



EUROPEAN COMMISSION
DIRECTORATE GENERAL
ECONOMIC AND FINANCIAL AFFAIRS

Brussels, 21 October 2016

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

Note for the Eurogroup Working Group

Introduction

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 requirements set in the Technical Memorandum of Understanding, and is a basis for the ESM Board of Directors to decide on the release of the remaining EUR 1.7 billion of programme financing dedicated for arrears clearance that remains from the decision of 25 May 2016.

In the context of the 1st review the authorities established a dedicated account into which ESM funding for arrears clearance can be paid and which shall be used solely for arrears clearance payments. On 21 June 2016 the ESM disbursed EUR 1.8 billion to allow the clearance of net arrears, transferred directly to the dedicated account. As described in the Technical Memorandum of Understanding, further disbursements for arrears clearance will be made on the basis of a report by the European institutions assessing that there has been good progress in clearing net arrears *inter alia* by verifying that the authorities have cleared net arrears for an amount equivalent to 80% of the previous disbursement.

To this end, the authorities will provide 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 Technical Memorandum of Understanding – comprise of all general government arrears, including unprocessed tax refunds older than 90 days and unprocessed pension claims, but excluding arrears that are subject to the clawback and rebate mechanism. This assessment examines both gross and net arrears clearance (i.e. before and after new arrears accumulation) and is based on data provided by the Greek authorities up to 20 October 2016.

Assessment

The Greek authorities have provided monthly data to the institutions on the movements of the dedicated account as well as on the gross and net arrears clearance until end September. The situation is summarised in the table below. The authorities provided data with sufficient level of detail for the institutions to assess the progress being made in arrears clearance in line with the Technical Memorandum of Understanding.¹

The new data confirm that good progress has been made in clearing both gross and net arrears by end September. As regards the clearance of arrears in *gross terms* (through programme funds or other sources), these amounted to EUR 1.87 billion through the special appropriation by end-September (or 104% of the disbursement). As regards the clearance in *net terms*, the total stock of arrears was reduced by EUR 1.5 billion or 84% of the previous disbursement (EUR 1.8 billion) between June and September. Therefore the 80% target of net arrears clearance was reached in September.

¹http://ec.europa.eu/economy_finance/assistance_eu_ms/greek_loan_facility/pdf/technical_memorandum_of_understanding_en.pdf

The institutions acknowledge that significant progress has been made in clearing arrears. However, despite the liquidity provided through the programme, structural weaknesses that cause the accumulation of arrears remain and should be tackled by advancing the reforms of the Public Financial Management system.

		end-June	end-August			end-September		
	<i>in million EUR</i>	Stock of arrears	Stock of arrears	Gross arrears cleared 5/	Net arrears cleared	Stock of arrears	Gross arrears cleared 5/	Net arrears cleared
1	General Government spending arrears 1/	5,039	3,907	1,355	1,132	3,615	1,767	1,425
1a	<i>o/w Non ESM financing 2/</i>			172			420	
2	Processed tax refunds	1,306	1,341	66	-36	1,439	77	-133
3	Unprocessed tax refunds	1,766	1,751	22	14	1,580	31	186
4	Unprocessed pension claims	1,439	1,439	0	0	1,412	0	27
5	Total arrears (1+2+3+4) 3/	9,550	8,439	1,443	1,111	8,045	1,874	1,505
	Arrears clearance as % of ESM disbursement 4/			80%	62%		104%	84%

1/ Net of the arrears under the clawback and rebate.

2/ These amounts refer to appropriations transferred to Olympic airways and were offset with the company's tax obligations (i.e. not financed through the ESM).

3/ Based on the definition of the Technical Memorandum of Understanding.

4/ Includes arrears cleared through the ESM financing and own resources (see comment 2/).

5/ Gross arrears clearance through the special appropriation.