program had some important successes, notably regarding fiscal consolidation and pension reform. Moreover, Greece was able to stay in the euro area and international systemic spillovers were relatively well-contained. However, the SBA also failed to achieve critical objectives, especially with regard to restoring growth, ensuring debt sustainability, and regaining market access. This mixed record raises questions about the design of the program (page 20) and about whether the Fund's decision to modify its exceptional access rules to support the program was justified (page 29). The final section (page 32) reviews the possible lessons learned.

PROGRAM OUTCOMES

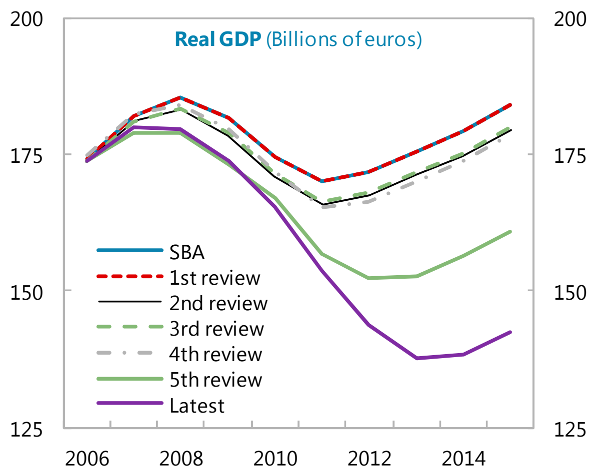
Key objectives for Greece's SBA-supported program were to eliminate fiscal and current account imbalances, regain competitiveness, maintain financial stability, and boost growth and employment.

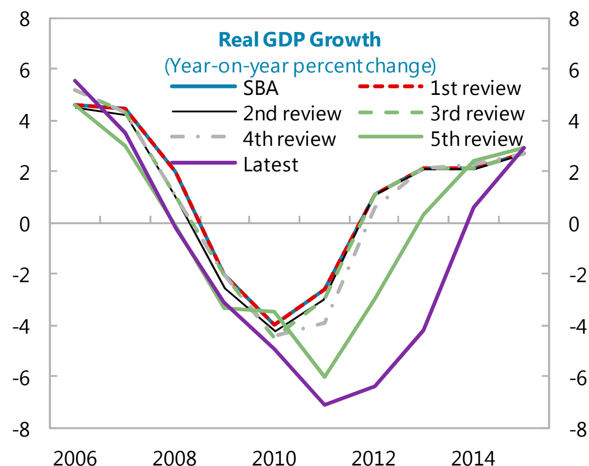
A. Macroeconomic outcomes

21. The economic downturn proved considerably more severe than projected. Data revisions complicate the comparison,[4] but real GDP in 2012 was 17 percent lower than in 2009, compared to a 5½ percent decline projected in the SBA-supported program. The original growth projections were largely maintained until the fifth review (December 2011), but were then marked down with the expected recovery delayed until 2014. Projections for unemployment were raised in line with the severity of the contraction. The unemployment rate in 2012 was 25 percent compared to the original program projection of 15 percent. This huge rise in unemployment exceeded that which would be expected based on estimates of the Okun coefficient for Greece (see April 2010, WEO).

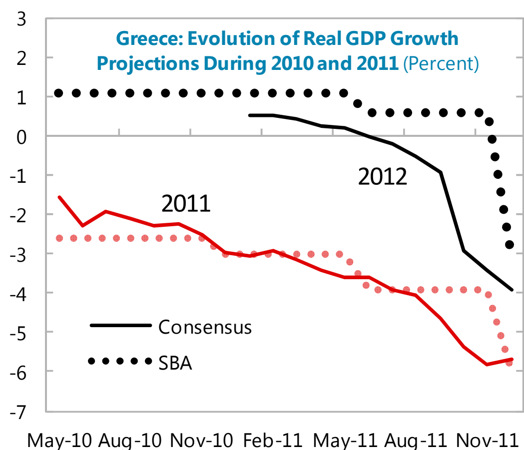
22. Other variables showed less divergence from projection. Inflation initially overshot the program projection due to the indirect tax increases, but subsequently came down as activity weakened. Prices fell by less than the decline in wages in part reflecting continued rigidities in product markets. Reductions in ULCs were wage driven with few indications that productivity had increased (see Box 2). The ULC REER is estimated to have declined by 9 percent during the period of the SBA. The current account deficit decreased broadly as projected, although by less than expected in cyclically-adjusted terms. There was a sharp compression of imports, but little pick-up in exports.

[4] Following large data revisions due to misreporting, with Greece being found in breach of its reporting obligations under Article VIII, Section 5, the authorities took actions to improve the published data (Box 2, IMF Country Report No. 10/110). These methodological changes along with data revisions implied a shifting data landscape for the program. Eurostat did not validate the fiscal statistics until the second review (Box 1, IMF Country Report No. 10/372) and revisions to national accounts have been ongoing (a major revision in October 2012 implied that GDP in 2010 had contracted 1.4 percent more than previously reported).

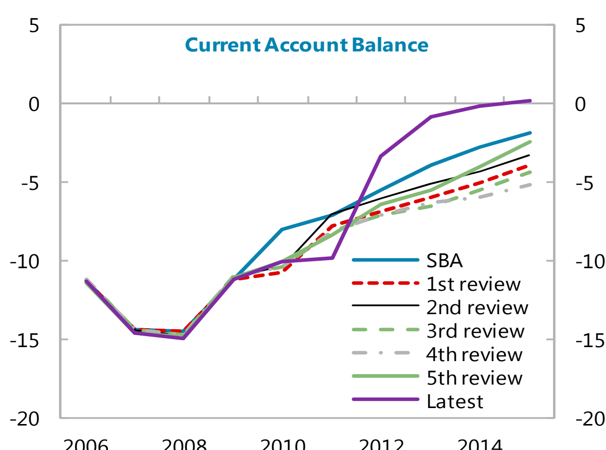




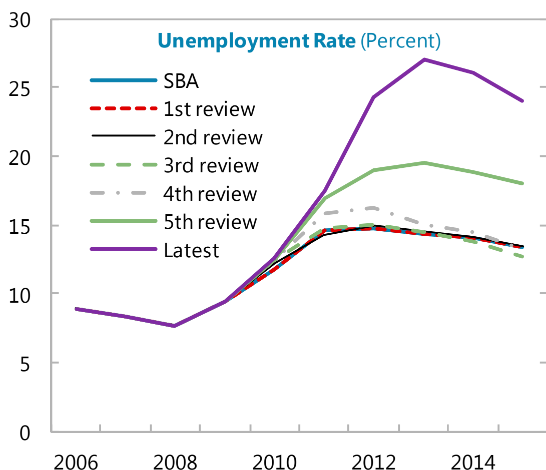
Sources: IMF country reports; and IMF staff calculations.

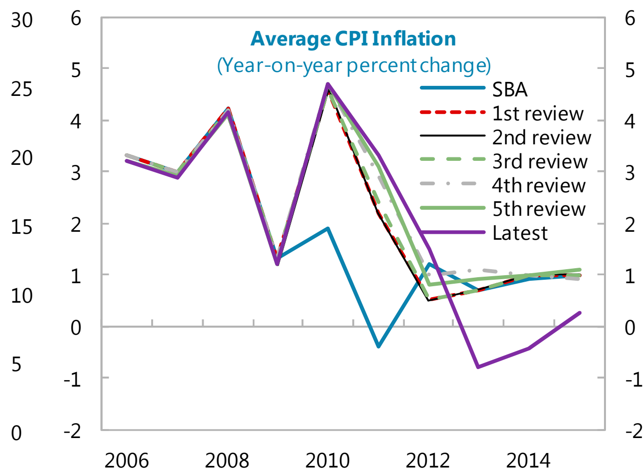


Sources: Monthly Consensus Forecast; and IMF Country Reports.



Sources: IMF country reports.





Sources: IMF country reports; IMF *World Economic Outlook*; and IMF staff calculations.

B. Fiscal policy outcomes

23. A large reduction in the fiscal deficit was achieved. The change in the primary deficit during 2010–11 was 8 percentage points of GDP, slightly above target, despite the deep recession. The authorities introduced additional measures in 2011 (Medium-Term Fiscal Strategy, amounting to 10½ percent of GDP during 2011–14) once it became clear that the initial set of fiscal measures was insufficient to deliver the consolidation target. In cyclically-adjusted terms, the primary balance improved by about 13 percent of potential GDP during the SBA.[5] Estimates of the debt-stabilizing level of the primary surplus were reduced from the fifth review once private sector involvement (PSI) reduced the debt stock and lowered the average interest rate on public debt.[6]

24. Taxes were increased further. Revenue measures had already been taken in May 2010 under the 2010 Stability program including increases in VAT rates. Additional tax policy measures implemented during the SBA-supported program comprised increases in indirect tax rates, including further VAT rate hikes, a new property tax, and somewhat higher income taxes. Efforts were also made to strengthen tax administration and raise tax collections.

25. Expenditure measures focused on reducing public sector wages and social benefits. Public sector wages and pensions were cut through elimination of 13th and 14th monthly payments, but with safeguards intended to protect the most vulnerable. Measures implemented in 2010–11 included cuts in public sector salaries, bonuses, and allowances, and steps to reduce health care spending on drugs. Other measures included cuts in capital spending and a reorganization of subnational governments (Kalikrates). The authorities also adopted a new budget framework and put in place spending control mechanisms. Nonetheless, arrears and inadequate data reporting remained an issue throughout the SBA-supported program.

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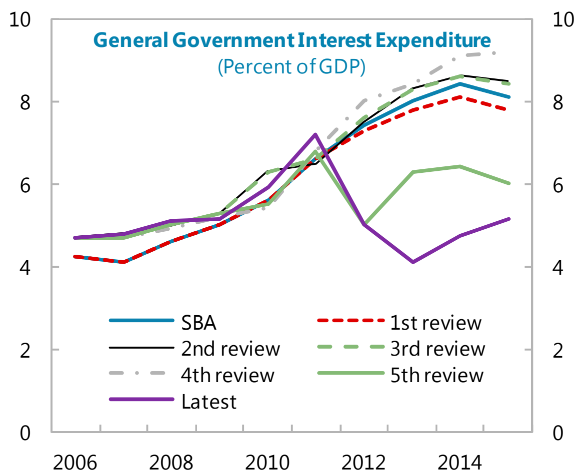
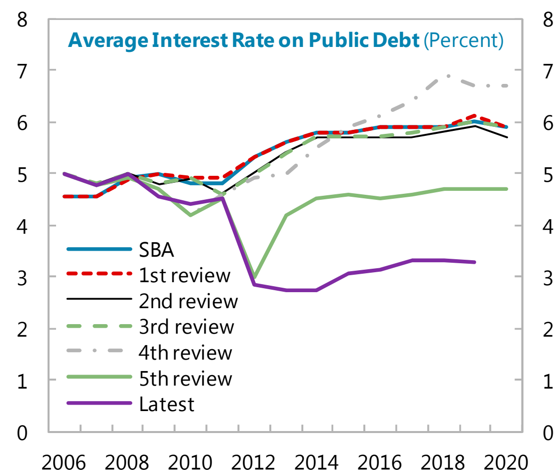
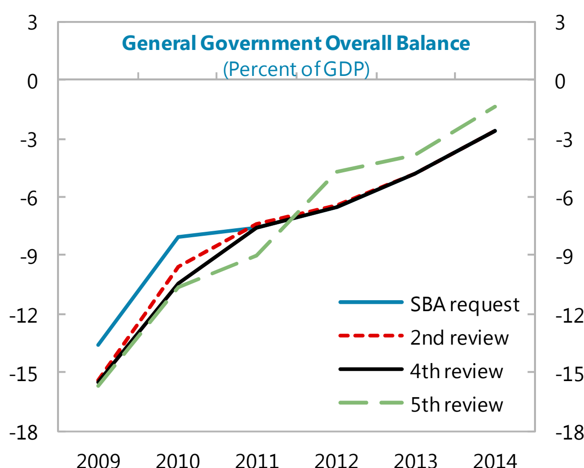
[5] The performance criterion on the general government primary cash balance was met for end-2010 but this is exaggerated to some extent by a build-up in domestic arrears: during 2010, this performance criterion did not take account of the accumulation of arrears (monitored via an indicative target that was breached by €3 billion, or a bit over 1 percent of GDP). The definition of the performance criterion was subsequently modified to incorporate domestic arrears.

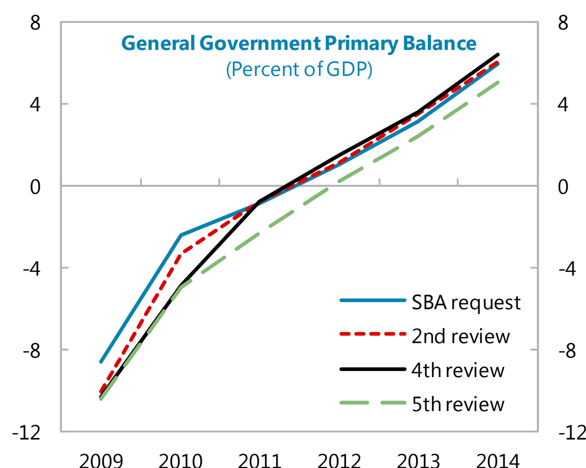
[6] Debt restructuring in March 2012 led to a 60 percent reduction in privately held debt. Public debt fell by €62.4 billion to €305.5 billion. Some relief was also provided on official debt in March and December 2012 including a reduction in interest rates on the euro area loans. See Zettelmeyer *et al* (2013).





Sources: IMF country reports.





Sources: IMF Country Reports; and IMF staff estimates.

General Government Operations, 2009–11

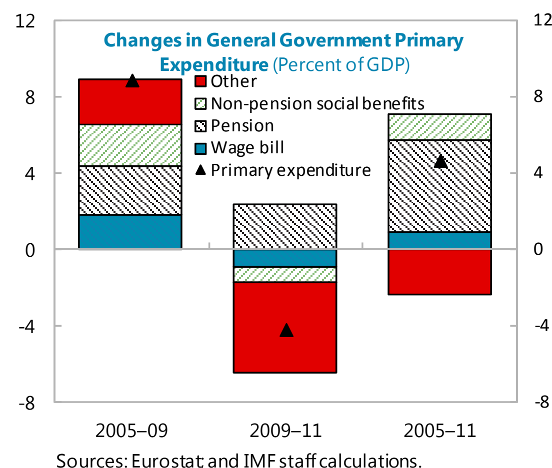
(Percent of GDP)

	2009		2010		2011		Change, 2009–11	
	SBA Request	Est.	SBA Request	Est.	SBA Request	Est.	SBA Request	Est.
Revenue	36.9	38.3	40.5	40.6	42.5	42.4	5.6	4.1
Expenditure	50.4	54.0	48.5	51.4	50.1	52.0	-0.3	-2.0
Primary	45.4	48.8	42.9	45.5	43.5	44.8	-1.9	-4.0
Interest	5.0	5.2	5.6	5.9	6.6	7.2	1.6	2.0
Overall balance	-13.6	-15.6	-8.1	-10.8	-7.6	-9.6	6.0	6.0
Primary balance	-8.6	-10.5	-2.4	-4.9	-0.9	-2.4	7.7	8.1
Cyclically-adjusted primary balance 1/	-16.0	-14.0	-7.8	-6.3	-5.8	-1.3	10.3	12.7

Sources: Eurostat; and IMF staff calculations.

1/ Percent of potential nominal GDP.

26. About half of the adjustment in the primary deficit reflected lower spending. As a result of the expenditure measures undertaken during the SBA-supported program, primary expenditure declined by 4 percentage points of GDP in 2009–11, but still exceeded the 2005 level by about the same amount. Moreover, the wage bill remained high compared with other EU countries; programs for social protection remained largely untargeted and inefficient (OECD, forthcoming); and health care reform had yet to be completed.

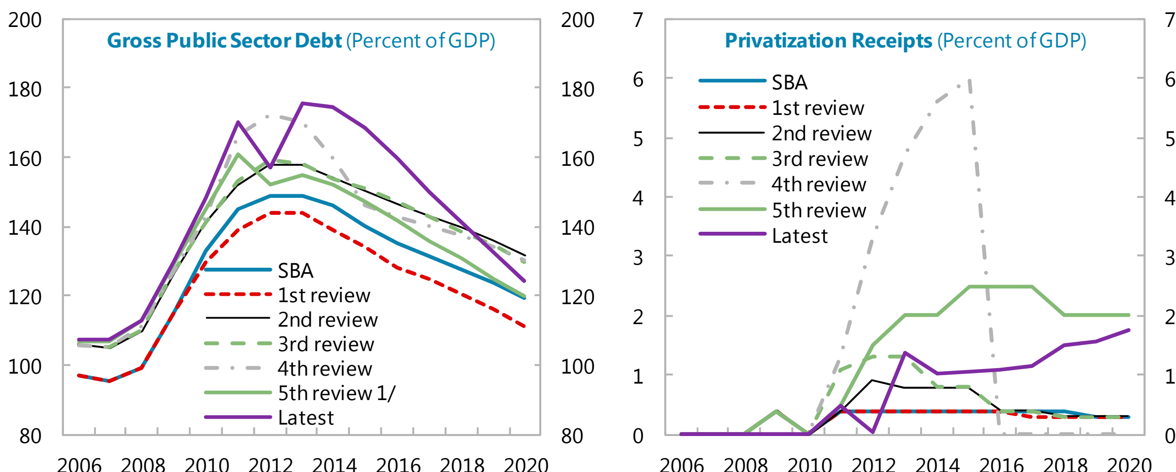


Sources: Eurostat; and IMF staff calculations.

27. Fiscal consolidation proceeded, but momentum on fiscal structural reforms flagged. Measures taken contributed to strong upfront consolidation (wage and pension cuts, VAT hikes) and to improved long-term sustainability (pension reform). A far-reaching pension reform was approved by Parliament in July 2010 that was designed to substantially contain increases in pension benefits over the long run (see Box 3). Fund TA also led to improvements in expenditure and commitment controls and to better fiscal reporting and budgeting practices. However, tax administration reforms encountered setbacks due to political resistance and capacity constraints. Although TA led to improvements in on-time VAT filing, there were few signs by the end of the SBA-supported program that collection efficiency was being improved on a permanent basis (see Box 4).

C. Debt and financing outcomes

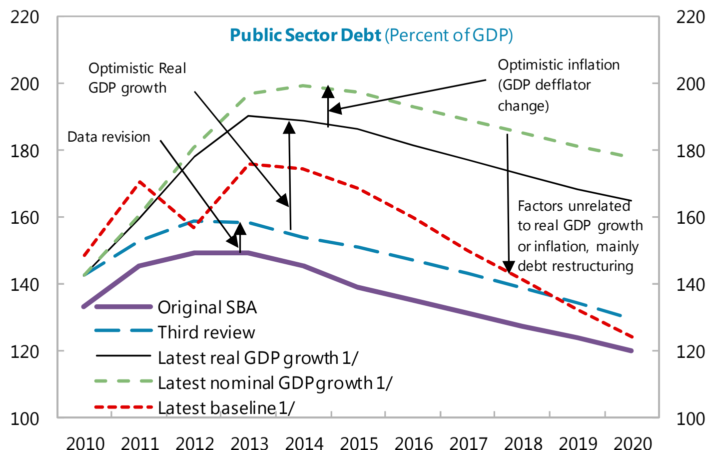
28. Public debt overshot program projections by a large margin. The debt sustainability analysis (DSA) in the program request included stress tests but these turned out to be mild compared to actual outcomes. At the outset of the program, debt was projected to peak at 154-156 percent of GDP in 2013 (depending on data revisions). However, by the fourth review in July 2011 (i.e., before PSI was in prospect), the end-2013 debt ratio was projected at 170 percent of GDP. As the program unfolded, the underlying debt dynamics worsened significantly because output contractions and deflation were more pronounced than expected. Lower nominal growth raised the interest rate-growth differential and led to progressively higher expected debt paths. Data revisions affecting both public debt and GDP exacerbated these trends.



Sources: IMF country reports.
1/ Already incorporated effects of debt restructuring.

29. Privatization outcomes were disappointing. The authorities signaled a strong commitment to privatization in mid-2011 with parliamentary approval of a privatization and real estate development strategy. However, despite little progress having been made to date, the fourth review made extremely optimistic assumptions about privatization with envisaged receipts rising to €50 billion compared to about €10 billion in the original program. Such receipts became less important for debt sustainability from the fifth review once PSI was in prospect, plus equity prices had by that stage come down sharply. In the fifth review, much lower projections for privatization receipts were made and in general the DSA was cast with more conservative assumptions.

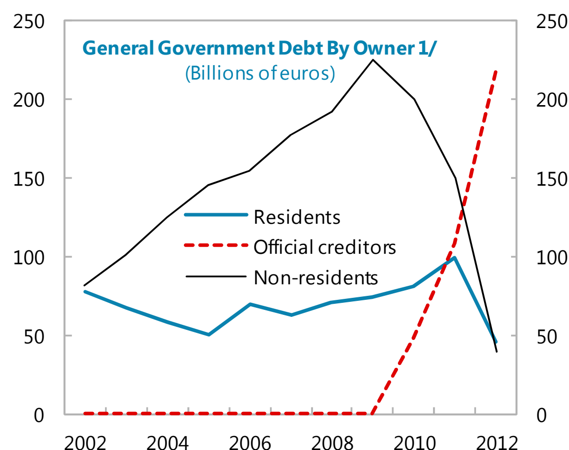
30. Weaker macroeconomic outturns and eventual PSI exerted opposite effects on debt sustainability. Adjusting the debt projections under the original SBA with the macro figures used in the January 2013 review of the EFF-supported program (and for subsequent data revisions to debt and GDP) show public debt at about 180 percent of GDP in 2020. The debt restructuring, however, provided more than an offset and the latest projections show debt declining to about 120 percent of GDP by 2020.



Sources: IMF Country Reports; and IMF staff calculations.
1/ As of the 2013 Article IV consultation.

31. Private creditors were able to significantly reduce their exposure. Non-resident holdings of government debt dropped sharply in 2010–12. Resident holdings of government debt initially rose, but then started to fall

as well. There was a large-scale substitution from privately-held to publicly-held debt. Part of this was by design—program financing was to be used to repay maturing bonds in 2010 and 2011—but the shift was intensified by market access not being regained in 2012, as well as by SMP. Purchases of Greek government bonds under SMP created rigidities when debt was restructured as a result of the decision to exclude SMP (and euro area national central bank) bond holdings from the PSI.



Sources: Greek authorities; and IMF staff estimates.
1/ Assumes that the stock of bonds in the ECB's SMP as of end-2012 was purchased evenly over 2010-1. Bonds held by Eurosystem central banks, EC, and EIB for investment purposes are not treated as debt to official creditors.

D. Structural reforms

32. Labor market reforms encountered resistance under the SBA-supported program. Labor market reforms were initially judged to be progressing well, but a more critical view was taken in later reviews. The wage bargaining system was reformed, but there were few firm level agreements and the Fund judged labor market reforms not to have delivered enough flexibility. The absence of early actions to reduce private wages may have aggravated the job losses from the economic downturn.[7]

33. The product market and regulatory environment also proved resilient to change. Although the initial momentum appeared strong, reforms to product markets and the business environment failed to generate a critical mass necessary to boost growth. Program reviews reported that progress was disappointing. For example, one-stop-shops and fast-track investment approval laws were passed, but implementation was delayed. While the law liberalizing regulated professions was also passed, the deadline for requesting reinstatement of justified restrictions was postponed thus delaying implementation. This slow progress militated against realization of the productivity gains that had been hoped for in the program.

E. Financial sector

34. The banking system was perceived to be relatively sound when the program began. The bank capital ratio was 11.7 percent aided by a recapitalization in 2009, but balance sheets came under pressure from higher nonperforming loans (NPLs) once the economy weakened. Moreover, liquidity conditions tightened in 2009 due to banks losing wholesale market access and some deposit outflows.

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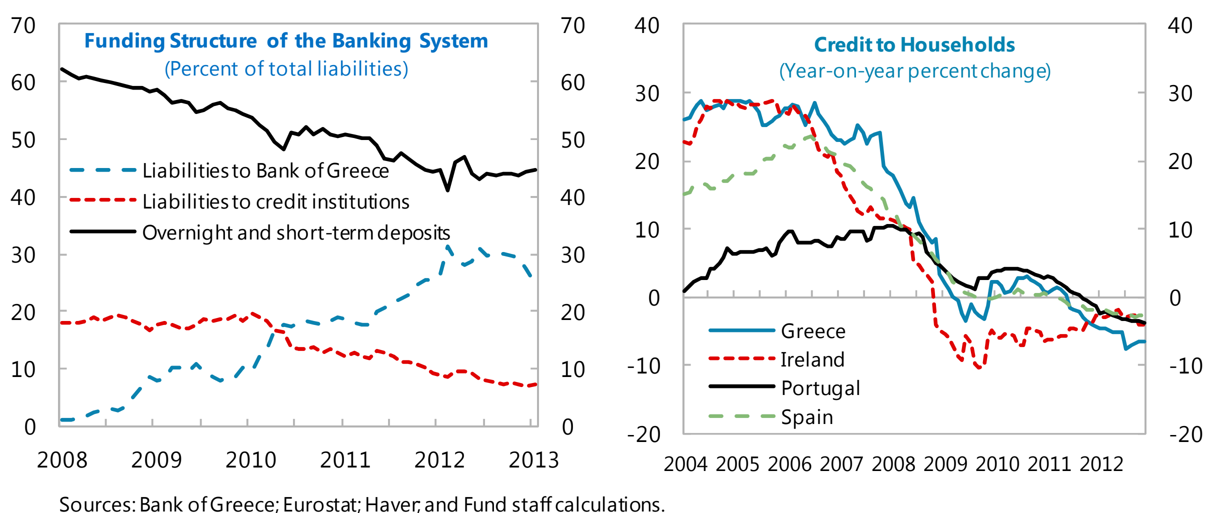
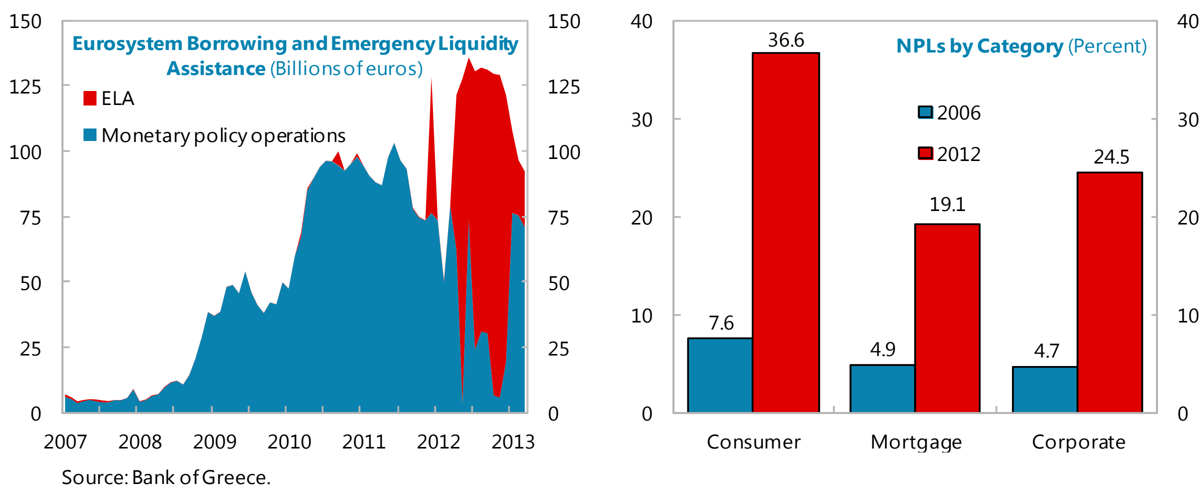
[7] It was only with the approval of the EFF in March 2012 that significant labor reforms took place including cuts in minimum wages in the private sector.

35. As the recession intensified and liquidity tightened, the financial sector became increasingly vulnerable. Financial sector distress was a result of the protracted recession and sovereign debt problems. This was in contrast to Ireland and Spain where causality ran the other way. By 2011, deleveraging in the financial sector and restructuring of state-owned banks was perceived necessary. ATE, the largest state-owned bank and the only Greek bank to fail the Europe-wide stress tests in mid-2010, had to be recapitalized. Sizable deposit outflows began in the second half of 2011, fanned by fears of a Greek euro exit.



Sources: Bank of Greece; Eurostat; Haver; and Fund staff calculations.



Source: Bank of Greece.

36. The ECB provided substantial and extraordinary liquidity support. As noted, from May 2010, the ECB suspended the link between sovereign credit ratings and eligibility of collateral for refinancing operations and intervened directly in the government bond market under the SMP. The ECB also began to accept uncovered bank bonds guaranteed by the government as collateral eligible for refinancing operations.

37. PSI served to eliminate the banks' capital. Greek banks were heavily exposed to the sovereign, holding government bonds with a book value of about €40 billion (after some initial

June 2011 impairments). By contrast, core capital was €22 billion, or about the same magnitude as the capital needs arising from the PSI. Only €1.5 billion was drawn from the HFSF during the SBA-supported program, but the banks' capital needs subsequently dwarfed the HFSF provision. As of the fourth review the purpose of the HFSF changed from a means of topping up capital for banks that had tried and failed to raise private capital to providing a substantial injection of public funds for banks that had been severely affected by the PSI and the deep recession: the amount needed for the HFSF in the context of the EFF was estimated at €50 billion.

PROGRAM DESIGN

While significant fiscal adjustment occurred during the SBA, critical objectives such as regaining confidence and restoring growth were not achieved. This raises important questions about the design of the program.

A. Should the fiscal adjustment path have been more gradual?

38. It is difficult to argue that adjustment should have been attempted more slowly. The required adjustment in the primary balance, 14½ percentage points of GDP, was an enormous adjustment with relatively few precedents,[8] but was the minimum needed to bring debt down to 120 percent by 2020. Moreover, despite the starting point being slightly worse than thought to be the case when the 2010 Stability Program was drawn up,[9] the SBA-supported program had already extended the period over which the Maastricht deficit target would be achieved from 3 to 5 years. Since the program only ran through mid-2013, the last part of this adjustment would occur after the program and the conditionality had ended.[10] Moreover, debt would still be increasing when the program ended.

Targeted Fiscal Adjustment: Overall Deficit
(Percent of GDP)

	2009	2010	2011	2012	2013	2014
SP, Jan., 2010 ("4-3-3")	12.5	8.8	6.0	≤ 3.0	≤ 3.0	≤ 3.0
SBA, May, 2010	13.6	8.1	7.6	6.5	4.8	2.6

Sources: Greece's 2010 Stability Program; and IMF Country Report No. 10/110.

[8] Episodes of comparable large fiscal adjustments include Greece where in at least two instances (in 1978 and 1990) the annual contraction in the primary deficit amounted to over 7 percent of GDP (see Tsibouris et al, 2006). However, the required adjustment under the SBA-supported program would be undertaken in a very weak global growth environment.

[9] In April 2010, the estimated fiscal deficit for 2009 was revised to 13½ percent of GDP from the 12½ percent of GDP estimate that prevailed when the 2010 Stability Program was formulated.

[10] This raises the issue of why an EFF was not introduced from the outset – see discussion below.

39. More importantly, a flatter adjustment path would have required more than €110 billion in financing. The Greek SBA was already the highest access loan in Fund history. While the euro partners could have provided more than €80 billion in funding (although this was already more than 35 percent of Greek GDP), this would have been politically difficult. Debt restructuring could also have provided the authorities with some leeway, but as discussed below, this option was not politically feasible.

B. Should the adjustment path have been more flexible?

40. The scope for increasing flexibility was also limited. The fiscal targets became even more ambitious once the downturn exceeded expectations. In addition, the starting point moved.[11] However, the automatic stabilizers were not allowed to operate and adjustments were not made to the fiscal targets until the fifth review in December 2011. While earlier adjustment of the targets could have tempered the contraction, the program would then have required additional financing. The date by which debt started to decline would also have been stretched beyond the program period.

C. Should the larger economic downturn have been expected?

41. There were a number of reasons why the actual decline in GDP was so much greater than anticipated:

- **The fiscal multipliers were too low.**. The question that arises is whether underestimation of the size of the fiscal multipliers in the SBA-supported program caused the depth of the recession to be underestimated. The program initially assumed a multiplier of only 0.5 despite staff's recognition that Greece's relatively closed economy and lack of an exchange rate tool would concentrate the fiscal shock. Recent iterations of the Greek program have assumed a multiplier of twice the size. This reflects research showing that multipliers tend to be higher when households are liquidity constrained and monetary policy cannot provide an offset (see October 2012 WEO), influences that appear not to have been fully appreciated when the SBA-supported program was designed. Aslund (2013) has also argued that there is a habitual tendency of Fund programs to be over-optimistic on growth until the economy reaches a bottom (and thereafter to underestimate the recovery).[12]

- **However, the deeper-than-expected contraction was not purely due to the fiscal shock.** Part of the contraction in activity was not directly related to the fiscal adjustment, but rather reflected the absence of a pick-up in private sector growth due to the boost to productivity

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[11] The estimated 2009 fiscal deficit was revised again in December 2010 from 13½ to 15½ percent of GDP.

[12] By contrast, the Fund's 2011 Conditionality Review finds that growth projections for program countries do not display a bias in the aggregate (contrary to past studies, which found an optimistic bias). See IMF (2012a).

and improvements in the investment climate that the program hoped would result from structural reforms. Confidence was also badly affected by domestic social and political turmoil and talk of a Greek exit from the euro by European policy-makers.[13] On the other hand, the offset to the fiscal contraction from higher private sector growth that was assumed during the program period appears to have been optimistic (see Section D below), while some of the adverse political developments were endogenous and followed from limited ownership of the program (see Section F below). A larger contraction should probably therefore have been expected, although it should be noted that market forecasters were no more accurate.[14]

42. In any event, a deep recession was unavoidable. Greece lost market access in the first half of 2010 with a fiscal deficit so large and amortization obligations so onerous that it is difficult to see how a severe economic contraction could have been avoided. Indeed, if Greece had defaulted, the absence of deficit financing would have required primary fiscal balance from the second half of 2010. This would have required an abrupt fiscal consolidation, and led to an evaporation of confidence and huge deposit outflow that would have most likely made the contraction in output even larger.

D. Were structural reforms sufficient to restore competitiveness and growth?

43. Structural reforms were critical to improving competitiveness. The program had to work within the constraints of the fixed exchange rate and engineer an internal devaluation. Part of the adjustment in ULCs would come from the economic slowdown that would exert downward pressure on wages. The rest would follow from structural reforms that would free up Greece's rigid labor and product markets and raise productivity.

44. Actions were not taken to adjust private sector wages. While the program cut wages and bonuses in the public sector, there were no direct attempts to lower private sector wages. The EC took the view that forcing reductions in private wages, for example, through abolition of bonuses, was not critical: industry did not consider labor cost to be excessive and in any case exports were unlikely to be wage sensitive.[15] Instead focus was on increasing the scope for wage

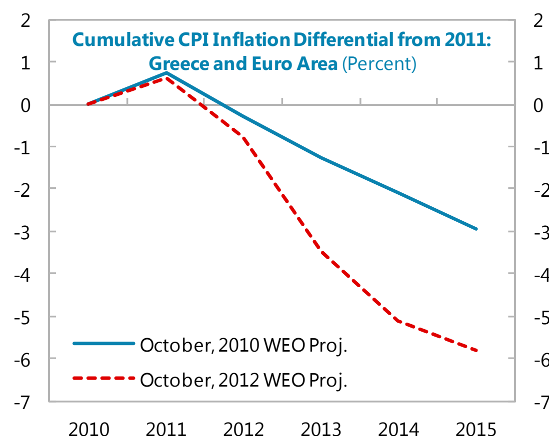
[13] External demand also weakened during the program period: the April 2010 WEO projected cumulative GDP growth in the Eurozone in 2010-12 of 3.2 percent compared to an outturn of 1.0 percent. However, this would have played a limited role in worsening the contraction given the small size of Greece's export sector.

[14] The program growth projections (-4 percent in 2010 and -2.6 percent in 2011) were more pessimistic than the May 2010 Consensus Forecasts (-3.6 percent in 2010 and -1.6 percent in 2011).

[15] See European Commission (2010). Also see Papaconstantinou (2010): "Competitiveness is a broader issue than wages in Greece and also has to do with the oligopolistic nature of markets: wage cost is part of the discussion but not a main element."

bargaining at the firm level. The Fund agreed with the emphasis on bringing down public sector wages, noting the strong demonstration effect that this would have for the private sector.

45. A quick recovery in growth appeared optimistic. Internal devaluation was recognized to be a gradual process. In fact, the program projections implied that only about 3 percent of the estimated 20-30 percent improvement required in competitiveness would be achieved by 2013. This assumption aided the debt sustainability analysis by limiting the decline in the denominator in the debt-GDP ratio, but also raised a fundamental question about where growth would come from in the absence of an internal devaluation. The program emphasized confidence effects, regained market access, and completed structural reforms. However, even if structural reforms were transformative, a quick supply response was unlikely. Partner country growth was also expected to be weak. Nonetheless, the program assumed a V-shaped recovery from 2012.



Sources: IMF, *World Economic Outlook*; and IMF staff calculations.

E. Was the mix of fiscal measures appropriate?

46. The adjustment mix seems revenue heavy given that the fiscal crisis was expenditure driven. As discussed earlier, the ballooning of the fiscal deficit in the 2000s was almost entirely due to increased expenditure. The large dose of revenue measures in the SBA-supported program can therefore be questioned, particularly since tax changes constituted almost half of the measures targeted for the first two years of the program.[16] The case for indirect tax increases was that they were quick to take effect and faced less resistance than cuts in spending programs. Moreover, VAT rates were lower than the median level in Europe.

Composition of Measures

(Percent of GDP)

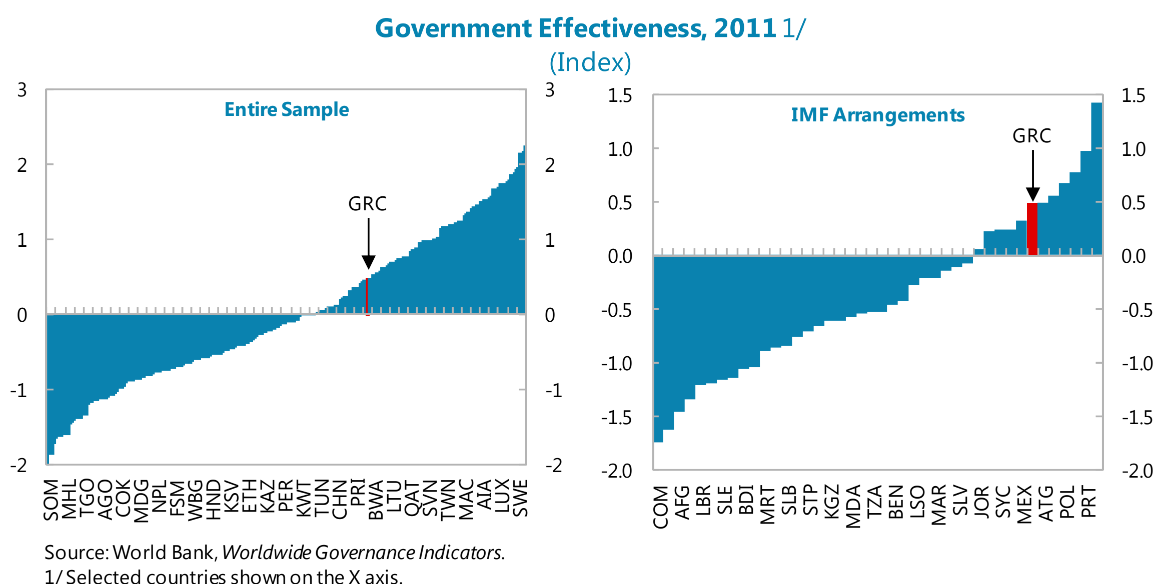
	2010	2011	2012	2013	Cum.
Total	2.5	4.1	2.4	2.0	11.1
Revenue	0.5	3.0	0.8	-0.3	4.0
Excises	0.2	0.3	0.1	...	0.6
VAT	0.3	0.9	0.2	...	1.5
PIT	...	0.2	0.0	...	0.2
CIT	...	0.4	...	...	0.4
Property tax	...	0.8	0.1	0.0	0.9
Other	...	0.4	0.3	-0.3	0.4
Expenditure	2.0	1.1	1.7	0.5	5.3
Wages	0.5	0.2	0.3	0.2	1.2
Pensions	0.8	0.3	0.1	0.1	1.3
Social benefits	0.2	0.0	0.2	...	0.4
Goods and services	0.3	0.4	0.2	0.2	1.1
Subsidies	...	...	0.7	...	0.7
Investment	0.2	0.2	0.2	...	0.7
Structural reforms	...	...	...	1.8	1.8

Sources: Greek authorities; and IMF staff projections.

[16] There is also evidence that expenditure-based fiscal adjustment is more durable (see Tsibouris *et al*, 2006).

47. The burden of adjustment was not shared evenly across society. The public sector wage bill was cut by lowering wages and bonuses, but specific plans to downsize the number of civil servants were limited to a commitment to replace only 20 percent of those who retired. The state enterprises also remained generously staffed. By contrast, the private sector sustained enormous job losses partly because wage setting mechanisms were not liberalized. Moreover, little progress was made in checking tax evasion by high income earners. While the program recognized that it would take time to show results from improved tax administration, the absence of quick progress in collecting evaded taxes came at the cost of any demonstrable improvement in the equity of the tax burden.

Government Effectiveness, 2011 1/
(Index)



Source: World Bank, *Worldwide Governance Indicators*.
1/ Selected countries shown on the X axis.

F. Was there sufficient ownership and capacity for reforms?

48. Ownership of the program was limited. Staff recognized that vested interests had fiercely opposed structural reforms in Greece in the past, but were encouraged by the authorities' strong commitment to the program. The government also had a fresh mandate from the election and a strong majority in parliament. Staff argued that difficult actions, such as cutting public sector wage levels, were being taken as prior actions, while Fund and EC technical assistance would support the program of reforms. As it turned out, ownership of the program did not extend far and little progress was made with politically difficult measures such as privatization, downsizing the public sector, and labor market reforms. There was also limited bipartisan support in parliament for the program, while relations with unions were adversarial and there was little hope that that an incomes policy could be agreed.

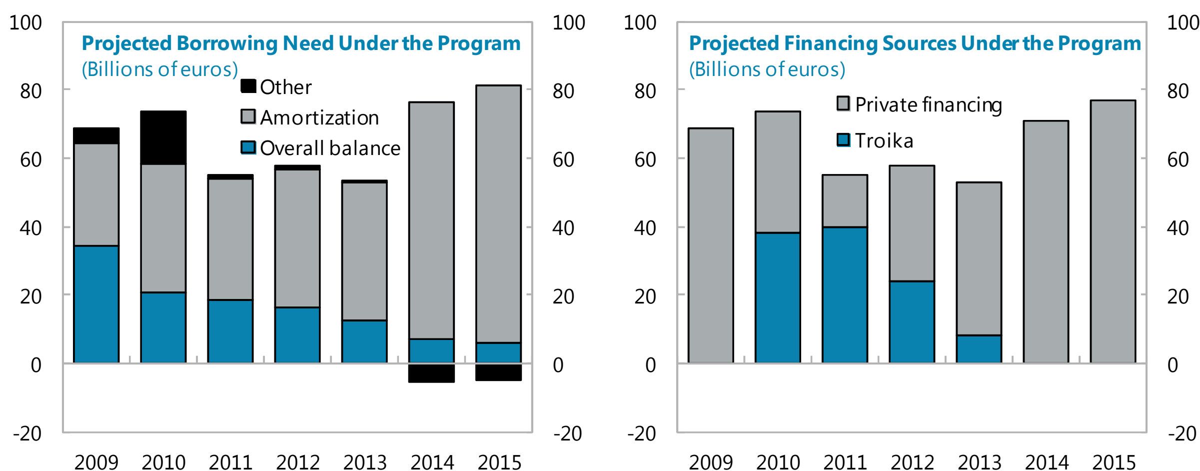
49. The capacity to implement reforms was overestimated. The Fund had concerns that implementation capacity might be weak based on its history of providing fiscal technical assistance to Greece. However, the extent to which administrative capacity was lacking in the public sector seems to have come as a surprise. The depth of contact afforded by annual Article

IV surveillance may not have provided much insight. Moreover, World Bank indicators do not show government effectiveness in Greece to be particularly low by global standards, although they are relatively low for an advanced country.

50. Structural conditionality became very detailed. In recent years, the Fund has moved toward concentration on macro-critical structural reforms in programs and more parsimony in setting conditionality. The number of structural conditions set under the SBA-supported program was relatively large (see Box 5), although there seems to be less of a case for parsimony when formulating competitiveness-boosting reforms in a case like Greece where the exchange rate is fixed. However, the number of fiscal structural conditions was also large, and became more so as the program progressed. By the fifth review, one of the fiscal structural prior actions had nine sub-prior actions. This proliferation of conditions reflected the realization of the extent of the weaknesses in administrative capacity. While, according to available government effectiveness indicators, Greece is far from an outlier in terms of weak capacity among countries with Fund-supported programs, administrative capacities in Greece do appear to be extremely weak. Moreover, fiscal technical assistance is delivered in cooperation with the EC, whose capacity building initiatives tend to be very detailed.

G. Was the financing of the program likely to be sufficient?

51. The adequacy of the program financing required favorable assumptions. Markets were concerned about the problem of large repayment obligations in 2014 and 2015 after the program expired. The financing strategy assumed renewed market access from 2012 yet the composition of debt holders would now deter private lenders since official lenders tend to be senior creditors. Subsequent research also suggests that the market access assumption, assessed in terms of rollover rates, was sanguine compared to past experience in emerging markets facing exogenous shocks (see IMF, 2011). However, Greece's advanced economy status and its membership of the euro area may have been considered as modifying factors.



Sources: IMF Country Report No. 10/110; and IMF staff estimates.

52. The financing available for the capital needs of the banking sector was also all likely to be needed. The HFSF was established to safeguard the stability of the banking sector with up to €10 billion from program disbursements. The 2009 Article IV Consultation had reported results of banking system stress tests that showed that if a number of shocks considered were to occur simultaneously, new capital of up to €2.9 billion would be required. However, these shocks were fairly mild compared to the program projections made in May 2010, and as noted, the program assumed a quick recovery in growth that appeared optimistic. The €10 billion set aside for recapitalization under the HFSF was thus all likely to be needed.

Stress Tests of Greek Banking System

(Percent, unless otherwise indicated)

	Article IV Adverse Scenario, June, 2009	Program Projections, May, 2010
Macro-scenarios		
GDP contraction 1/	-3.0	-6.6
Unemployment 2/	+4.0	+7.0
Long-term interest rates	≈ 9.0	...
Estimated capital need (billions of euros)	2.9	Up to 10.0

Source: IMF Country Report No. 09/244

1/ Over 2 years.

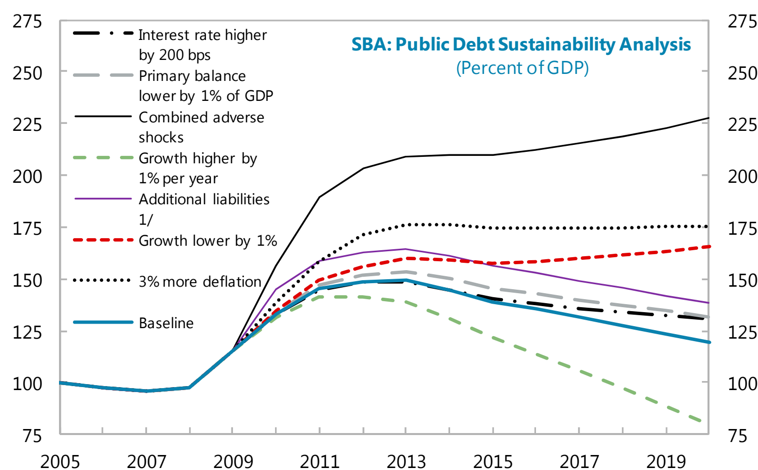
2/ Compared to end-2008 level of 8 percent.

H. Should debt restructuring have been attempted at the outset?

53. The program was based on a number of ambitious assumptions. The preceding discussion has raised questions about whether the fiscal targets should have been less stringent and whether less optimistic projections should have been made about growth, deflation, privatization receipts, and regaining market access. Varying these assumptions would have materially affected the outlook for debt sustainability.

54. The risks were explicitly flagged. Staff made it clear that the program supported by the SBA was an ambitious program that was subject to considerable risks. The adjustment needs were huge, reforms would be socially painful, and commitment might flag. Debt was not judged to be sustainable with high probability and it would take little in the way of a deviation from program assumptions or an external shock to generate a less favorable debt trajectory. A combination of lower growth, greater deflation, higher interest rates, and larger contingent liabilities was shown to place public debt on a clearly unsustainable path (above 220 percent of GDP by 2020 and still rising). Since the shocks considered were fairly mild, this sensitivity analysis

demonstrated the precariousness of the debt trajectory. For example, the deflation shock considered in the DSA (3 percent more) would not have made much difference to the internal devaluation, but would have caused debt to jump to 175 percent of GDP.



Source: IMF Country Report No. 10/110.
1/ Recognition of implicit liabilities and bank support.

55. Ex ante debt restructuring was not attempted. One way to make the debt outlook more sustainable would have been to attempt to restructure the debt from the beginning. However, PSI was not part of the original program. This was in contrast with the Fund program in Uruguay in 2002 and Jamaica in 2011 where PSI was announced upfront. In Iceland in 2008, foreign creditors (albeit private bank depositors) were bailed in ex ante via capital controls, while Hungary, Latvia, and Romania, benefitted from the Vienna Initiative that was set up to encourage foreign banks to maintain credit lines. Yet in Greece, on the eve of the program, the authorities dismissed debt restructuring as a "red herring" that was off the table for the Greek government and had not been proposed by the Fund (Papaconstantinou, 2010). In fact, debt restructuring had been considered by the parties to the negotiations but had been ruled out by the euro area. There are a number of reasons for this:

- Some Eurozone partners emphasized moral hazard arguments against restructuring. A rescue package for Greece that incorporated debt restructuring would likely have difficulty being approved, as would be necessary, by all the euro area parliaments.

- Debt restructuring would directly hurt the balance sheets of Greek banks. This would imply a call on the program's financing that would exceed the amount set aside for bank recapitalization under the HFSF.

- Debt restructuring risked contagion to other members of the Eurozone and potentially another Lehman-type event, yet the EFSF was not yet in place. European banks had large holdings of Greek bonds – but also, and of more concern given the scale of their exposure, had large holdings of the bonds of other European sovereigns that would drop in value were Greek creditors to be bailed in. For the euro zone as a whole, there might be limited gain in bailing in creditors who subsequently might themselves have to be bailed out.

56. Nonetheless, many commentators considered debt restructuring to be inevitable. With debt restructuring off the table, Greece faced two alternatives: default immediately, or move ahead as if debt restructuring could be avoided. The latter strategy was adopted, but in the event, this only served to delay debt restructuring and allowed many private creditors to escape.

In fact, many observers at the time considered that the Greek program would not stave off debt rescheduling or a default. Commentators noted that the level of public debt would remain high and would be aggravated by the severe recession, while the nonconcessionary interest rates on official debt worsened the debt dynamics.[17] In general, as evidenced by the behavior of bond spreads (see Box 1), markets were not convinced that the program would succeed. Statements by euro area leaders at Deauville in October 2010 that opened up the possibility of debt restructuring for Greece, contrary to its prohibition a few months earlier, also served to reinforce market doubts.

57. In the event, the SBA-supported program served as a holding operation. On the positive side, moving ahead with the Greek program gave the euro area time to build a firewall to protect other vulnerable members and averted potentially severe effects on the global economy. However, not tackling the public debt problem decisively at the outset or early in the program created uncertainty about the euro area's capacity to resolve the crisis and likely aggravated the contraction in output.[18] An upfront debt restructuring would have been better for Greece although this was not acceptable to the euro partners. A delayed debt restructuring also provided a window for private creditors to reduce exposures and shift debt into official hands. As seen earlier, this shift occurred on a significant scale and limited the bail-in of creditors when PSI eventually took place, leaving taxpayers and the official sector on the hook.

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[17] Notwithstanding approval of the program, the view that debt restructuring or default was inevitable in Greece was expressed in April-June 2010 by Ackerman, Goodhart, Kirkegaard, Lachman, Münchau, Rajan, Roubini, Sapir and Pisani-Ferry, Soros, Vines, and Wolf (all 2010). Buiter (2010) concluded that debt would need to be restructured because of the nonconcessional terms of the official lending. Mussa (2010) was unsure whether a restructuring would ultimately be necessary but gave it more than 50 percent chance. In other commentary, El Erian (2010) questioned whether the program had sufficient ownership given that there were few signs that Greek society had accepted the need for austerity. A more optimistic view was expressed by Moody's (2010) who noted that the program eliminated the near-term risk of a liquidity driven default.

[18] The recent paper on sovereign debt restructuring argues that delay in resolving an unsustainable debt situation serves to depress investment and growth in the debtor country and prolong financial uncertainty (see IMF, 2013).

CONSISTENCY WITH FUND RULES AND PRACTICES

A. Was exceptional access justified?

58. The justification for exceptional access criteria and the adequacy of access levels require assessment. Exceptional access in the GRA constitutes levels beyond an annual limit of 200 percent of quota; and a cumulative limit of 600 percent of quota, net of rescheduled repurchases. Greece's access during the first year of the SBA would amount to 1,550 percent of quota and access was expected to peak at 3,212 percent of quota in April 2013. While these levels were unprecedented, they were dwarfed by Greece's public sector financing requirement. Moreover, the Fund's commitment was only 30 percent of the official financing and lower access would have limited the Fund's leverage. The exceptional access criteria apply at each review and should be assessed accordingly:

Criterion 1 (*exceptional balance of payments pressures on the current or capital account*) was satisfied at each stage of the program.

Criterion 2 (high probability of public debt being sustainable in the medium term) was not satisfied. As part of the summing up of the Board taken at the Greece SBA Board meeting, Criterion 2 was modified so that an exception would henceforth be made to the requirement that debt had to be judged to be sustainable with high probability in cases such as Greece where there was a high risk of international spillover effects. The systemic exception seems to have continued to be justified at each review, although the risks of contagion declined somewhat as more Greek government debt shifted to official hands.

Criterion 3 (*good prospects of regaining access to private capital markets*) was judged to be met. The Fund noted that successful implementation of the program and undertakings by Greece's euro area partners to stand ready to provide additional financial assistance would help address market uncertainty and facilitate the regaining of market access. However, additional financing assurances were not strong. Key partner country authorities made some promises to corral their national banks into maintaining credit lines and debt exposures, but (as they themselves predicted) these efforts had limited effect.

Criterion 4 (*a reasonably strong prospect of the program's success taking into account institutional and political capacity to deliver adjustment)* was also considered to be met**.** As discussed earlier, despite Greece's mixed record of reform in the past, the Fund drew comfort from a number of factors: (i) the program was backed at the highest political levels in Greece and Europe; (ii) the most difficult actions having been taken as prior actions; and (iii) the support that TA would provide to Greece's adjustment efforts. In the event, none of these factors proved to be compelling and ownership of the program in Greece was considerably overestimated.

The program went ahead with only Criterion 2 being modified. In the event, the judgments underlying both Criteria 3 and 4 proved to be too optimistic and with the benefit of hindsight, it is debatable whether these criteria were met at the time.

59. The program request met Fund policies on financing assurances but those weakened significantly as the program unfolded. The Fund needs to be satisfied at each review that (i) the member has secured firm financing commitments to implement the intended policies, at a minimum, for a period of 12 months and (ii) there are good prospects for full financing until the end of the program. Conditional on the program's macroeconomic framework, the European financial commitment under the Greek Loan Facility met (i) and (ii). However, when outcomes deviated significantly from program assumptions, no new financing was committed and projected privatization receipts increased substantially, casting doubts on whether prospects for full financing until the end of the program were strong enough.[19]

B. Was the SBA consistent with other Fund programs with countries in currency unions?

60. The troika arrangement was unusual. The challenge faced by the Fund in dealing with Greece was how to square its dealings with a currency union that constitutes the second largest global economic bloc while maintaining equality of treatment for all Fund members (see Pisani-Ferry *et al*, 2011). Greece, however, was something of a special case. The Fund has had programs with members of currency unions in the past (ECCU, CFA franc), but none where the member country was systemic. A feature of the SBA-supported program was that there was no conditionality on areas within the competency of the currency union's central bank: however, during the course of the SBA, the ECB provided significant liquidity support to Greece and it is difficult to argue that an implicit or explicit agreement negotiated as part of the program would have required the ECB to have done more than this.

61. Nonetheless, the arrangement posed problems for program design. The Fund was required to negotiate first with the euro area countries (represented by the EC and ECB) and then with the Greek authorities. This had the advantage that the program would enjoy the necessary broader European support and that it would be consistent with euro area rules and norms. However, the Greek program was also subject to considerable uncertainty as the euro area policy response evolved. For example, the initial euro area position that debt restructuring was off the table was eventually reversed, although this took a considerable length of time. Similarly, there was an extended process before euro partners reached agreement on relaxing the fiscal stance.

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[19] In the case of Iraq in 2004, for example, the Fund noted that while external debt was unsustainable, the risks from lending were mitigated by assurances received from the official bilateral creditors. In particular, the bulk of Iraq's official bilateral creditors through their Executive Directors reaffirmed their recognition of the Fund's preferred creditor status in respect of the drawings by Iraq, and indicated their willingness to use their best efforts to provide debt relief on appropriate terms to ensure the timely repayment to the Fund. In Greece's case, financing assurances have been strengthened under the EFF: euro area zone members have committed to supporting Greece for as long as it takes and have undertaken to reduce debt below 110 percent of GDP by 2020 providing that Greece continues to implement its adjustment program (IMF Country Report No. 13/20).

C. How well did the Troika arrangement work?

62. There was no clear division of labor. Fund collaboration with the World Bank on country programs rests on an agreed division of labor. There was no such clarity in the assignment of responsibilities across the Troika. The EC needed to be involved in all aspects of the program to ensure conformity with European laws and regulations. While the Fund had experience designing fiscal adjustment, the EC had its own fiscal targets from Maastricht. The EC had structural reforms expertise, but so too did the Fund, particularly in the fiscal area. And from the Fund's perspective, the EC, with the focus of its reforms more on compliance with EU norms than on growth impact, was not able to contribute much to identifying growth enhancing structural reforms. In the financial sector, the ECB had an obvious claim to take the lead, but was not expert in bank supervision where the Fund had specialist knowledge.

63. Areas of expertise and experience differed within the Troika. The European institutions brought an integrated view to studying the Greek economy and emphasized the extent of possible spillover effects within Europe. At least initially, this was not the perspective taken by the Fund which was more accustomed to analyzing issues with a specific country focus.[20] However, the EC tended to draw up policy positions by consensus, had enjoyed limited success with implementing conditionality under the Stability and Growth Pact, and had no experience with crisis management. The Fund's program experience and ability to move rapidly in formulating policy recommendations were skills that the European institutions lacked.

64. None of the partners seemed to view the arrangement as ideal. There were occasionally marked differences of view within the Troika, particularly with regard to the growth projections. However, the Troika in general seems to have pre-bargained positions so that differences were not on display to the authorities and did not risk slowing the program negotiations. The three institutions also have different internal procedures and the program documentation is voluminous, overlapping, and subject to varying degrees of secrecy. Nonetheless, coordination seems to have been quite good under the circumstances.

D. Should the EFF have been introduced at the beginning?

65. The three-year period of the SBA seemed relatively short. Given that the Greek program had so large a structural component, the question arises as to whether the arrangement should have been an EFF from the outset. However, while exceptional access has always been legally available under an extended arrangement, the Board as a policy matter had until the Ireland case expressed disfavor about using EFF resources as a means of providing exceptional

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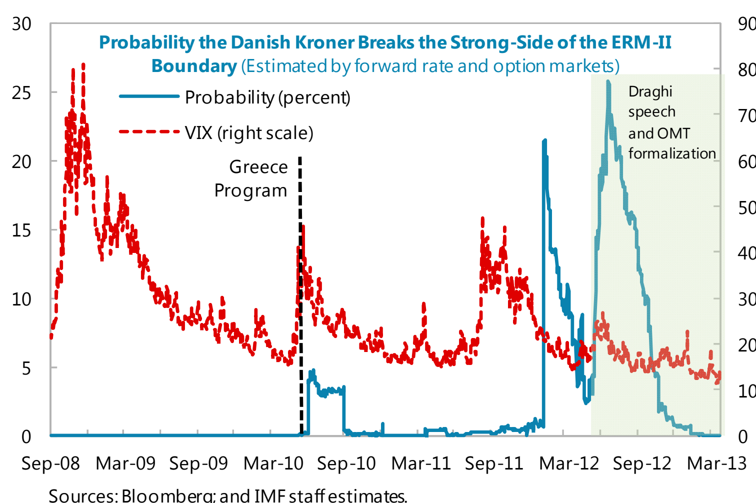
[20] This is consistent with Pisani-Ferry *et al* (2011) who in a study commissioned by the Fund as part of the Triennial Surveillance Review found insufficient integration in Fund surveillance between national and euro area-wide analysis, particularly with regard to identifying spillovers between countries.

access. In addition, the Board had generally viewed the EFF as a facility that should be used only by LICs. At the time, there was also the issue of whether the European partners were prepared to provide the longer-term financing that is a feature of EFF terms (as the Fund would not want to be the last creditor standing). Conversion of SBA into EFF was considered as early as a few months into the program but this was deferred pending consensus with the euro partners on a similar lengthening of their lending terms and until there was consensus on PSI.

POSSIBLE LESSONS

66. This report concurs with the justifications that were presented for Greece's exceptional access SBA. The Fund approved an exceptionally large loan to Greece under an SBA in May 2010 despite having considerable misgivings about Greece's debt sustainability. The decision required the Fund to depart from its established rules on exceptional access. However, Greece came late to the Fund and the time available to negotiate the program was short. The euro partners had ruled out debt restructuring and were unwilling to provide additional financing assurances. The Fund was alert to the considerable dangers for the euro area and the global economy should Greece have been allowed to default. As the figure (adapted from the October 2012 GFSR) shows, the dislocation caused by the Lehman crisis was still recent and a renewed climate of fear in global markets had begun to emerge in May 2010. In the view of the report, this unique environment justified the provision of an exceptional access SBA to Greece.



Sources: Bloomberg; and IMF staff estimates.

67. The report does not question the overall thrust of policies adopted under the SBA-supported program. Fiscal adjustment was unavoidable, as was the sharp pace of deficit reduction given that official financing was already at the limit of political feasibility and debt restructuring was initially ruled out. Structural reforms were clearly essential to restoring competitiveness. Some questions can be raised about the types of measures (overly reliant on tax increases) and structural conditionality (too detailed in the fiscal area), but the policies adopted under the program appear to have been broadly correct.

68. Nonetheless, there are possible lessons to be learned. The SBA-supported program avoided a disorderly default and limited euro-wide contagion. Greece has also been able to remain in the euro, but the recession has been deep with exceptionally high unemployment. The program did not restore growth and regain market access as it had set out to do. Major

contributory factors to this lack of success were poor implementation of reform by the authorities, adverse political developments, and inconsistent policy signals by euro leaders. However, Greece's experience also carries lessons for Fund program design and surveillance regarding the need for:

- **Better tailoring of Fund lending policies to the circumstances of monetary unions.** Given the danger of contagion, there was a need to support Greece, but the Fund was worried that debt was not sustainable with high probability. In response, the exceptional access criterion was amended to lower the bar for debt sustainability in systemic cases. The baseline still showed debt to be sustainable, as is required for all Fund programs. However, the Fund emphasized the considerable risks that surrounded the baseline: growth could be lower, reforms might flag, deflation could be more severe, additional liabilities could appear. All these risks were to the downside. In the event, macro outcomes were far below the baseline and while some of this was due to exogenous factors, the baseline macro projections can be criticized for being overly optimistic.

  However, advantage could not be taken in the design of the program of one of the country's major strengths, namely the support that Greece might ultimately receive from its euro area partners if it could demonstrate a sufficient track-record of program implementation. Adjusting lending policies to the particular circumstances of monetary unions might allow the possibility of such conditional future assistance to be recognized in program agreements. To some extent this approach is being followed in the EFF-supported program, with euro area partners indicating a willingness to provide additional financing and debt relief conditional on Greece continuing to implement the program.

  Lending policies for countries in monetary unions also need to be sensitive to the large structural component of programs when exchange rates are fixed. In this context, the Fund arrangement for Greece should ideally have been an EFF from the outset. More generally, the case for refining the Fund's policies and framework for lending to members of currency unions needs to be explored.

- **Avoiding undue delays in debt restructuring.** Upfront debt restructuring was not feasible at the outset. While the Fund began to push for PSI once the program went off track in early 2011, it took time for stakeholders to agree on a common and coherent strategy. Earlier debt restructuring could have eased the burden of adjustment on Greece and contributed to a less dramatic contraction in output. The delay provided a window for private creditors to reduce exposures and shift debt into official hands. This shift occurred on a significant scale and left the official sector on the hook.

- **More attention to the political economy of adjustment.** Reform efforts in Greece under the program might have been more enduring if more visible progress had been made with regard to getting those on high incomes to pay their taxes. The program made an attempt to reflect distributional concerns by shielding those on low incomes from cuts in state pensions.

The risks to public support for the program from not reducing tax evasion were also continually flagged by the Fund. The lack of political will to make clear progress with improving tax compliance was nonetheless a considerable obstacle to the program's success.

The Greek program also provides further evidence that the success of a program hinges centrally on the depth of its ownership. While a bipartisan agreement with the opposition was probably not possible in May 2010, the SBA-supported program attracted more bipartisan support over time including with the formation of a technocratic government in late 2011. However, significant opposition remained.

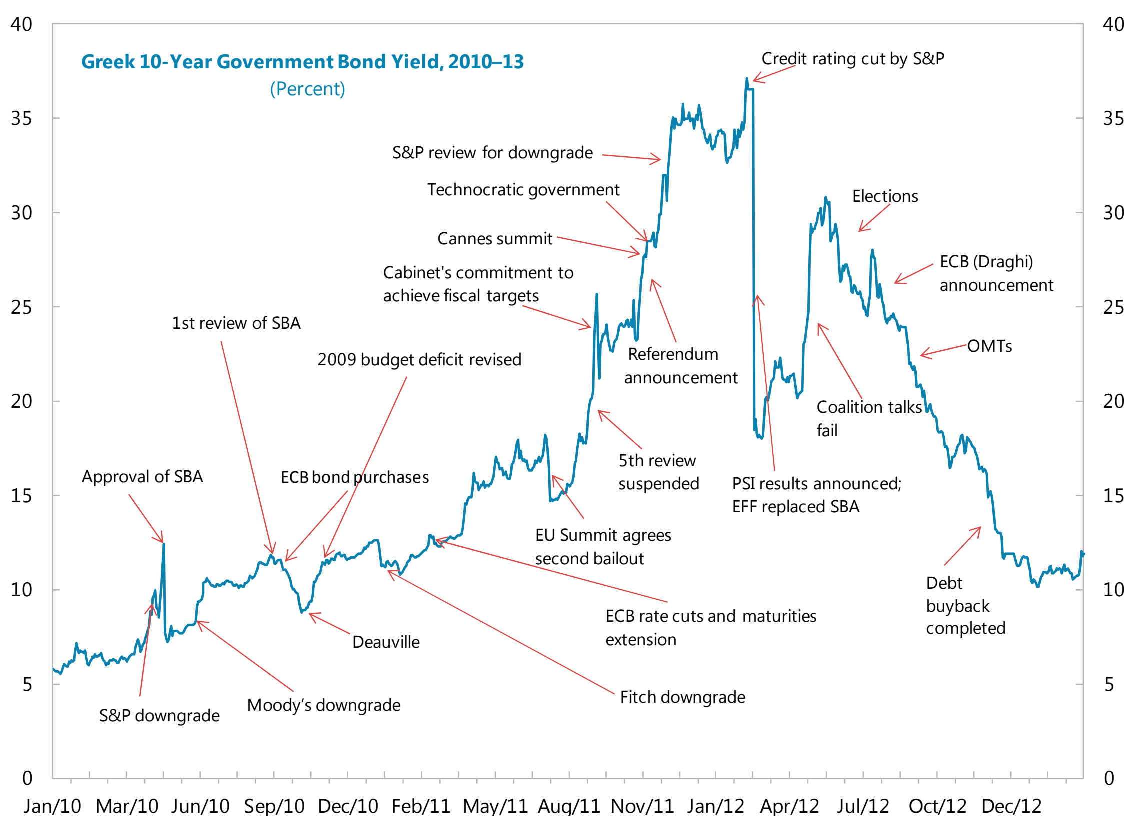
- **More parsimony in fiscal structural reforms.** The Fund's unprecedented TA programs in Greece, especially on revenue administration, may have gone beyond providing technical advice and taken on an institution building dimension. The detailed conditionality is considered macro-critical and essential given the large fiscal adjustment that is programmed and the dire need to strengthen Greek fiscal institutions. Moreover, the authorities seem to welcome the degree of Fund involvement, with no suggestion that it has become overly-intrusive. Nonetheless, these efforts are unlikely to be able to substitute for political ownership and the case for a more hands-off approach should be considered.

- **More streamlining in the Troika process.** A clear division of labor of responsibilities within the Troika is difficult given the overlapping responsibilities of the institutions. There are also synergies arising from cooperation in areas with shared expertise. Nevertheless, European institutions have comparative advantage in certain structural issues that are beyond the Fund's core areas of expertise. Options for dividing up work on areas that are not macro-critical should therefore be explored. There may also be some scope for streamlining procedures and documents to reduce the burden on the authorities.

- **More effective risk-sharing arrangements within the euro area.** The Greek crisis brought to the fore shortcomings in the euro area architecture related to risk sharing and crisis response. As argued elsewhere (see IMF, 2012b), the lack of fiscal risk sharing arrangements or a true banking union within the euro area makes individual member states vulnerable to sovereign debt crises that could spill over to banking systems (or be caused by banking crises) and the real economy, without exchange rate flexibility or independent monetary policy to help with the adjustment. The euro area member states have gradually responded to the crisis in Greece and elsewhere by establishing firewalls (EFSF, ESM, and OMT) and taking steps towards a banking union, as well as strengthening fiscal rules to reduce vulnerabilities.

Box 1. A Chronology of Events

- Initial improvements in sentiment dissipated after a ratings downgrade in June 2010, but spreads tightened again with the successful completion of the first review in September.
- However, there was an adverse market reaction to statements by euro leaders at Deauville in October 2010 that set off a public debate on the need for debt restructuring and PSI.
- Sentiment deteriorated further in November when the estimated 2009 fiscal deficit was revised from 13½ to 15½ percent of GDP, and in December when there were general strikes and rioting in response to the labor reforms.
- The second review of the program was completed in December 2010, but by the third review in February 2011, problems in program implementation were becoming apparent. The weak economy was making fiscal adjustment more difficult and the debt sustainability looked increasingly uncertain. Efforts were made to bring the program back on track during 2011, including ambitious privatization plans. The need for PSI was acknowledged by the fourth review in July 2011.
- As 2011 progressed, a Greek euro exit became a serious possibility particularly after being discussed by Euro leaders at the Cannes summit in November 2011.
- The government then announced a referendum to test the views of the Greek people. This was subsequently cancelled, but the government resigned later that month and was replaced by a technocratic government.
- The SBA was cancelled and replaced with a new program supported by an EFF in March 2012. Sentiment subsequently turned around once the PSI came into effect. Actions by the ECB in 2012 were also extremely supportive.

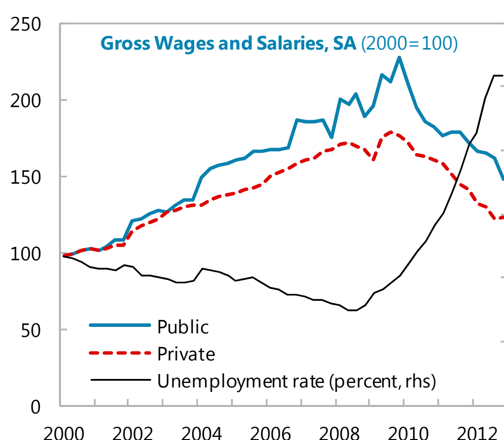


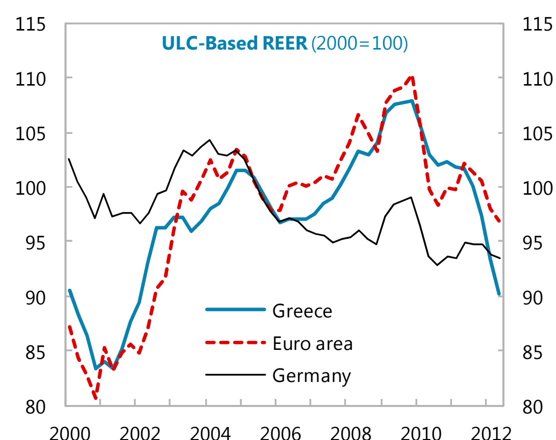
Sources: Bloomberg; and IMF staff calculations.

Box 2. Progress with Internal Devaluation under the SBA-Supported Program

Greece began the program with large price and wage competitiveness gaps due to rapid growth of labor costs and market inefficiencies. To improve competitiveness, the program initiated a comprehensive agenda of structural reforms that included reducing public sector wages; liberalizing wage-setting and loosening employment restrictions in the private sector; improving the business environment by cutting red tape; and reducing barriers to entry and market distortions in protected industries. The program began with some deregulation (fast-track investment and one-stop shop legislation), but labor market reforms were not initially deep enough to tackle entrenched labor market inflexibility.

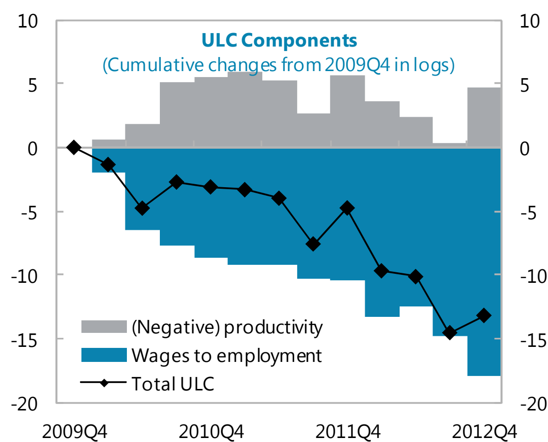
Unit labor costs declined significantly during the program period. In real terms, the ULC-based real effective exchange rate depreciated by 9 percent from May 2010 to March 2012. The major part of the improvement in competitiveness was due to wage reductions associated with the intense recession. There were limited gains in productivity (see Kang and Shambaugh, 2013).





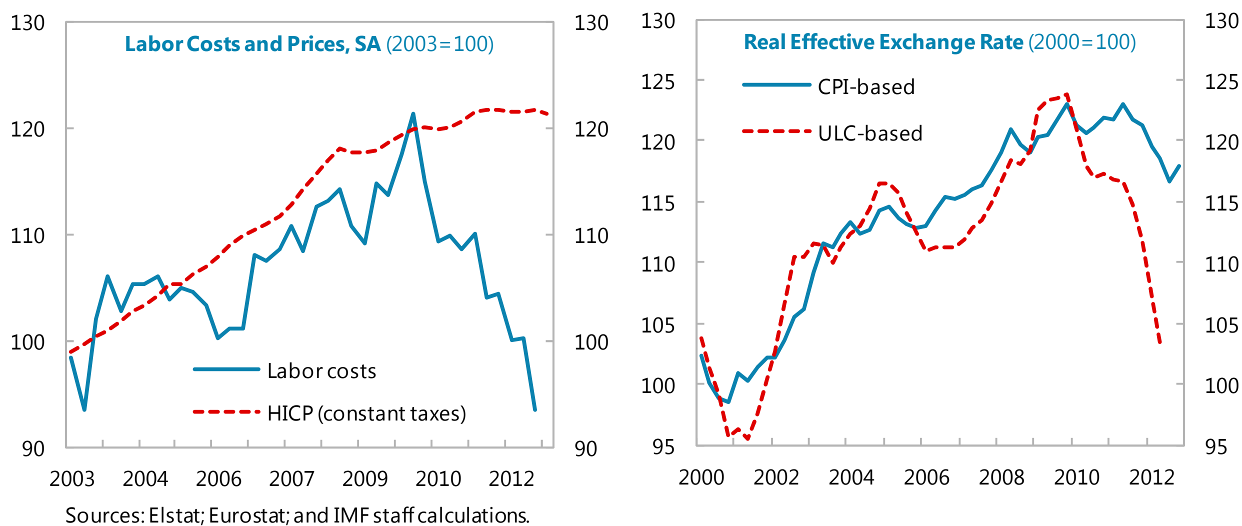
Sources: Elstat; Eurostat; and IMF staff calculations.

Prices have not been as flexible as wages. The CPI-based REER has a degree of upward bias as it does not discount tax increases implemented in 2010 or take into account changes in trade weights due to the redirection of exports towards emerging markets since 2009. Nevertheless, during the period of the SBA, the CPI-based real effective exchange rate depreciated by only 3 percent.



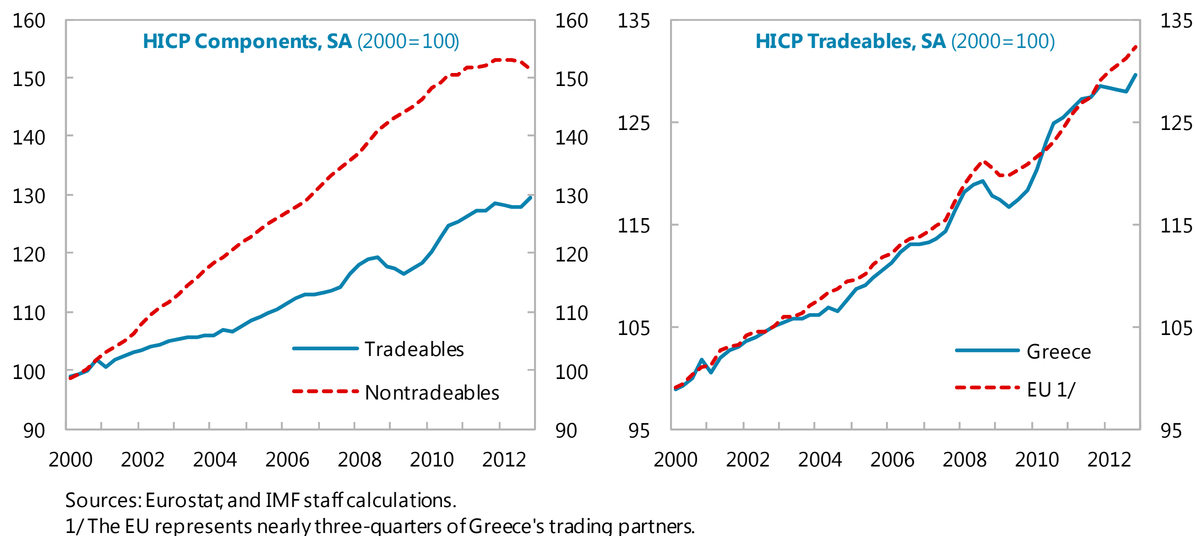
Sources: Elstat; Eurostat; and IMF staff calculations.

Box 2. Progress with Internal Devaluation (cont'd)



Sources: Elstat; Eurostat; and IMF staff calculations.

Delays in implementing service sector reforms contributed to price rigidities. Despite reform attempts, professions like pharmacology and law, as well as the transport and energy sectors, remained closed to new entrants. Continuing protection caused prices of nontradeables to remain elevated relative to the prices of tradeables until the end of 2012. In addition, the prices of tradeables compared with those of a majority of Greece's trading partners continued to increase at or above a comparable pace through the end of 2011. Only in 2012 did the relative prices of tradeables in Greece begin to fall compared with Greece's trading partners.



Sources: Eurostat; and IMF staff calculations.
1/ The EU represents nearly three-quarters of Greece's trading partners.

The needed reallocation of resources into exports has not been adequately supported by relative price changes. There has been limited progress with the reduction in the relative price of non-traded goods that is needed to switch production towards traded goods, while traded goods prices have also shown little decline compared with Greece's trading partners. The ULC in non-traded goods sector has improved more than the ULC in the traded goods sector, which is a positive development, but this has not yet translated into similar improvements in relative prices due to the rigidities in product markets discussed above.

Box 3. Pension Reform

Pension outlays were high before the crisis and their projected trajectory worrisome. At 16 percent of GDP, pension spending in Greece was among the highest in the EU in 2010. Key pension indicators suggested a generous system: the replacement rate (pension-to-wages) was 57 percent, the third highest in EU; the dependency rate (pensioners-to-contributors) was 29 percent, above the EU average; the official retirement age was 60, well below the OECD average of 63.2, and the average pension (including all pensions) was very close in level to that of a typical German worker with full contribution history. Pension projections pointed to a solvency problem.

Generous pension and wage increases and a worsening demographic profile were the main culprits behind the unfavorable long-term pension profile. The decade before the crisis witnessed real pension increases as well as substantial wage increases that also pushed up pensions. Numerous loopholes allowed early retirement contributing to an already high growth of pensioners. Pension spending increased by almost 5 percentage points of GDP from 2001 to 2008, outpacing other EU countries.

Other shortcomings of the system were also important. Early retirement incentives for low-income workers and high statutory replacement rates, inadequate IT and accounting systems, fragmented retirement regimes, and low compliance with contributions were some of the features of the pension system that created economic distortions and generated leakages, swelling deficits beyond sustainability.

The pension reform under the SBA-supported program tackled multiple deficiencies to bring about a sustainable long-term pension profile. Following the frontloaded pension cuts at the onset of the program, the new (PAYG) system was designed to top up the existing non-contributory social pension. The retirement age was set at 65 years and indexed to life expectancy; the base wage for the calculation of pensions became tied to lifetime wage history rather than the final five years; accrual rates were lowered, and pensions indexed to prices and GDP growth (whatever was the lowest). Other changes included harmonization of rules across funds and rationalization of the number of funds. Control mechanisms were enhanced by mandating exclusive payment of pensions through banks, and requiring periodic pension audits, monitoring of funds' finances and periodic actuarial analysis.[1]

Pension System Parameters

Reform elements	Before Reform	After Reform
Accrual rate	2–3%	0.8–1.5%
Replacement rate	70%	60%
Retirement age	60	65
Early retirement age	<60	60
Pensions base calculation	Last 5 years earnings	Lifetime earnings
Indexation of pensions	Policy decision	CPI and GDP
Annual deficit in 2060	12.5%	2.5%

Sources: OECD; and IMF staff estimates.

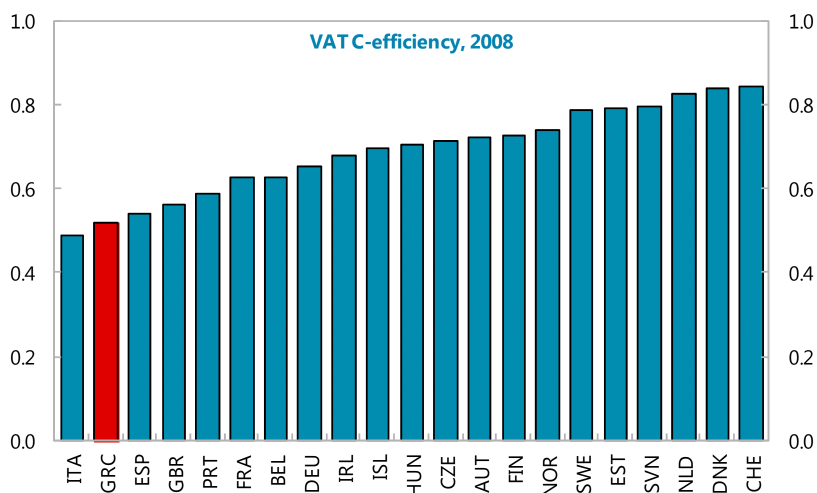
The second stage reforms focused on deficits in supplementary and lump sum accounts and on poorly targeted social benefits. Following the pension cuts and the passage of the new law, it became clear that social spending remained high and further reforms were needed. Some of the subsequent reforms under the MTFS began tackling the still complex institutional structure, as well as the abuse of benefits, their unequal distribution, and ineffective targeting.

The pension reform was one of the main achievements of the SBA-supported program. The reform was approved in July 2010 amid widespread social discontent with austerity measures. Because the authorities wanted to accelerate the implementation, the reform was not preceded by a proper actuarial study (a structural benchmark under the program), and the public was not made fully aware of the need for reform early in the program. The reform was nonetheless essential to restoring the sustainability of the pension system —a significant achievement —although implementation risks remain. Moreover, the reform only addressed long-term structural imbalances whereas the immediate fiscal pressures on the social security system were tackled separately as part of the fiscal consolidation including by eliminating pension bonuses.

[1] The pension law also included institutional reforms in the health sector providing for the financial accounting independence of health funds and integration of social security funds with the NHS.

Box 4. Revenue Administration Reform during the SBA-Supported Program

Low revenue efficiency has been a chronic problem for Greece. The efficiency index of VAT collections, for example, is below average for European countries.[1] Similarly, collections of personal income tax are substantially lower compared to the euro area countries, despite comparable statutory tax rates. This reflects various reasons, including institutional weaknesses of revenue administration, a large size of informal economy, a highly complex tax system with myriad preferential tax treatment and exemptions, and a large share of self-employed individuals in the business sector (OECD, 2011).



Sources: Eurostat; and IMF staff calculations.

Revenue administration reform was embedded in the structural reform agenda of the program. At the beginning of the program, the authorities adopted a reform strategy that consisted of intensified anti-evasion actions against targeted taxpayers, as well as a medium-term reform plan to modernize revenue administration. In line with this, the SBA established a limited number of structural benchmarks: set up taskforces to implement the anti-evasion actions (by September 2010); table legislations to remove various obstacles for revenue administration (by February 2011); articulate a medium-term reform plan (by June 2011); and achieve quantitative performance targets (by December 2011). The design of the initial strategy and reform process throughout the SBA were supported by intensive technical assistance from the Fund, which included installment of a long-term residential advisor and peripatetic expert visits. The implementation of the benchmarks was broadly satisfactory: the first three structural benchmarks were implemented broadly as scheduled,[2] and the quantitative performance targets were met except for audits of large taxpayers.

Key Performance Indicators of Tax Administration, December, 2011 1/

Indicator	Actual	Target	Met / Not Met
Debt collection			
Pre-2011 debt collected (millions of euros)	946	400	Met
Audits of large taxpayers			
Number of completed full-scope audits	44	75	Not met 2/
Assessted taxes collected (percent)	66.5	20/30 3/	Met
Audits of wealthy and high income taxpayers			
Number of completed audits	404	400	Met
Assessed taxes collected (percent)	47.3	20/30 3/	Met
VAT audits of non-filers			
Number of completed audits	22,235	1,000	Met

Sources: Ministry of Finance; and IMF staff estimates.

1/ Meeting these targets was an end-2011 structural benchmark under the 2010 SBA.

2/ This target was reset as a prior action for the 2012 EFF and met by February, 2012.

3/ 20 percent of all assessed taxes and penalties from new audits within 3 months of assessment, and collection of 30 percent of all taxes and penalties from new audits within 6 months of assessment date.

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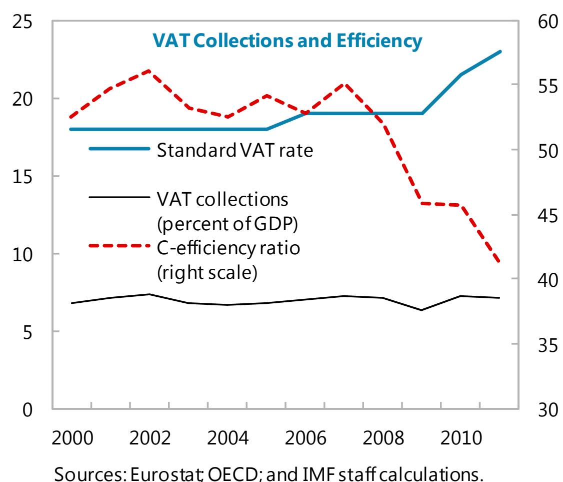
[1] The VAT C-efficiency is the ratio of VAT collections to the product of the standard VAT rate and aggregate consumption. In the absence of exemptions, zero-rating (other than exports) and zero registration threshold, and no revenue leakage due to tax administration and informality factors, the C-efficiency ratio is, by construction, equal to one.

[2] The benchmark to table legislations to remove obstacles was completed as prior action for the 3rd review in March 2011.

Box 4. Revenue Administration Reform (cont.)

Although program benchmarks were met, improving tax administration proved to be considerably more complex and time-consuming than expected. Looking at outcomes, the C-efficiency indicator deteriorated in 2011, and the VAT rate increases in 2010 did not bring about a higher ratio of VAT collections to GDP. While this could be due to behavioral changes of consumers (i.e., demand shifted towards goods with preferential VAT rates), it may also reflect worsened tax compliance. Indeed, the government's anti-evasion policies do not appear to have become fully operational. For example, basic operational functions such as audits and debt collections, as well as the newly established large taxpayer unit, remained severely understaffed. The achievement of quantitative indicators did not fully reflect permanent improvements in business practices; in particular, the target for audits of wealthy taxpayers was met largely due to temporary incentives to taxpayers.



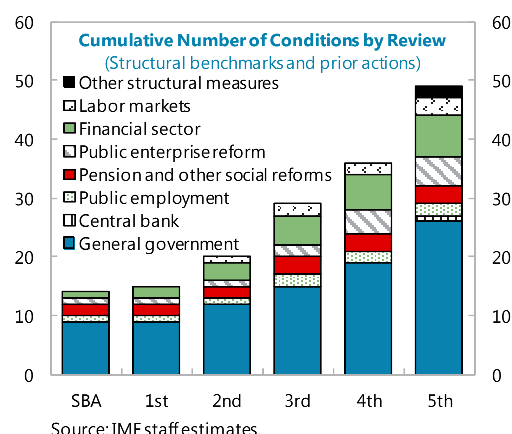
Sources: Eurostat; OECD; and IMF staff calculations.

The unsatisfactory progress reflects a mix of factors, including deep-rooted structural problems, worsened economic conditions, and limited ownership by the authorities. Resolving fundamental issues such as the existence of the large informal economy, the complex tax system, and the limited capacity of revenue administrators takes time. Moreover, deterioration in economic and political conditions during the crisis severely hampered anti-evasion efforts. On the other hand, the unsatisfactory progress with making reform plans functional points to limited ownership. Review by the Fund and the EC staff pointed to a lack of full political commitment to reform, absence of leadership, and continued internal resistance to reform as underlying reasons behind these developments. In hindsight, the structural benchmarks could have been more effective if the authorities had been willing to address fundamental institutional issues (e.g., increase autonomy by revamping the governance and organization structure) as well as operational aspects (e.g., ensure appropriate resource allocations to key administration functions).

Reference: OECD, 2011, "OECD Economic Surveys: Greece 2011," OECD Publishing.
http://dx.doi.org/10.1787/eco_surveys-grc-2011-en

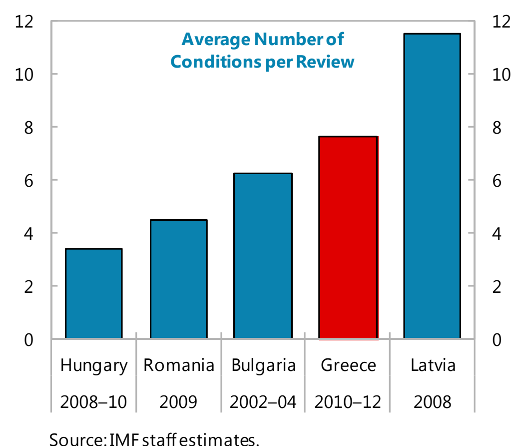
Box 5. Structural Benchmarks: Design and Implementation

Structural Benchmarks (SBs) focused heavily on fiscal reforms. SBs were established in the area of pensions, tax administration, public financial management, debt management, sub-national government rationalization, and government wage and employment control. Reforms were supported by extensive Fund technical assistance.



Source: IMF staff estimates.

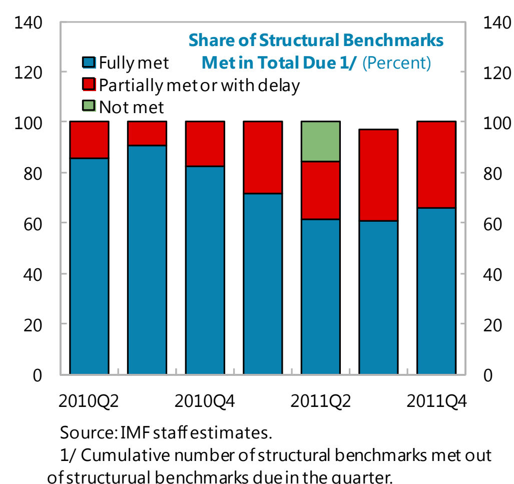
Competitiveness reforms flowed from the EC's agenda. Conditionality encompassed labor markets, the transport, retail, energy, and tourism sectors, and the overall business environment. The SBA request contained only one SB related to competitiveness: the preparation of a privatization plan. The second review set an SB on reforming the collective bargaining system and the third review set one on repealing closed professions. There were numerous competiveness-related SBs in the fourth and fifth reviews. In the financial sector, establishment of the Hellenic Financial Stability Fund was an initial SB.



Source: IMF staff estimates.

The total number of SBs was relatively large. The number of SBs was larger than in comparator programs (see "2011 Review of Conditionality Overview Paper", 2012, Policy Paper and Figure 2). However, the heavy fiscal structural conditionality was a response to Greece's weak administrative capacity, while the need for competitive-promoting reforms appears higher in a case like Greece that lacks an exchange rate tool.

Compliance with fiscal SBs was initially good, but implementation proved difficult. Up to the third review most fiscal SBs were met on time. However, the initial focus was on changes in laws and plans that were relatively easy to achieve. Limited progress was made in checking tax evasion and making the tax burden more equitable, potentially fanning public opposition to the program. There was also a growing realization that the authorities had limited capacity to implement changes on the ground and to counter resistance in the bureaucracy. The program thus began to focus increasingly on operational details, including organizational structures, audit practices, and dispute procedures that were leaving large tax debts uncollected. Performance indicators were developed to monitor progress under the tax evasion plan. By the fifth review, the content of fiscal SBs had become more detailed and encompassed multiple sub-conditions.



Source: IMF staff estimates.
1/ Cumulative number of structural benchmarks met out of structurual benchmarks due in the quarter.

Limited progress was also made with competitiveness-promoting reforms. Despite meeting formal conditionality, structural reforms also failed to be implemented due to resistance by vested interests. Growth-enhancing structural reforms that were initially cast in general terms became more specific as implementation fell short. For example, the blanket legislation to liberalize closed professions was succeeded under the EFF-supported program by detailed legislative and regulatory changes needed on a profession by profession basis.

Table 1. Greece: Selected Economic Indicators, 2009–14

	2009	2010	2011	2012		2013	2014
				Prog.	Est.	Proj.	
	(Percentage change, unless otherwise indicated)						
Domestic economy							
Real GDP	-3.1	-4.9	-7.1	-6.0	-6.4	-4.2	0.6
Output gap (percent of pot. output)	7.3	3.3	-2.6	-7.3	-7.7	-10.6	-9.5
Total domestic demand	-5.5	-7.0	-8.7	-8.7	-10.4	-5.6	-1.1
Private consumption	-1.6	-6.2	-7.7	-7.7	-9.1	-6.9	-1.6
Public consumption	4.9	-8.7	-5.2	-6.2	-4.2	-4.0	-6.2
Gross fixed capital formation	-13.7	-15.0	-19.6	-14.4	-19.2	-4.0	8.4
Change in stocks (contribution)	-1.2	0.7	-0.4	0.4	0.0	0.4	0.0
Foreign balance (contribution)	3.0	3.0	2.4	3.3	3.7	2.6	1.7
Exports of goods and services	-19.4	5.2	0.3	-1.2	-2.4	3.0	4.6
Imports of goods and services	-20.2	-6.2	-7.3	-11.5	-13.8	-6.4	-1.9
Unemployment rate (percent) 1/	9.4	12.5	17.5	24.4	24.2	27.0	26.0
Employment 1/	-1.0	-2.7	-6.6	-9.2	-8.2	-3.7	0.6
Unit labor costs	4.2	-2.6	-4.3	-8.1	-4.2	-7.0	-1.5
Consumer prices (HICP), end of period	2.6	5.2	2.4	1.3	0.8	-0.6	-0.1
Consumer prices (HICP), period average	1.2	4.7	3.3	1.2	1.5	-0.8	-0.4
Core prices, period average 2/ 3/	2.3	2.6	1.1	...	-0.3	3.6	...
GDP deflator	2.3	1.1	1.0	-0.5	-0.8	-1.1	-0.4
	(Percent of GDP, unless otherwise indicated)						
Balance of payments							
Current account	-11.2	-10.1	-9.9	-4.2	-3.4	-0.8	-0.2
Structural current account balance	-7.0	-8.3	-10.9	...	-5.4	-4.9	-3.6
Trade balance	-7.8	-6.8	-6.0	-2.5	-2.5	-0.2	55.2
Export of goods and services	18.3	20.5	23.4	25.3	25.4	27.4	28.3
Imports of goods and services	-26.2	-27.3	-29.5	-27.8	-27.9	-27.6	-26.9
Total transfers	0.6	0.1	0.3	0.3	0.7	1.8	1.5
Net income receipts	-3.9	-3.5	-4.1	-2.0	-1.6	-2.5	-3.1
Net international investment position	-86.4	-98.4	-86.1	-94.2	-114.1	-118.9	-117
Public finances (general government)							
Total revenues	38.3	40.6	42.4	43.6	44.1	44.3	43.7
Total expenditures	54.0	51.4	52.0	50.3	50.4	48.4	46.9
Primary expenditures	48.8	45.5	44.8	45.1	45.4	44.3	42.2
Overall balance	-15.6	-10.8	-9.6	-6.7	-6.3	-4.1	-3.3
Primary balance	-10.5	-4.9	-2.4	-1.5	-1.3	0.0	1.5
Gross debt	130	148	170	158	157	176	174
Interest rates and credit							
Lending interest rate (percent) 4/	5.1	6.1	6.8	...	5.8	5.8	...
Private credit growth (percent change) 5/	4.2	0.0	-3.1	-7.2	-4.0	-6.5	-4.0
Exchange rates, end-period (percent change) 3/							
Nominal effective exchange rate	0.4	-3.7	0.0	...	-0.5	-0.6	...
Real effective exchange rate (CPI-based)	1.7	-1.2	-0.7	...	-1.9	-0.9	...
Real effective exchange rate (man. ULC-based)	1.1	0.8	-6.1	...	-8.4	-8.4	...
Memorandum items:							
Nominal GDP (billions of euros)	231	222	209	195	194	183	184
Nominal GDP (percent change)	-0.9	-3.9	-6.1	-6.5	-7.1	-5.3	0.2

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

1/ Based on Labor Force Survey.
2/ Core prices exclude energy, food, alcohol, and tobacco.
3/ Data for 2013 as of March.
4/ Data for 2013 as of February.
5/ Includes securitized or otherwise transferred loans from 2010 onward.

Table 2. Greece: Quantitative Performance Criteria, 2010–13
(Billions of Euros)

	2010							2011									2012		2013
	Jun.		Sep.		Dec.			Mar.		Jun.		Jul.		Sep.		Dec.	Mar.	Dec.	Dec.
	Target	Actual	Target	Actual	Target	Adj. Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Target	Target 1/	Target 1/
I. Quantitative performance criteria																			
Floor on the modified general government primary cash balance	-5.0	-3.9	-4.0	-3.5	-5.7	-5.7	-5.5	-2.0	-0.9	-4.3	-4.9	-5.1	-4.9	-5.0	-5.3	-5.1	-0.4	1.3	7.4
Ceiling on State Budget primary spending	34.0	28.4	50.0	42.4	67.0	67.0	61.3	14.7	13.4	30.0	28.4	34.7	33.5	44.5	42.0	60.8	13.7	58.7	69.0
Ceiling on the overall stock of central government debt	342.0	316.7	342.0	327.5	342.0	366.0	340.0	394.0	365.9	394.0	364.5	394.0	377.3	394.0	371.1	394.0	408.9	408.9	…
Ceiling on the new guarantees granted by the central government	2.0	0.3	2.0	1.2	2.0	2.0	1.3	1.0	0.1	1.0	0.3	1.0	0.3	1.0	0.6	1.0	0.0	0.0	0.0
Floor on privatization receipts	…	…	…	…	…	…	…	…	…	…	…	0.4	0.4	1.7	0.4	1.7	5.0	11.0	20.0
II. Continuous performance criteria																			
Ceiling on the accumulation of new external payments arrears on external debt contracted or guaranteed by general government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
III. Indicative targets																			
Ceiling on the accumulation of new domestic arrears by the general government (continuous)	0.0	1.0	0.0	0.8	0.0	0.0	3.0	0.0	4.3	0.0	4.0	0.0	3.9	0.0	3.8	0.0	0.0	0.0	0.0

Source: IMF staff estimates.

1/ Indicative.

Table 3. Greece: Structural Conditionality

Measures	Date		
	Set	Target	Status
Prior actions and structural benchmarks			
Fiscal sector			
Reduce public wage bill by cutting bonuses/allowances; and pension bonuses (except minimum pensions).	Request	PA	Met
Increase standard VAT rate from 21 to 23 percent and reduced rate from 10 to 11 percent and excise tax rates on alcohol, tobacco, and fuel with a yield of at least €1.25 billion in the remainder of 2010.	Request	PA	Met
Appoint staff team and leader in GAO responsible for general government in-year cash reporting.	Request	PA	Met
Adopt and start to implement a reorganization of sub-central government with the aim to reduce the number of local administrations and elected/appointed officials (Kalikrates).	Request	Jun-10	Met
Submit to parliament amendments to Law 2362/1995 to (i) require the MoF to present a three-year fiscal and budget strategy, (ii) introduce topdown budgeting with expenditure ceilings for the State budget and multi-year contingency margins, (iv) require a supplementary budget for any overspending above the contingency, (v) and introduce commitment controls. The amended law should be immediately effective, including in the context of the 2011 budget.	Request	Jun-10	Met
The National Actuarial Authority to produce a report to assess whether the parameters of the new system significantly strengthen long-term actuarial balance.	Request	Jun-10	Met with delay
Adopt a comprehensive pension reform that reduces the projected increase in public spending on pensions over the period 2010-60 to 2½ percent of GDP.	Request	Sep-10	Met
Establish a commitment register in all line ministries and public law entities. Begin publishing monthly data on general government in-year fiscal developments (including arrears).	Request	Sep-10	Met
Publish 2009 financial statements of the ten largest loss-making public enterprises, audited by chartered accountants, on the official website of the Ministry of Finance.	Request	Sep-10	Met
Put in place an effective project management arrangement (including tight MOF oversight and five specialist taskforces) to implement the antievasion plan to restore tax discipline through: strengthened collection funds—of the largest debtors; a reorganized large taxpayer unit focused on the compliance of the largest revenue contributors; a strong auditenforcement and recovery of tax arrears—coordinated with the social security program to defeat pervasive evasion by high-wealth individuals and high income self-employed, including prosecution of the worst offenders; and a strengthened filing and payment control program.	Request	Sep-10	Met
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.	Request	Dec-10	Met with delay
Adopt new Regulation of Statistical Obligations for the agencies participating in the Greek Statistical System.	Request	Dec-10	Met with delay
Pass legislation to: (i) streamline the administrative tax dispute and judicial appeal processes; (ii) remove impediments to the exercise of core tax administration functions (e.g. centralized filing enforcement and debt collection, indirect audit methods, and tax returns processing); and (iii) introduce a more flexible human resource management system (including the acceleration of procedures for dismissals and of prosecution of cases of breach of duty).	2nd rev	Feb-11	Met with delay
Appointment of financial accounting officers in all line ministries and major general government entities (with the responsibility to ensure sound financial controls).	2nd rev	Mar-11	Met with delay

Table 3. Greece: Structural Conditionality (cont.)

Measures	Date		
	Set	Target	Status
Prior actions and structural benchmarks			
Publish the medium-term budget strategy paper, laying out time-bound plans to address: (i) restructuring plans for large and/or lossmaking 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.	2nd rev	Apr-11	Met with delay
Articulate a strategic plan of medium-term revenue administration reforms to fight tax evasion.	3rd rev	Jun-11	Met with delay
Publish three consecutive months of consistent arrears and consolidated general government fiscal reports (excluding small local governments).	3rd rev	Jun-11	Met with delay
Adopt the necessary changes to enact the plan to reform the general government personnel system.	3rd rev	Jun-11	Met with delay
Parliament to approve medium-term budget strategy (MTFS).	4th rev	PA	Met
Government to legislate key fiscal-structural reforms in an MTFS Implementation Bill (detailed in Annex I).	4th rev	PA	Met
Government to enact legislation in the context of MTFS implementation (phase II) to: (i) introduce pension adjustment bill stipulating freezes through 2015, introducing individual social security numbers, caps, means testing, and rationalizing benefits of pension funds; (ii) introduce single public pay scale bill, temporarily freeze automatic progression, and halve productivity allowance; and (iii) close 40 small public entities, merge 25 more small entities, and close an additional 10 large entities under line ministries and in the social security sector.	4th rev	15-Aug-11	Met with delay
Government to achieve quantitative targets set under its anti-tax evasion plan.	4th rev	Dec-11	n.a.
Government to complete key actions to implement the various measures approved in the context of the first MTFS reform bill and anticipated in the second set of reforms bills (Annex I), including the reform of the public sector wage grid and the closure and/or merger of extra-budgetary funds.	5th rev	PA	n.a.
Government to enact spending reductions (including pensions and earmarked spending and advanced removal of the heating fuel subsidy); revenue measures (including reducing PIT thresholds and reductions) as described in MEFP paragraph 6.	5th rev	PA	n.a.
Parliament to approve a tax reform package, including [(i) a simplification of the code of Books and Records, (ii) the elimination of several tax exemptions and preferential regimes under the corporate income tax and the VAT; (iii) simplification of the VAT and property tax rate structures; and (iv) a more uniform treatment of individual capital income].	5th rev	Mar-12	n.a.
Government to undertake a thorough review of public expenditure programs to identify [3] percent of GDP in additional measures (including a 1 percent of GDP buffer of potential additional measures).	5th rev	Jun-12	n.a.
Government to meet newly introduced and more ambitious targets for audits and debt collection and the resolution of administrative appeals.	5th rev	Dec-12	n.a.
Competitiveness reforms			
Prepare a privatization plan for the divestment of state assets and enterprises with the aim to raise at least 1 billion euro a year during the period 2011-2013.	Request	Dec-10	Met
Table legislation to reform the system of collective bargaining, including to eliminate the automatic extension of sectoral agreements to those not represented in negotiations, and guarantee that firm level agreements take precedence over sectoral agreements without undue restrictions.	2nd rev	Dec-10	Met

Table 3. Greece: Structural Conditionality (cont.)

Measures	Date		
	Set	Target	Status
Prior actions and structural benchmarks			
The Council of Ministers to adopt a comprehensive privatization plan through 2015.	3rd rev	Jul-11	Met with delay
Parliament to approve privatization and real estate development strategy.	4th rev	PA	Met
Government to legislatively establish a Privatization Agency (a private law vehicle into which privatizable assets will be transferred to be sold).	4th rev	PA	Met
Government to (i) shift a second group of assets into the privatization fund covering transactions to be completed through end-2012 (Annex II); and (ii) appoint legal, technical, and financial advisors for 14 projects to be completed by end-2012.	5th rev	PA	n.a.
Government to enact legislation to (i) allow worker representatives to negotiate both special and regular firm-level agreements; (ii) suspend the "favorability clause" in wage negotiations until at least 2015; and (iii) suspend until at least the end of 2014 the possibility to extend sectoral agreements to parties not represented in the negotiations.	5th rev	PA	n.a.
Government to screen specific service sector legislation and repeal or modify unnecessary and outdated regulations to ensure full consistency with the new law liberalizing all professions and income-generating economic activities.	5th rev	Mar-12	n.a.
Government to enact legislation to (i) reduce the employers' share of social security contributions, including by rationalizing and consolidating small earmarked funds and broadening the base ; and (ii) improve the administration of security contribution collections, including by combining collection functions.	5th rev	Jun-12	n.a.
Financial sector			
Establish the independent Financial Stability Fund (FSF) to preserve the financial sector's soundness and thus its capacity to support the Greek economy by providing equity support to banks as needed.	Request	Jun-10	Met
Enactment of €25bn bond guarantee for bank liquidity	1st rev	PA	Met
Pass legislation to separate the core consignment activity from the commercial activities of the HCLF.	2nd rev	Mar-11	Met with delay
Government to put forward for legislative adoption a new tranche of government guarantees for uncovered bank bonds.	3rd rev	Mar-11	Met with delay
Commercial banks to submit medium-term funding plans to the ECB and the Bank of Greece.	3rd rev	May-11	Met
Parliament to pass legislation revising the FSF operating framework (to address conditions for recapitalization) and revising the bank resolution framework (in particular, the deposit guarantee scheme, and the early intervention and bank liquidation frameworks).	4th rev	15-Sep-11	Met with delay
Government to enact legislation to address outstanding issues regarding the governance arrangements for financial oversight agencies, including (i) organizational arrangements for the Bank of Greece; (ii) the corporate governance arrangements for the HFSF; and (iii) the governance arrangements for the HDIGF.	5th rev	Dec-11	n.a.
Bank of Greece and FSF to complete a memorandum of understanding to further strengthen their cooperation (sharing of appropriate supervisory information).	5th rev	PA	n.a.
Bank of Greece to complete bank capital needs assessment.	5th rev	Feb-12	n.a.

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Appendix I. Views of the Authorities

The views of the Greek authorities on program outcomes and design were sought during a visit to Athens from March 20-22, 2013. Meetings were held with officials in both the current government and the government in office when the SBA was negotiated in 2010. Meetings were also held with representatives of the banking sector and the Bank of Greece. Views heard at the meetings are summarized below.

With regard to Fund involvement, the view expressed was that it would have been better if the crisis could have been resolved within the EU/euro zone, but neither the authorities nor the EC or ECB had the required program experience. The Fund's experience in crisis resolution made it a necessary part of the process. Another sentiment expressed was that the "4-3-3" deficit reduction program initially insisted on by the EC was too ambitious and reflected a legalistic approach to meeting the Maastricht Criteria and Excessive Deficit Procedure. Moreover, the initial interest rates on the loans from the euro partners were too high creating doubts about sustainability.

Officials noted that Greece itself and European partners were against debt restructuring at the outset because of concerns about domestic political costs, implications for social security funds, and contagion, but as time passed this possibility ripened. There were a number of false starts before a workable proposal emerged. The Deauville announcement had unexpectedly put restructuring back on the table and had severely unsettled markets just at a time that the program was showing some success and Greek spreads were beginning to decline. Later, the possibility of Greece exiting the euro became a public debate by the euro partners, a discussion that should have occurred behind closed doors.

The negotiations took place in a very short period of time. This had costs. There was insufficient time for political dialogue and consultation with people at the administrative level. This reduced buy-in for the program and led to local knowledge not being fully used to tailor conditionality to the specifics of Greece.

The common view was that no-one could have predicted the depth and length of the recession. However, officials acknowledged that the program's macroeconomic projections had risks to the downside that materialized in a context of political instability and deposit outflows. Also, in calculating the effects of tax measures, price and income elasticities were underestimated and this reduced the revenue yield. Data revisions that widened the 2009 fiscal deficit by 2 percentage points of GDP made the required fiscal adjustment even more demanding. Greater emphasis should have been placed on addressing deposit outflows and their effects and maintaining financing conditions consistent with the macroeconomic program. Financing constraints implied limits on the flexibility of targets, but this had led to a vicious circle whereby the deeper the recession, the greater the need for measures, and the deeper the recession.

Doubts were heard about the emphasis in the original program on raising taxes rather than reducing spending. On the one hand, taxes were relatively low and raising them was politically

easier. However, the private sector had borne the brunt of the adjustment, while public sector employees continued to enjoy permanent employment. With hindsight, greater effort should also have been made at the beginning of the program to privatize state assets and to clamp down on prominent tax evaders.

Program implementation had started decisively, but markets became worried by social and political unrest and uncertainty about euro area policy. The data revisions affected sentiment and there were concerns about insufficient financing in 2013 and 2014 after the program ended. Some officials argued that the SBA should have been an EFF from the start. It was noted that an EFF had later been used for Ireland which had far less structural problems.

Limited ownership conspired against implementation. The political atmosphere in 2010 was not promising to secure support. Some argued that the government failed to take full advantage of its political capital and to explain the program to the public. The then government blamed the opposition for causing the crisis and did not seek its support. And the opposition contested the program and did not seek common ground. Many politicians even within the government attempted to distance themselves from the measures. The Fund sought to talk to the trade unions, but these attempts were not fruitful.

Consensus on the program has now improved with the coalition government. However, the crisis and the recession have had terrible consequences for Greece in terms of unemployment and have caused severe stress in society with extreme parties now gaining support.

Slippage in program implementation also reflected weak capacity. Officials recognized that they had underestimated the requirements of the program and overestimated Greece's administrative capacity to undertake reforms. When laws were changed, there was insufficient follow up to ensure implementation and results were not analyzed, measured, and tracked. The weakness in administration and management necessitated multi-layered and repeated reforms and ever-more detailed conditionality, particularly with regard to improving tax administration since this was critical to the success of the program. The intensive TA involvement by the EC Task Force and the Fund was welcomed by officials and was not considered to be intrusive given the deep assistance that Greece needed.

The Troika reflects three different institutions. This sometimes posed coordination problems: the Fund made decisions in a structured fashion, while decision-making in the Euro Zone spanned Heads of State and multiple agencies and was more fragmented. Officials observed that it took time for the Troika to gel as a unit, for example, in formulating a common macro view, but in general, dealing with the Troika was fairly smooth. The Troika partners listened to each other and were well-prepared. However, detailed conditionality increased the coordination challenge. There was also sometimes a lack of continuity in the Troika teams. All-in-all, this exacerbated uncertainty and reduced the possibility for early agreements.