



Office Memorandum

OFFICE OF THE EXECUTIVE DIRECTOR
ITALY, ALBANIA, GREECE, MALTA, PORTUGAL AND SAN MARINO

May 14, 2015

– STRICTLY CONFIDENTIAL –

Subject: Informal meeting to brief the Executive Board on recent developments in Greece

Today the Executive Board of the IMF was updated on the latest developments in Greece.

Staff provided brief remarks on the economic situation, noting that the most recent data relative to the first quarter of this year, confirm that the economy is falling back into recession. The significant loss of deposits is continuing (20 percent – around 40 billion Euros – since December 2014). Reliance on the provision of the Eurosystem liquidity is increasing.

Staff provided more information related to the process, observing that improvements have recently been made on this front, though the situation remains far from ideal. Since the Eurogroup meeting in Riga, the Greek authorities agreed to unify the discussions at the political and technical level, discontinuing the practice of separate meetings. The venue for the discussions is now Brussels. Staff also observed that the Prime Minister seems to be more directly involved in negotiations. However, the process remains problematic. The negotiators appear to have limited room of maneuver. Above all, staff has no access to Ministers for policy discussions. In particular, staff clarified that they will not bring to the attention of the IMF Executive Board any program review that has not been discussed directly with Ministers.

On substance, staff acknowledged that there has been some recent progress in three areas: (i) on the VAT, the authorities seem to be considering a reform entailing a broadening of the base leading to an increase of revenues; (ii) on tax administration, after some initial backtracking of previous reforms, the authorities seem to be persuaded that they should change their course of action; (iii) on the insolvency framework, there is the commitment to undertake reforms.

However, in other areas, no progress has been achieved.

In particular, on the 2015 budget there is no agreement between staff and the authorities on a revised target (the old target of a deficit at 3 percent is unattainable). It has also to be said that, at this stage, setting a new target is particularly difficult due to the lack of important information. Besides, on the fiscal side the major issue relates to the fact that, while authorities believe that possible new targets could be achieved without resorting to

significant additional measures, staff is of the firm view that structural fiscal reforms are needed.

More generally, on structural reforms, staff observed that the authorities are reversing – or plan to reverse – policies which are already in place and are not willing to implement other reforms that were envisaged by the program. Specifically, this relates to: (i) the pension system; (ii) the labor market, which is the area where in the past most progresses were achieved; (iii) the public administration, where the government has re-hired (or plan to re-hire) most of the staff that had been laid off in the recent past.

Staff also observed, though, that on all these fronts the authorities are willing to consider reforms. However, so far they have not yet communicated which kind of measures they would be willing to undertake as an alternative to those they already reversed or to those envisaged by the program.

On the financial sector, staff noted very briefly that non-performing loans are at very high levels and that – going forward – the system might suffer from important stress. Staff also noted a dramatic deterioration of the payment culture in the country.

There is ample uncertainty also on financing and debt sustainability. While staff emphasized that they are not pushing the European partners to consider a debt relief, at the same time staff noted that numbers need to add up. In particular, it was observed that there is an inverse relationship between reforms and sustainability. On policies, staff reiterated that they stand ready to be flexible.

All in all, staff highlighted that they are still away from reaching an agreement with the authorities. They also noted that the government liquidity situation is tight, though the lack of granular information prevents staff from a precise assessment. However, it can be said that, starting in June, and then in July and August, 11 billion Euros are coming due and there will be no possibility for the Greek authorities to repay the whole amount unless an agreement is reached with their international partners. In June, the amount due to the Fund will be 1.23 billion SDRs.

On the Fund side, it was made clear that no disbursement will be made until a full staff-level agreement on a comprehensive review is reached. It is also understood that there are discussions in Europe about the possibility of partial disbursements, based on partial agreements (“if there is light at the end of the tunnel”), but it has also been underlined that there is no common position on this issue among the Europeans at this stage.

Finally, about the possibility of considering a new program, staff underscored that – as said – they are already showing large flexibility in terms on policies, but under the constraints that numbers needs to add up in terms of financing and sustainability. The Managing Director underscored that the Fund cannot complete a “quick and dirty” review, and that the staff has to play by the rules and not obscure the Fund’s mandate.