

23 October 2017

**Note on arrears clearance monitoring for the second  
disbursement for arrears clearance of the third tranche under the  
Greek ESM programme**

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Note for the Eurogroup Working Group

## Background

**On 7 July 2017, the ESM Board of Directors (BoD) approved the third tranche under the Financial Assistance Facility Agreement (FFA) for Greece** for an amount of €8.5 billion. On 10 July 2017, the ESM released the first disbursement under this third tranche, in the amount of €7.7 billion, out of which €6.9 billion were disbursed for debt servicing needs and €0.8 billion were disbursed for arrears clearance. The disbursement for arrears clearance was released on the basis of sufficient demonstrated progress until April 2017, i.e. the European institutions had verified that the previously set target of reducing the stock of arrears by an amount equivalent to 80% of the cumulative disbursements since June 2016 dedicated to arrears clearance was satisfied.

According to the ESM BoD decision in July 2017, the disbursement of the remaining amount of the third tranche of €0.8 billion allocated to arrears clearance is subject to Greece's satisfactory performance in arrears clearance, as described in the ESM MD proposal dated 5 July 2017, to be assessed by the European institutions. The criteria defining satisfactory performance are also described in the updated Technical Memorandum of Understanding (TMU)<sup>1</sup>. According to these, the next disbursement for arrears clearance will be approved on the basis of a report by the European institutions assessing that there has been progress in clearing net arrears amounting at least to 150% of the amount of the previous disbursement allocated to arrears clearance i.e. it will include a requirement to use own resources to clear arrears in the proportion of 1:2 relative to programme funds disbursed for arrears clearance under the previous disbursement under the third tranche.

**This note provides the European institutions' assessment of the progress of the Greek authorities in clearing net arrears.** It confirms that the data provided show that the clearance of net arrears complies with the ESM programme requirements, as a basis for the ESM BoD to release the remaining €0.8 billion of programme financing dedicated for arrears clearance that remains from the decision of 7 July 2017.

The authorities have provided monthly reports on the financing from the overall envelope for arrears clearance and the account dedicated to arrears clearance, the utilization of the special appropriation for clearance of arrears, as well as on the relevant payments to final beneficiaries, based on data reported through the Bank of Greece, the General Accounting Office and surveys. Net arrears – as defined in the TMU – comprise all general government arrears, including unprocessed tax refunds and unprocessed pension claims older than 90 days, but excluding arrears that are subject to the clawback and rebate mechanism. This assessment examines the net arrears clearance and is based on data provided by the Greek authorities on 20 October 2017.

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## Assessment

**The data reveal that progress in clearance of net arrears by end September satisfied the target set in the ESM programme.** Recent developments are summarised in Table 1 and in Chart 1. The stock of net arrears has decreased by €1.5 billion between end-April and end-September 2017, or by 191% of the amount of the previous disbursement, thus significantly over performing (by €0.3 billion) the target of 150% set in the programme.

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<sup>1</sup> [https://ec.europa.eu/info/sites/info/files/final\\_tm\\_u\\_to\\_esm\\_2017\\_07\\_05\\_0.pdf](https://ec.europa.eu/info/sites/info/files/final_tm_u_to_esm_2017_07_05_0.pdf)

**Both programme financing and own resources have been used to clear arrears.** The use of programme financing amounted to €0.7 billion, of which half came from the 2016 programme funds that were not used until April and the other half came from the last disbursement of €0.8 billion. The full amount of the last disbursement has been transferred from the dedicated account to the government entities between July and September. However, it has not been fully used until end September due to the phased in transfer of funds but also due to administrative constraints in processing the payments. Nevertheless, these remaining funds (€0.4 billion) are being utilised in October and it is expected that will be fully exhausted in the coming weeks. The contribution from domestic resources amounted to €5.6 billion between April and September, of which the majority was used to clear the newly accumulated arrears during this period (€4.8 billion) and the rest was used to clear part of the existing stock (€0.8 billion).

**The largest reduction in the stock of arrears during the assessment period was recorded in September.** The main driver of the €1.9 billion reduction of net arrears in September was clearance of tax refunds by €1.3 billion, most of which was cleared through own resources, including offsets with tax obligations. This reduction over-compensated the seasonal increase observed in the summer months due to the submission of tax declarations. Clearance of pension arrears also contributed to the total reduction of the stock in September by almost €0.4 billion, followed by spending arrears of social security funds and extra-budgetary funds (€0.2 billion).

**The institutions conclude that progress in clearing arrears has been satisfactory.** Given the available domestic resources and the ESM programme support, the authorities are urged to prioritise the work on arrears clearance so as to achieve the zero arrears target by the end of the programme. However, structural weaknesses that cause the accumulation of new arrears remain and should be tackled as soon as possible. To this end, the authorities should advance the work on the arrears audit, which is expected to be completed by March 2018.

**Table 1: Progress in net arrears clearance between April and September 2017 (million €)**

		Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Total
<b>1</b>	Stock of net arrears	6,588	6,273	6,342	6,500	6,972	5,064	
<b>2</b>	Monthly change in net stock of arrears		-315	69	158	472	-1,908	-1,524
<b>2a</b>	o/w accumulation of new arrears		791	926	1,226	1,294	567	4,803
<b>2b</b>	o/w total reduction in arrears		-1,105	-857	-1,068	-822	-2,476	-6,327
	with programme financing		-103	-79	-143	-152	-262	-738
	with own funding		-1,002	-778	-925	-670	-2,214	-5,589
	<b>ESM assessment criterion for release of next disbursement</b>	<b>clearance of at least 150% of last disbursement vs stock of April 2017</b>						
	Cumulative change in stock of arrears		-315	-246	-88	384	-1,524	
	% of ESM disbursement		39%	31%	11%	-48%	191%	
	ESM target						-1,200	
	Over-performance vis-à-vis ESM target						324	

**Chart 1: Progress in net arrears clearance between December 2015 and September 2017 (billion €)**

