

GREECE—LETTER OF INTENT

Athens, December 21, 2012

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

Dear Ms. Lagarde:

In the attached update to the Memorandum of Economic and Financial Policies (MEFP) from March 9, 2012, we confirm our commitment to the policies and objectives of the economic program supported by an arrangement under the Extended Fund Facility (EFF), and describe progress and policy steps towards meeting the objectives under the program.

The needed adjustment of the Greek economy has continued, and the primary deficit has declined considerably. Following far-reaching labor market reforms taken in early 2012 under the program, Greece's competitiveness gap and current account deficit are shrinking perceptibly. However, the economic contraction has been deeper-than-expected in 2012.

We have faced some delays in program implementation. We met most end-September quantitative performance criteria, although we missed by small margins those on domestic arrears and government guarantees (Table 1a). Some progress was made on structural benchmarks, although their full implementation has been delayed (Table 2).

We are bringing the program back on track, and to this end have implemented a comprehensive list of actions (Table 3):

- We are taking far-reaching structural reforms to help lay the basis for economic recovery. As prior actions for the review we have taken a number of steps to help liberalize key product and service markets, restarted the privatization process, and reduced non-wage labor costs. These reforms will strengthen competitiveness, help catalyze much-needed investment, and protect real household income.
- We are strengthening the banking system, to further underpin the recovery. As prior actions for the review, we have finalized the banking sector recapitalization framework, and introduced reforms to strengthen governance. These actions should strengthen depositor confidence and support renewed bank lending.
- The government has adopted an ambitious fiscal program for 2013–16. As prior actions for the review, we have adopted: (i) a 2013 budget and a revised medium-term fiscal program; and (ii) an implementation bill containing the fiscal measures for 2013-14. Our revised fiscal program targets the 4½ percent of GDP primary

surplus target by 2016, two years later than foreseen in the EFF-supported program. The smoother path will help to moderate the impact of fiscal adjustment on the economy.

- Strengthening fiscal institutions is a crucial part of our reform program. As prior actions for the review, the government has strengthened the capacity of the Tax Revenue Administration, simplified tax accounting procedures, and taken measures to secure tighter control over general government spending. These measures will help improve payment of taxes, and prevent future accumulation of arrears.

We have received new financing commitments from our euro area partners to support our revised policy framework. They have committed to reduce interest rates and fees on existing loans, extend maturities, and have agreed to finance a voluntary debt buyback from the private sector. This will help us to restore a sustainable debt trajectory. More broadly, they have reiterated their commitment to provide adequate support to Greece for the life of the program and beyond, provided that Greece fully complies with the requirements and objectives of the adjustment program.

On the basis of the steps that we have taken to bring the program back on track, we request:

- Completion of the first and second reviews, and a disbursement in the amount of SDR 2,798.2 million. In view of the delays in the program, we request equal re-phasing of the remaining undrawn purchases over the remainder of the arrangement (Appendix I).
- Modification of the end-December 2012 performance criteria on the general government primary cash balance, state budget primary spending, and net change in the stock of domestic arrears (narrow definition).
- Waivers of applicability for the modified end-December performance criteria (second bullet), and also for the performance criterion covering the stock of central government debt and new guarantees granted by the central government. We expect to meet each of these targets.
- Modification of the end-December indicative target on the net change in the stock of general government arrears.

Establishment of performance criteria and indicative targets for end-March 2013 and end-June 2013; establishment of a quantitative performance criterion on privatization proceeds for end-September 2013; and establishment of indicative targets for end-September 2013, and end-December 2013 (Table 1b)

- Finally, as detailed below, we propose new structural benchmarks to measure progress against our program objectives (Table 4).

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. Juncker, Rehn and Draghi.

Antonis Samaras
Prime Minister

Yannis Stournaras
Minister of Finance

George Provopoulos
Governor of the Bank of Greece



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*Παράκληση
Δραφ. αντίφ
21/12/2012*