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## The Second Economic Adjustment Programme for Greece

March 2012

Economic and Financial Affairs

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EUROPEAN COMMISSION
DIRECTORATE GENERAL
ECONOMIC AND FINANCIAL AFFAIRS

# The Second Economic Adjustment Programme for Greece

March 2012

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ACKNOWLEDGEMENTS

The report was prepared in the Directorate General Economic and Financial Affairs, under the direction of Matthias Mors, director and mission chief.

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# EXECUTIVE SUMMARY

*A joint Commission/ECB/IMF mission met with the Greek authorities in Athens on 17 January - 9 February 2012. The mission assessed compliance with the terms and conditions of the Economic Adjustment Programme and discussed the policy package forming the basis of a successor programme.*

**Greece made mixed progress towards the ambitious objectives of the first adjustment programme.** Several factors hampered implementation: political instability, social unrest and issues of administrative capacity and, more fundamentally, a recession that was much deeper than previously projected. Important fiscal targets were missed, which led to the adoption of additional consolidation measures throughout 2010 and 2011. However, Greece achieved a substantial reduction in the general government deficit: from 15¾ per cent of GDP in 2009 to 9¼ percent in 2011. This fiscal adjustment was necessary given the extremely high deficit reached in 2009. The adjustment is much larger than most other fiscal consolidation episodes in EU countries observed in the past. This fiscal consolidation had to be achieved over a period in which the economy contracted by more than 11 percent, which was unavoidable given the substantial positive output gap that had built up due to the non-sustainable policies conducted until 2009. The pension reform and the agreed privatisation plan were important institutional changes which will bear fruit in the medium term. Financial stability has been supported by exceptional Eurosystem measures that contributed to the appropriate financing of the Greek banking system and economy. However, insufficient progress was made in modernising revenue administration and expenditure control, and steps taken in the fight against tax evasion and the prompt settlement of payments to suppliers have remained far too timid. In addition, while several steps were made with regard to growth-enhancing structural reforms since May 2010, achievements in this field were clearly not commensurate with the need to accelerate productivity growth and restore competitiveness. On several occasions, there were legitimate doubts about the ownership of the programme by the Greek Government. More fundamentally, reforms adopted since spring 2010 were insufficient in restoring growth and in ensuring fiscal sustainability, and Greece has been unable to return to the markets so far.

**The programme strategy has been adjusted.** Through large-scale assistance to Greece, the international community provides Greece with financing at low interest rates, thereby compensating for the fact that Greece is not expected to be able to return to market financing over the next three years. Greece will need to use the additional time to underpin its fiscal consolidation efforts with structural fiscal reforms to generate expenditure savings on a durable basis. In a similar vein, structural reforms to boost growth will need to be accelerated to improve competitiveness, and financial stability will need to be preserved. These objectives are the same as under the first programme. Nonetheless, in the second programme, the implementation of the growth-enhancing structural reform agenda gains prominence in the overall implementation of the programme, while the debt restructuring and higher official financing allows a slower fiscal adjustment and a more gradual privatisation process.

**The economy continues to contract and short-term growth rates have been further revised downwards.** In 2011, the economy is estimated to have contracted by 6.9 percent. Negative business and household sentiment, delays and problems in the implementation of growth-enhancing reforms, difficulties in the access to credit, higher unemployment levels and heightened political uncertainty in the autumn – when Greece's participation in the monetary union was openly discussed – contributed to weak private consumption and an additional contraction in investment. Moreover, the deceleration of demand in the European economies slowed down Greek exports, which had shown dynamic growth in previous quarters. Although the second financing programme and the completion of the sovereign debt exchange will contribute to reducing the uncertainties of the last months, the recession will remain severe throughout 2012. Contraction in domestic output is currently estimated at 4¾ per cent, with downside risks. The recovery previously announced for next year will be further delayed with, at best, a stagnation of activity in 2013. It is only in 2014 that positive annual growth rates are expected to return.

**Greece's medium-term economic performance will crucially depend on the implementation of structural reforms.** These reforms, particularly those in the labour market, the liberalisation of several sectors and a number of measures to improve the business environment should help promote competition, spur productivity and employment growth and reduce production costs. Without these reforms, improvements in competitiveness may take long to materialise, or may be achieved only through a compression of imports and an unemployment-driven reduction in labour costs. The medium-term projections on which the second financing programme is based assume that the ambitious labour market reforms will be followed by equally important structural reforms in goods and services markets. If this were not the case, the reduction in wage and non-wage costs will translate into higher profit margins and the medium-term growth projections between 2½ and 3 per cent over 2015-20 may prove too optimistic.

**In the short run, there is some tension between internal devaluation and fiscal consolidation.** Greece has suffered from unsustainable imbalances in both the external and the fiscal accounts and progress on both accounts has so far been insufficient. In the coming years, progress is necessary on both fronts. Greece has to restore competitiveness through an ambitious internal devaluation, *i.e.*, a reduction in prices and production costs relative to its competitors, as well as a shift from a consumption-led to an export-led economy. Since a strong increase in productivity takes time, an upfront reduction in nominal wage and non-wage costs is necessary. This is unavoidable, but it complicates fiscal adjustment through the impact that the internal devaluation has on nominal GDP and, concomitantly, on tax bases. Moreover, when recovery takes hold, the composition of growth is expected to be less tax-rich than in previous upswings.

**Fiscal targets for 2012 and subsequent years have been revised.** Targets have been adjusted to take into account the unfavourable macroeconomic developments, while ensuring that, during the programme period, there is sufficient progress towards the objective of a 120 percent debt-to-GDP ratio by 2020. The programme is anchored on the objective of reaching a primary deficit of 1 percent of GDP in 2012 and a primary surplus of 4.5 per cent of GDP in 2014. Taking into account the savings that result from the debt restructuring, this fiscal path is calibrated to be consistent with the correction of the excessive deficit in 2014, as envisaged at the inception of the first programme. The 2014 primary surplus will have to be kept at such a high level for several years. The experience of other EU countries shows, however, that a primary surplus of such a magnitude is not disproportionate and is socially bearable. In any case, these targets are lower than required under the first programme.

**In early 2012, the Government adopted a new package of fiscal measures.** These measures (1.5 percent of GDP) are all on the expenditure side of the budget. It is the first time since May 2010 that a re-calibration of the fiscal strategy was not accompanied by an increase in taxes, although the programme had envisaged, from the start, a strongly expenditure-based consolidation path. If fully implemented, the new package should allow meeting the 2012 primary deficit target.

**However, current projections reveal large fiscal gaps in 2013-14**. Current projections reveal a cumulated fiscal gap in 2013-14 of 5½ percent of GDP. Therefore, substantial additional expenditure cuts will have to be announced and adopted by Greece in the coming months, in particular when Greece updates its medium-term budget (medium-term fiscal strategy or MTFS) in May 2012. In order to prepare these measures, the government has launched a review of public spending programmes. To limit the negative impact on potential growth the additional measures need to be expenditure-based. The review is expected to focus on and contribute to savings in social transfers, while preserving basic social protection, defence and the restructuring of central and local administration. The reduction in public employment through redundancies and the recruitment rule of 1 entry for 5 exits will also contribute to reducing government expenditure.

**The Government has adopted an ambitious set of labour market measures, complementing the reforms passed in 2010 and 2011.** Since the social dialogue between and with private sector employers' and employees' representatives did not deliver a satisfactory outcome, the Government legislated a reduction in minimum wages in the private sector and a modification of number of wage-setting procedures, including the rules on the expiration of collective agreements and the arbitration of wage disputes. This is part of a strategy of reducing labour costs in the business economy by 15 per cent in three years, thereby accelerating the cuts in labour costs already observed in the course of 2011. Other than through cuts in nominal wages, this objective is also expected to be achieved through a reduction in non-wage labour costs, through the elimination of non-core social benefits and the corresponding reduction in employers' social contributions. Moreover, the government committed to take additional corrective measures to facilitate collective bargaining and ensure wage flexibility and higher employment.

**Progress in privatisation has been slower than planned, on account of adverse market conditions and technical and legal hurdles in the preparation of assets for sale**. In the months preceding the PSI deal, the market has shown a particularly low appetite for Greek assets. Assuming that the launch of the second financing programme will help overcome the negative market sentiment, the privatisation fund should be able to deliver a continuous stream of assets for privatisation for several years. While the objective of privatising assets worth EUR 50 billion is maintained, this target will only be achieved in a horizon going well beyond 2015, while the recapitalisation of banks will add to the pool of privatisable assets. Besides its contribution in covering financial needs, privatisation remains crucial for re-launching growth, modernising the economy and attracting foreign direct investment.

**Greece has initiated a comprehensive strategy to recapitalise banks and to restructure the banking sector, involving a number of supervisory and regulatory measures.** Greek banks are severely hit by the sovereign debt restructuring, against the background of a continuing recession, thereby leading to substantial capital shortfalls for all banks. Viable banks will be identified and adequately recapitalised, following recommendations by the supervisors and taking into account the effects of the PSI. The new programme includes sufficient resources to recapitalise banks, should private shareholders prove unable or unwilling to provide the necessary capital.

**The governance structure of the recapitalisation and resolution processes will be significantly enhanced.** This became necessary on account of the very substantial amount of official financing that will be channelled through the existing Greek institutions, in particular the Hellenic Financial Stability Fund. The recapitalisation strategy is being designed to maximise private sector participation, while preserving the State's interests. The banks' shares acquired by the State in the recapitalisation process will have limited voting rights, but may still allow for upside returns to be shared between the State and private shareholders. Whenever possible, the private management of banks will be safeguarded.

**The scaled-up official financing and the exchange of debt held by the private sector will improve debt sustainability prospects.** In a moderately optimistic but realistic scenario, if Greece meets the programme targets, the debt-to-GDP ratio will decline to about 117 percent in 2020. However, it will remain high for many years and, therefore, be susceptible to adverse domestic and global developments. In particular, relatively small setbacks in terms of growth due to a slow implementation of structural reforms or an unfavourable external context, may adversely impact debt dynamics. Moreover, the high level and share of official debt, as well as the *de facto* senior status of the bonds resulting from the co-financing structure agreed in the context of the debt restructuring complicate Greece's return to the markets at the end of the second programme. Should market access not be restored at the time of the expiration of the programme, additional official sector financing could become necessary.

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**The international assistance loans disbursed so far to Greece amount to EUR 73 billion.** Of this amount, EUR 52.9 billion have been paid by the euro area Member States, and EUR 19.9 billion by the IMF. In the second programme, the EFSF and the IMF commit the undisbursed amounts of the first programme plus additional EUR 130 billion for the years 2012-14. During this period, the EFSF commits an overall amount of EUR 144.7 billion (including the already committed or disbursed amounts for PSI and bank recapitalisation), while the IMF will contribute EUR 28 billion during 4 years.

**Implementation risks will remain very high.** The success of the second programme depends chiefly on Greece. It crucially hinges on the full and timely implementation of fiscal consolidation and growth-enhancing structural reforms agreed under the programme. The successful debt exchange should help strengthen the reform momentum and build a consensus in favour of the difficult reforms that still lie ahead. The continuation of the very comprehensive international financial assistance can only be expected if policy implementation improves. The determination of the Greek authorities to stick to the agreed policies will be tested already in the coming months when the deficit-reducing measures to close the large gap for 2013-14 need to be identified. In a similar vein, generating sustained growth and employment will require stronger efforts to overcome the resistance of vested interests. The implementation of structural measures - from product and service market liberalization to business environment reforms, the fight against tax evasion and the reduction in public employment - will have to overcome bureaucratic delays, the resistance of lobbies and vested interests and break longstanding policy taboos. This requires the Government's determination, enhanced political coordination, as well as the consensus of the whole Greek Society.

**The Commission services recommend the first disbursement of the second programme to take place as soon as possible**. The debt restructuring has been executed and the very comprehensive prior actions that were necessary to bring the programme back on track were completed. Taking this into account, compliance with the agreed policy measures under the first programme has been sufficient, in spite of deficiencies that this report discusses.

# 1. INTRODUCTION

1. **This report discusses progress by Greece in the context of its economic adjustment programme.** It assesses compliance with previously agreed requirements and elaborates on the policies agreed between Greece and the Commission, ECB and IMF staff teams at the moment Greece shifts to a second programme of financial assistance. Like the first programme, financing will be provided by the euro-area Member States and the IMF. However, the financing vehicle of the euro-area Member States will be the EFSF, rather than bilateral loans as in the first programme. From the IMF side, financing shifts from a stand-by arrangement (SBA) to an extended fund facility (EFF), which allows for a longer repayment period. Progress is assessed in relation to the key objectives of securing fiscal sustainability, safeguarding the stability of the financial system, and boosting competitiveness, potential growth and jobs, through structural reforms. The assessment is based on the findings of the joint Commission/ECB/IMF mission to Athens on 17 January-9 February 2012.*

**Table 1. Disbursements under the first financing programme**
(EUR billion)

| | **Past disbursements** | | | | |
|---|---|---|---|---|---|
| | **Euro-area Member States** | | **IMF** | | **Total** |
| 1st tranche | 18 May 2010 | 14.5 | 12 May 2010 | 5.5 | 20.0 |
| 2nd tranche | 13 September 2010 | 6.5 | 14 September 2010 | 2.5 | 9.0 |
| 3rd tranche | 19 January 2011 | 6.5 | 21 December 2010 | 2.5 | 9.0 |
| 4th tranche | 16 March 2011 | 10.9 | 16 March 2011 | 4.1 | 15.0 |
| 5th tranche | 15 July 2011 | 8.7 | 13 July 2011 | 3.3 | 12.0 |
| 6th tranche | 14 December 2011 | 5.8 | 7 December 2011 | 2.2 | 8.0 |
| Total past disbursements | | 52.9 | | 20.1 | 73.0 |

*Source*: Commission services and IMF staff.

* During the review mission in Athens, the Commission/ECB/IMF staff teams met with the Prime Minister, the deputy prime-minister and minister for Finance, and the governor of the Bank of Greece; as well as with the ministers for Development and Competitiveness and Shipping; Labour and Social Security; Health and Social Solidarity; Administrative Reform and e-Governance; Environment, Energy and Climate Change; and Infrastructure, Transport and Networks. Moreover the teams met with staff of these ministries and of the central bank, as well as of the ministries of Culture and Tourism; Public Debt Management Agency, Hellenic Competition Commission, Hellenic Statistical Authority (ELSTAT), Hellenic Financial Stability Fund, and Hellenic Asset Development Fund (privatisation fund). Meetings also took place with the leadership of the PASOK and ND parties, some social partners, think-tanks and several commercial banks.

**Table 2. Contributions by the euro-area Member States to disbursements to Greece under the first financing programme**
(EUR million)

| | BE | DE | IE | ES | FR | IT | CY | LU |
|---|---|---|---|---|---|---|---|---|
| **May 2010** | 0.0 | 4,427.9 | 0.0 | 1,941.6 | 3,325.2 | 2,921.9 | 32.0 | 40.8 |
| **September 2010** | 758.8 | 1,495.9 | 347.4 | 656.0 | 1,123.4 | 987.2 | 10.8 | 13.8 |
| **January 2011** | 238.8 | 1,864.4 | -- | 817.5 | 1,400.1 | 1,230.3 | 13.5 | 17.2 |
| **March 2011** | 530.0 | 611.8 | -- | 1,814.4 | 3,107.4 | 2,730.5 | 29.9 | 38.2 |
| **July 2011** | 195.3 | 5,050.5 | -- | 668.5 | 1,144.8 | 1,006.0 | 11.0 | 14.1 |
| **December 2011** | 219.6 | 1,714.8 | -- | 751.9 | 1,287.7 | 1,131.6 | 12.4 | 15.8 |
| **Total** | 1,942.5 | 15,165.3 | 347.4 | 6,650.0 | 11,388.6 | 10,007.5 | 109.6 | 139.9 |

| | MT | NL | AT | PT | SI | SK | FI | Total |
|---|---|---|---|---|---|---|---|---|
| **May 2010** | 14.8 | 932.5 | 454.0 | 409.3 | 0.0 | -- | 0.0 | 14,500.0 |
| **September 2010** | 5.0 | 315.0 | 153.4 | 138.3 | 102.9 | -- | 392.2 | 6,500.0 |
| **January 2011** | 6.2 | 392.6 | 191.2 | 172.3 | 32.4 | -- | 123.4 | 6,500.0 |
| **March 2011** | 13.8 | 871.4 | 424.3 | 382.5 | 71.8 | -- | 274.0 | 10,900.0 |
| **July 2011** | 5.1 | 321.1 | 156.3 | -- | 26.5 | -- | 100.9 | 8,700.0 |
| **December 2011** | 5.7 | 361.1 | 175.8 | -- | 9.9 | -- | 113.5 | 5,800.0 |
| **Total** | 50.6 | 3,193.8 | 1,554.9 | 1,102.3 | 243.5 | -- | 1,004.1 | 52,900.0 |

*Source*: Commission services.

*Box 1*: **Statement by the Eurogroup: 21 February 2012**

"The Eurogroup welcomes the agreement reached with the Greek government on a policy package that constitutes the basis for the successor programme. We also welcome the approval of the policy package by the Greek parliament, the identification of additional structural expenditure reductions of EUR 325 million to close the fiscal gap in 2012 and the provision of assurances by the leaders of the two coalition parties regarding the implementation of the programme beyond the forthcoming general elections.

This new programme provides a comprehensive blueprint for putting the public finances and the economy of Greece back on a sustainable footing and hence for safeguarding financial stability in Greece and in the euro area as a whole.

The Eurogroup is fully aware of the significant efforts already made by the Greek citizens but also underlines that further major efforts by the Greek Society are needed to return the economy to a sustainable growth path.

Ensuring debt sustainability and restoring competiveness are the main goals of the new programme. Its success hinges critically on its thorough implementation by Greece. This implies that Greece must achieve the ambitious but realistic fiscal consolidation targets so as to return to a primary surplus as from 2013, carry out fully the privatisation plans and implement the bold structural reform agenda, in both the labour market and product and service markets, in order to promote competitiveness, employment and sustainable growth.

To this end, we deem essential a further strengthening of Greece's institutional capacity. We therefore invite the Commission to significantly strengthen its Task Force for Greece, in particular through an enhanced and permanent presence on the ground in Greece, in order to bolster its capacity to provide and coordinate technical assistance. Euro area Member States stand ready to provide experts to be integrated into the Task Force. The Eurogroup also welcomes the stronger on site-monitoring capacity by the Commission to work in close and continuous cooperation with the Greek government in order to assist the Troika in assessing the conformity of measures that will be taken by the Greek government, thereby ensuring the timely and full implementation of the programme. The Eurogroup also welcomes Greece's intention to put in place a mechanism that allows better tracing and monitoring of the official borrowing and internally-generated funds destined to service Greece's debt by, under monitoring of the Troika, paying an amount corresponding to the coming quarter's debt service directly to a segregated account of Greece's paying agent. Finally, the Eurogroup in this context welcomes the intention of the Greek authorities to introduce over the next two months in the Greek legal framework a provision ensuring that priority is granted to debt servicing payments.

This provision will be introduced in the Greek Constitution as soon as possible.The Eurogroup acknowledges the common understanding that has been reached between the Greek authorities and the private sector on the general terms of the PSI exchange offer, covering all private sector bondholders. This common understanding provides for a nominal haircut amounting to 53.5 percent. The Eurogroup considers that this agreement constitutes an appropriate basis for launching the invitation for the exchange to holders of Greek government bonds (PSI). A successful PSI operation is a necessary condition for a successor programme. The Eurogroup looks forward to a high participation of private creditors in the debt exchange, which should deliver a significant positive contribution to Greece's debt sustainability. The Eurogroup considers that the necessary elements are now in place for Member States to carry out the relevant national procedures to allow for the provision by EFSF of (i) a buy back scheme for Greek marketable debt instruments for Eurosystem monetary policy operations, (ii) the euro area's contribution to the PSI exercise, (iii) the payment of accrued interest on Greek government bonds, and (iv) the residual (post-PSI) financing for the second Greek adjustment programme, including the necessary financing for recapitalisation of Greek banks in case of financial stability concerns. The Eurogroup takes note that the Eurosystem (ECB and NCBs) holdings of Greek government bonds have been held for public policy purposes. The Eurogroup takes note that the income generated by the Eurosystem holdings of Greek Government bonds will contribute to the profit of the ECB and of the NCBs. The ECB's profit will be disbursed to the NCBs, in line with the ECB's statutory profit distribution rules. The NCBs' profits will be disbursed to euro area Member States in line with the NCBs' statutory profit distribution rules.

• The Eurogroup has agreed that certain government revenues that emanate from the SMP profits disbursed by NCBs may be allocated by Member States to further improving the sustainability of Greece's public debt. All Member States have agreed to an additional retroactive lowering of the interest rates of the Greek Loan Facility so that the margin amounts to 150 basis points. There will be no additional compensation for higher funding costs. This will bring down the debt-to-GDP ratio in 2020 by 2.8 percentage points and lower financing needs by around EUR 1.4 billion over the programme period. National procedures for the ratification of this amendment to the Greek Loan Facility Agreement need to be urgently initiated so that it can enter into force as soon as possible.

• Furthermore, governments of Member States where central banks currently hold Greek government bonds in their investment portfolio commit to pass on to Greece an amount equal to any future income accruing to their national central bank stemming from this portfolio until 2020. These income flows would be expected to help reducing the Greek debt ratio by 1.8 percentage points by 2020 and are estimated to lower the financing needs over the programme period by approximately EUR 1.8 billion.

The respective contributions from the private and the official sector should ensure that Greece's public debt ratio is brought on a downward path reaching 120.5 percent of GDP by 2020. On this basis, and provided policy conditionality under the programme is met on an on-going basis, the Eurogroup confirms that euro-area Member States stand ready to provide, through the EFSF and with the expectation that the IMF will make a significant contribution, additional official programme of up to EUR 130 billion, until 2014.

It is understood that the disbursements for the PSI operation and the final decision to approve the guarantees for the second programme are subject to a successful PSI operation and confirmation, by the Eurogroup on the basis of an assessment by the Troika, of the legal implementation by Greece of the agreed prior actions. The official sector will decide on the precise amount of financial assistance to be provided in the context of the second Greek programme in early March, once the results of PSI are known and the prior actions have been implemented.

We reiterate our commitment to provide adequate support to Greece during the life of the programme and beyond until it has regained market access, provided that Greece fully complies with the requirements and objectives of the adjustment programme."

**Table 3. Member States guarantees to the EFSF**

| | EFSF contribution key (%) |
|---|---|
| AT | 2.98 |
| BE | 3.72 |
| CY | 0.21 |
| DE | 29.07 |
| EE | 0.27 |
| EL | 0.00 |
| ES | 12.75 |
| FI | 1.92 |
| FR | 21.83 |
| IE | 0.00 |
| IT | 19.18 |
| LU | 0.27 |
| MT | 0.10 |
| NL | 6.12 |
| PT | 0.00 |
| SI | 0.50 |
| SK | 1.06 |
| **Total** | 100.0 |

*Source*: EFSF.

*Box 2*: **Economic Adjustment Programme and Social Equity**

**A number of commentators have criticised the Greek adjustment programme given its social implications**. Although correcting large and unsustainable external and fiscal imbalances in the space of a few years does impose a reduction in living standards which are borne by the entire Greek Society, social considerations have always been present in the design of the programme. In the discussions between the staff teams and the Greek authorities there has always been a concern to minimise the impact of the measures on the most vulnerable strata of the population. This consideration is reflected by concrete steps made in pensions, other social programmes, labour market reforms, healthcare reform and in the fight against tax evasion. More fundamentally, there is a clear perception that large imbalances that risk, or would ultimately lead to abrupt changes in the economic regime create a particular large burden for the less well off, and that a correction of these imbalances improves the medium-term economic opportunities of everyone.

**Cuts in pensions have been targeted, with the aim of protecting the lowest pensions.** Greece had to adopt pension cuts on several occasions over 2010-12. Given the large proportion of pension in total government expenditure, a reduction in pensions was inevitable. To protect the most vulnerable, these cuts have been progressive, *i.e.*, with larger reductions in the highest pensions. Moreover, in 2010, Greece adopted a comprehensive pension reform simplifying the highly fragmented pension system, enhancing transparency and fairness, increasing and equalising the retirement ages and decreasing the generosity of benefits, while preserving an adequate pension for the low- and middle-income earners. The pension reform has gone a long way in restoring the viability of the pension social protection systems. Moreover, the new system is fairer among generations and among the several professional categories. In the same context, a special contribution has been established for pensioners with a monthly pension above EUR 1 700**.** In addition, there has been specific attention at fighting fraud in disability pensions and other pensions.

**Healthcare is a very important component of the social protection system in Greece.** This sector has also to contribute substantially to fiscal consolidation, given the large share of the public budget spent on healthcare. This effort has been made primarily through reduction in the prices of medicines paid by the State, the promotion of cheaper medicines and other tools of fighting waste. The increase in co-payments also aims at reducing unnecessary demand for healthcare services. However, the increase in costs borne by patients has amounted to a small fraction of the overall reduction in costs.

**The on-going review of social programmes aims at better targeting beneficiaries and to protect the vulnerable effectively.** For long, there has not been in Greece a clear view on the objectives, and thus on the design and implementation of social policies. As a result, the system was disproportionately expensive for the benefits it effectively provided, and more important, it often failed at relieving poverty and hardship. The objective is identifying the specific groups and situations that require social protection, while avoiding waste. This is reflected in the cuts in family allowances for the most prosperous households for which there is no good reason of financial support.

**Labour market policy changes have been driven by the aim of fighting unemployment, particularly youth and low-skilled unemployed.** Despite a considerable reduction in per capita income, downward rigidities in wage-setting systems have prevented the necessary adjustment of private sector wages; this has contributed to a sharp increase in unemployment. The government has adopted several measures in relation to collective bargaining, so as to reduce the downward rigidity on wages and facilitate recruitments. The reduction in public wages, while a substantial source of hardship for those concerned, aims at reducing the public deficit and restoring balanced wages between the private and the public sectors.

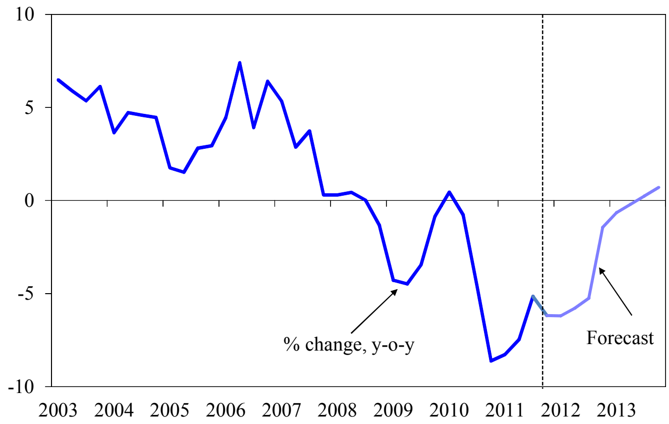
**A number of changes in the rates made the tax system more progressive.** In particular, in the summer 2011, the Parliament decided a solidarity surcharge levied on income. The increase in property taxes decided in the autumn 2011 will also contribute to a fairer taxation, though there is still scope to improve the modalities of collecting property taxes.

**The fight against tax evasion is critical for the success of the programme**, although to date, progress in improving the revenue administration and in fighting tax evasion has been found wanting. This is not only because of the contribution to fiscal consolidation of additional receipts, but also because of the social acceptability of adjustment programme as a whole. Indeed, there is a widely agreed perception that tax evasion, while pervasive, is graver among the most affluent.

# 2. MACROECONOMIC DEVELOPMENTS

2. **The contraction in economic activity in the fourth quarter of 2011 was far deeper than expected.** The quarterly accounts indicate that real GDP fell by more than 7 percent in the last three months of 2011, compared with the same quarter of 2010. For the year as a whole, real GDP is estimated to have contracted by 6.9 percent. The contraction resulted from both a significant fall in internal demand and a loss of dynamism in exports. Households' disposable income was hit by rising unemployment and the fiscal measures. In addition, heightened social and political instability in the autumn had a substantially negative impact on business and consumer sentiment. This was compounded by difficulties in access to credit and contributed to firms and households postponing spending decisions.

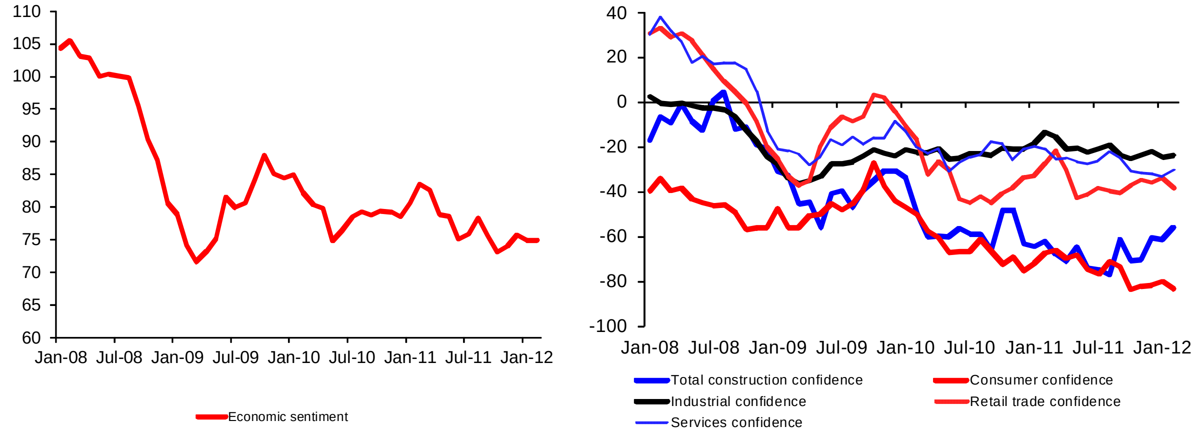
**Graph 1. Real GDP growth**
(outcome and forecast)




*Source:* EL.STAT and Commission services.

3. **All of the main components of domestic demand contracted significantly in 2011.** Final domestic demand is estimated to have shrunk, in real terms, by 9 percent. Private consumption is expected to have contracted by around 7¼ percent, in line with the contraction in real disposable income, and attempts by households to increase savings in response to the uncertainty in the labour market. Government consumption has also declined strongly, while investment, now at a very low historical level (half that in 2007 in real terms) has shrunk in double digits: by about17 percent. These trends are expected to continue, although the pace of the contraction in consumption and investment should be smaller than in 2011. Economic activity as a whole, in 2012, is projected to contract by 4¾ percent, although with significant downside risks and carryover impacts for 2013. The recovery, which was previously expected for next year, will be further delayed with, at best, a stagnation of activity in 2013. It is only in 2014 that positive annual real GDP growth rates are expected to return.

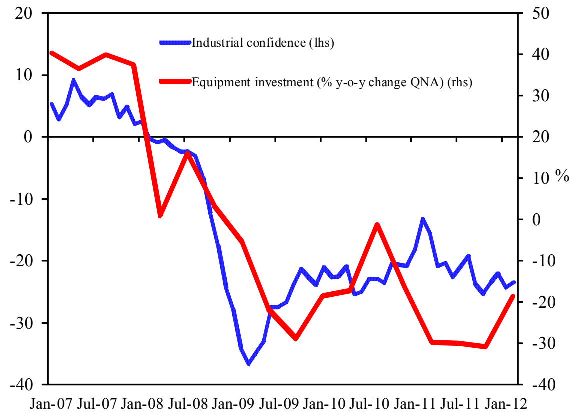
**Graph 2. Business and Consumer Surveys**




*Sources :* European Commission

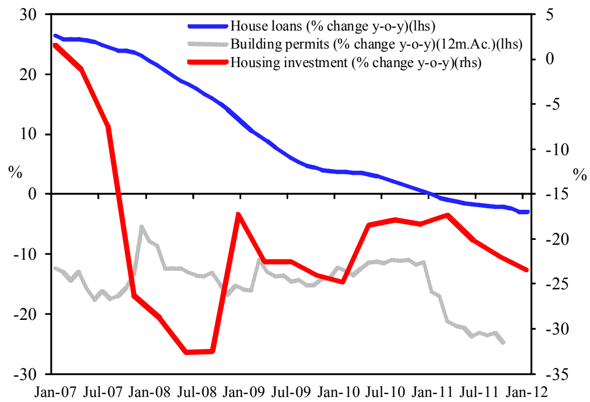
*Sources :* European Commission

**Graph 3. Equipment**




*Sources :* EL.STAT and European Commission

**Graph 4. Housing investment**

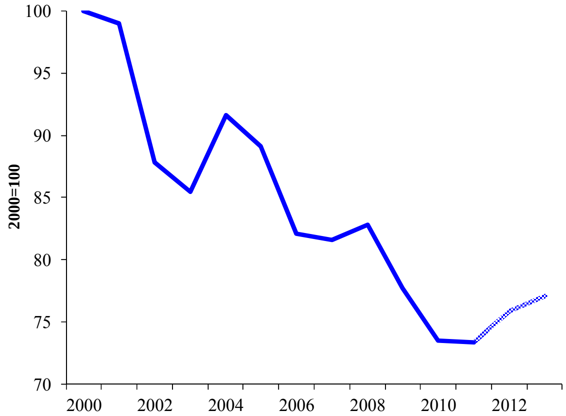



*Sources :* Bank of Greece and Eurostat.

4. **Net exports contributed an estimated 2.4 percentage points to GDP in 2011 and are likely to remain the only source of growth in 2012.** Overall, exports of goods and services rose by around 2½ percent in real terms in 2011, much less than previously expected, owing to the weakening of EU and global demand. In the last quarter of 2011, goods export growth decelerated and, as result, for the year as a whole, their growth rate was less than half than in 2010. Services exports, at 3½ percent, surprised on the upside. While social unrest in Athens discouraged tourists, the rest of the country performed well and appeared to benefit from the political uncertainty in Northern African countries. Shipping performed below expectations, being affected by the hike in oil prices and increasingly strong competition from Asia. In 2012, exports are expected to grow at moderate rates not much above 3 percent. It remains to be seen, whether Greek exporters will manage to secure benefits from the labour market reforms through increased productivity, lower production costs, and therefore gains in competitiveness. The gains in market shares that are projected for 2012 and 2013 are only a fraction of the losses during the previous decade, which suggests upside risks and a potential for strong growth in a medium-term perspective.

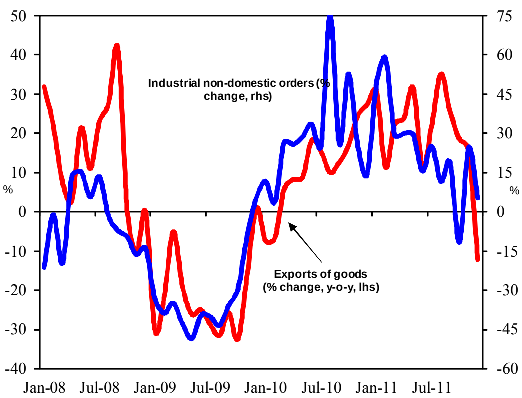
5. **The current account deficit will substantially contract in 2012, but remains at an unsustainable level.** When calculated on the basis of national accounts, which may slightly differ from the balance of payments standards, the current account deficit remained just above 10 percent of GDP in 2011, 2 points better than in 2010 and 4 points below 2009. The slow correction in the external imbalance will continue in 2012 driven by the described developments in exports and an expected contraction in imports, which mirrors developments in consumption and investment. After a contraction of 7 percent in 2011, real imports are likely to fall by at least 5 percentage points in 2012. However, the contraction in volumes is not fully reflected in the external balance because of an oil-price-induced increase in the import deflator. The balance of goods and services is expected to stand at –4¾ percent of GDP in 2012, almost 4 points below the 2010 deficit. Moreover, the balance of incomes will benefit from the restructuring of government debt, which will reduce the flow of incomes paid to the rest of the World. All in all, the 2012 current account deficit is forecast to be around 7 percent of GDP.

**Graph 5. Market shares:**
Performance of Greek exports of goods and services
relative to the imports of 35 industrial countries



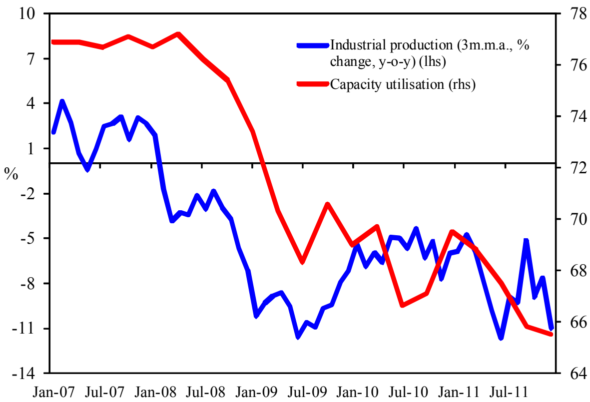

*Source:* European Commission.

**Graph 6. Exports and non-domestic industrial orders**




*Sources:* EL.STAT and Bank of Greece.

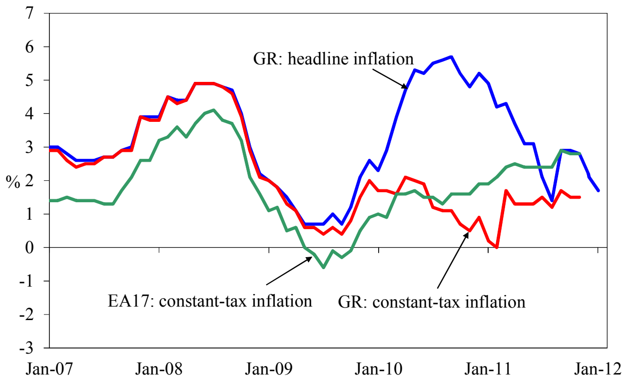
**Graph 7. Industrial production and capacity utilisation**




*Sources:* EL.STAT and European Commission

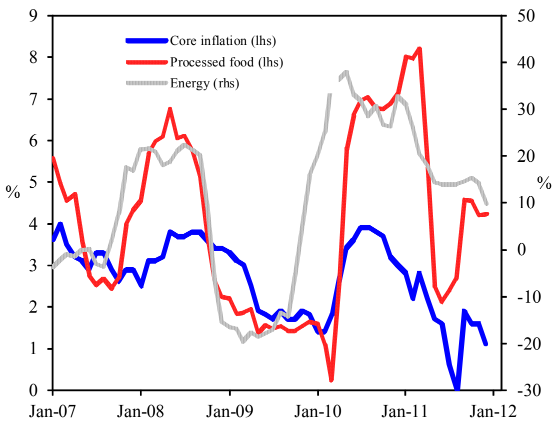
6. **Inflation remains stubbornly and worryingly high for an economy that is entering its fifth year of recession.** In 2011, headline HICP inflation averaged 3.1 percent. The fall in inflation that was in progress since mid-2010 was interrupted during the latter months of 2011 due to the hike in oil prices and indirect tax increases. Although constant-tax inflation, at 1.2 percent, has been lower than headline HICP, it has remained persistently positive, thus in contradiction to the expectation of a fast internal devaluation. Moreover, the differential in the constant tax HICP with the euro area has not been sizeable enough to quickly recover previous losses in price competitiveness. The low level of economic activity in 2012, and the reduction in private sector wages will moderate prices, with slightly negative inflation rates expected in 2012 and 2013. However, such a projected development will only materialise if the labour market reform is accompanied by action to promote competition in the goods and services market to allow the reduction in labour costs to be passed on to consumer prices.

**Graph 8. HICP inflation developments and projections**
**(% change, y-o-y)**

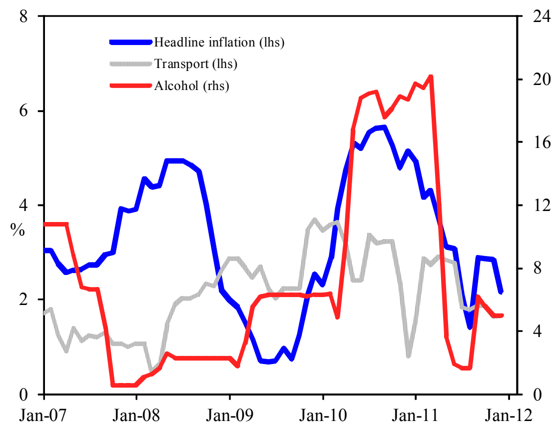



*Source:* EL.STAT.

**Graph 9. HICP inflation: main drivers**
**(% change, y-o-y)**




*Source:* EL.STAT.

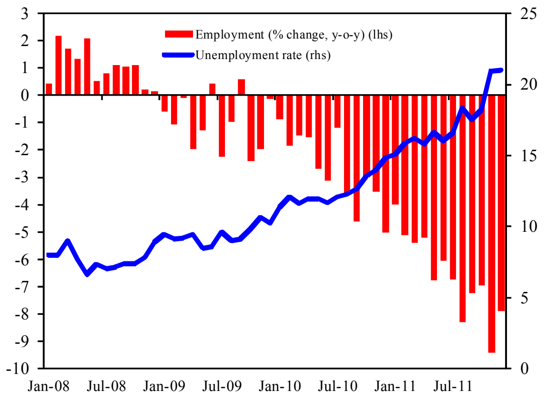



*Source:* EL.STAT.

7. **Employment has taken a heavy blow in the face of downwardly rigid wages.** Total employment declined by over 6 percent in 2011 and an additional fall of 5 percent is forecast in 2012, with the unemployment rate projected to average 18 per cent in 2012 and to reach above 20 percent in some quarters. The labour market reforms are expected to provide a significant contribution towards both saving, and creating new, jobs. Nevertheless, employment is not expected to stabilise before 2013, and the subsequent recovery in the number of jobs will be progressive.

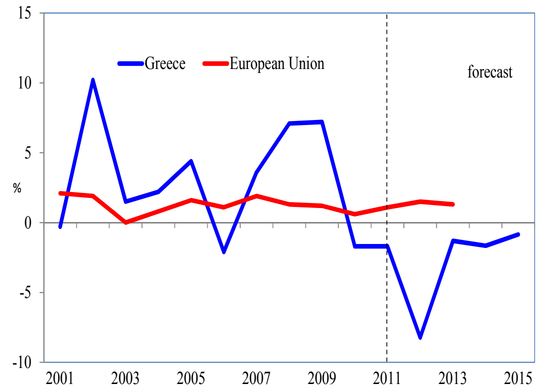
8. **The closure of the competitiveness gap is expected to accelerate.** Following years of continued growth, well in excess of its main trading partners, unit labour costs are clearly declining. After the inertia observed in 2010, wages in the business sector fell by around 5 per cent in the year leading up to the third quarter of 2011. This was insufficient to help recover competitiveness, also due to continued cost reductions by Greece's main trading partners. However, the latest labour market measures (see below), together with those legislated in 2011 are expected to contribute to reduce labour costs by at least 15 percent over the next three years. However, the product and service market reform have also a crucial role to play to increase internal competition and improve external competitiveness.

**Graph 10. Employment and unemployment rate**




*Source :* EL.STAT (Labour force survey; these data may slightly differ from national accounts data which appear in other tables of this report).

**Graph 11. Nominal unit labour cost**
(annual growth rate)




*Source :* Commission services.

**Table 4. Macroeconomic scenario
main features**

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|
| Real GDP (growth rate) | -3.2 | -3.5 | -6.9 | -4.7 | 0.0 | 2.5 |
| Final domestic demand contribution* | -3.6 | -7.0 | -10.0 | -7.2 | -1.4 | 1.5 |
| Net trade contribution | 3.1 | 3.1 | 2.8 | 2.3 | 1.4 | 1.2 |
| Employment (growth rate) | -0.7 | -1.9 | -6.3 | -4.8 | -0.2 | 1.6 |
| Unemployment rate (percent of labour force) | 8.9 | 11.7 | 15.9 | 17.9 | 17.8 | 16.7 |
| Compensation of employees, private sector per head | 0.6 | -0.3 | -3.2 | -13.0 | -3.8 | -2.2 |
| Unit labour cost (growth rate) | 4.3 | -1.6 | -1.0 | -7.8 | -1.3 | -1.9 |
| HICP inflation | 1.3 | 4.7 | 3.1 | -0.5 | -0.3 | 0.1 |
| HICP inflation at constant taxes | 1.1 | 1.4 | 1.2 | -1.2 | -0.8 | 0.1 |
| Current account balance (percent of GDP) | -14.3 | -12.3 | -10.3 | -6.9 | -5.3 | -4.6 |
| Net borrowing vis-à-vis RoW (percent of GDP) | -13.3 | -10.6 | -8.3 | -4.8 | -3.1 | -2.4 |
| Net external liabilities (percent of GDP) | -112.9 | -101.9 | -116.0 | -88.1 | -90.0 | -89.6 |
| General Government deficit (percent of GDP) | -15.8 | -10.6 | -9.3 | -7.3 | -4.6 | -2.1 |
| General Government primary surplus (percent of GDP) | -10.6 | -5.0 | -2.4 | -1.0 | 1.8 | 4.5 |
| General Government debt (percent of GDP) | 129.3 | 144.9 | 165.3 | 161.4 | 165.4 | 162.1 |

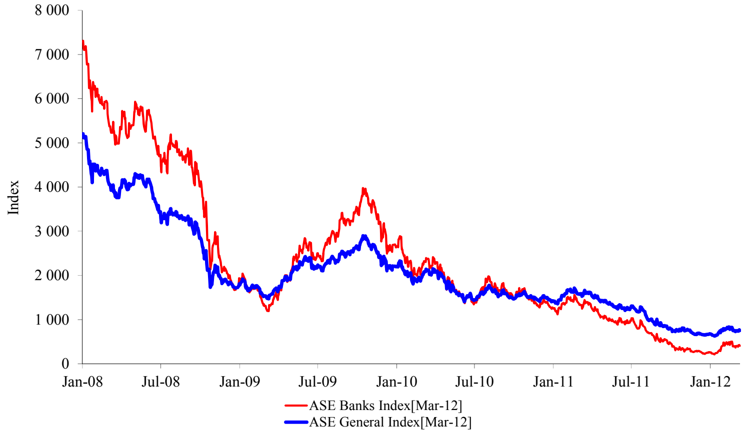
** Excluding change in inventories and net acquisition of valuables*

*Source*: European Commission

# 3. FINANCIAL MARKETS AND FINANCIAL SECTOR DEVELOPMENTS

9. **The expectation of the debt exchange has weighed on financial market developments**. Since the European Council decisions on 21 July and 26/27 October 2011, financial sector developments were influenced by the expectation of the debt exchange. Yield and CDS spreads on Greek sovereign debt have skyrocketed and the Athens stock exchange index fell. Once the debt exchange is executed, there is an expectation of a progressive improvement in these indicators. Following the announcement of the debt exchange offer, rating agencies have further downgraded Greece. However, rating agencies have pre-announced that the Greek sovereign rating would be revised upgraded (to CCC or similar) as soon as the debt exchange is executed.

**Graph 12. Athens Stock Exchange Indices**




*Source :* ECOWIN

10. **The Greek banks confront the challenge of a protracted recession and the low credit standing of the economy as a whole.** Non-performing loans (NPL) have continued to increase, reaching 15½ percent at the end of September 2011, up from 13¼ percent in June. Restructured loans account for another 4 percent. The coverage of impaired loans with provisions remains stable at 46 percent, however, when also taking into account restructured loans, the ratio is deteriorating. The banks have continued their efforts to adjust their business models to the harsh economic environment. In the third quarter, staff costs were cut by 8 percent (year-on-year) and the general administrative expenses fell 6 percent. This allowed an improvement in the pre-provisioning income despite a slight decline in net interest income (-1.5 percent). The pre-provisioning income of the commercial banking system amounted to EUR 2.7 billion and increased by 16 percent compared to the third quarter of 2010. Nevertheless, massive impairment charges related to the restructuring of the government debt, as decided in July, resulted in EUR 8.5 billion losses in the first nine months of 2011.

11. **The deleveraging continues and the liquidity position of banks tightens further.** The balance sheet of the Greek banking sector contracted by 8.7 percent in 2011. Credit to the domestic economy shrank by 3.8 percent, with a reduction in loans to both households (-4.6 percent) and corporations (-2.8 percent). Domestic deposits decreased at a much faster pace (-18 percent) also due to political uncertainty (especially in May and autumn), leading to the increases in loan-to-deposit ratios in most banks. As banks are shut off wholesale funding markets, the funding gap was closed by central bank financing, a growing portion of which is in the form of emergency liquidity assistance since August 2011.

12. **The execution of the sovereign debt exchange will bring about major losses for banks.** Although it was *not* executed, PSI-I, *i.e.* the debt restructuring decided in July 2011, impacted negatively the capital level of Greek banks in the second quarter of 2011. The average capital adequacy ratio declined from 13.9 at the end of 2010 to 12.0 percent for banks in Greece and from 12.3 at the end of

2010 to 10.5 percent for the banking groups. PSI-II, decided by the euro area summit in October 2011, and confirmed by the Eurogroup in February 2012, will result in significant additional losses and capital needs for Greek banks as the net present value losses of government bonds may reach, or even exceed, 70 percent on the sector's bond portfolio of about EUR 43 billion. Anticipating the conclusion of the debt exchange, both the government and the banking community prepared for restoring the banking sector's solvency. Meanwhile, the new minimum regulatory requirement for capital adequacy is set at 9 percent of core tier 1 capital as from September 2012, and is expected to be raised to 10 percent from July 2013.

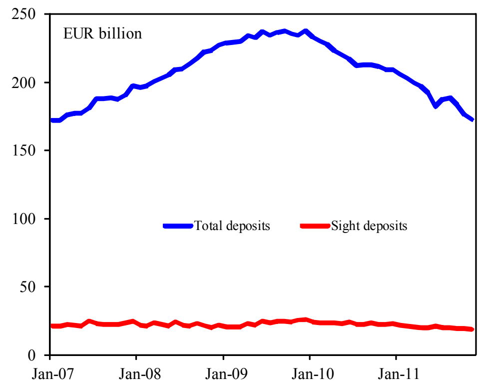
**Table 5. Ratings**

| LT Issuer Rating | Moody's | | Fitch | | Standard & Poor's | |
|---|---|---|---|---|---|---|
| | *Rating* | *Effective* | *Rating* | *Effective* | *Rating* | *Effective* |
| Sovereign | C* | 2-Mar-12 | RD** | 9-Mar-12 | SD*** | 27-Feb-12 |
| ATE | Caa2 | 23-Sep-11 | B- | 14-Jul-11 | --- | --- |
| NBG | Caa2 | 23-Sep-11 | B- | 14-Jul-11 | CCC | 15-Jun-11 |
| Eurobank | Caa2 | 23-Sep-11 | B- | 14-Jul-11 | CCC | 15-Jun-11 |
| Alpha bank | Caa2 | 23-Sep-11 | B- | 14-Jul-11 | CCC | 15-Jun-11 |
| Piraeus | Caa2 | 23-Sep-11 | B- | 14-Jul-11 | CCC | 15-Jun-11 |

* Moody's does not use a 'Default' or 'Selective Default' rating.
** Fitch announced that after the debt exchange the sovereign rating was likely to be 'low speculative grade.'
*** S&P stated that once the debt exchange is consummated, the sovereign rating would be raised to the CCC category.

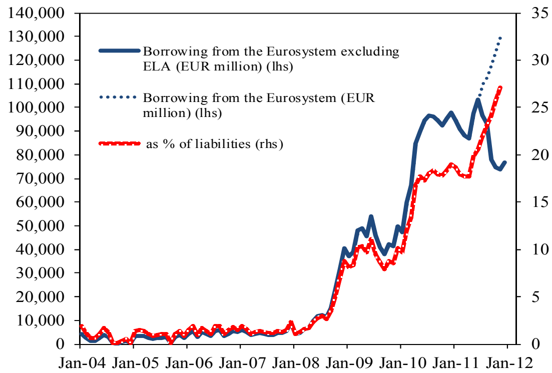
*Source:* Bloomberg

**Graph 13. Bank deposits**



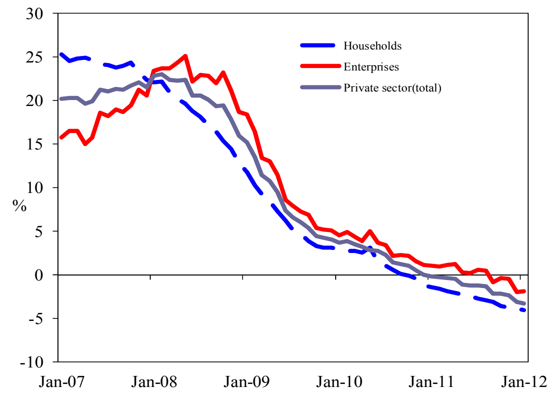

*Source:* Bank of Greece

**Graph 14. Greek banks' borrowing from the Eurosystem via monetary policy operations**



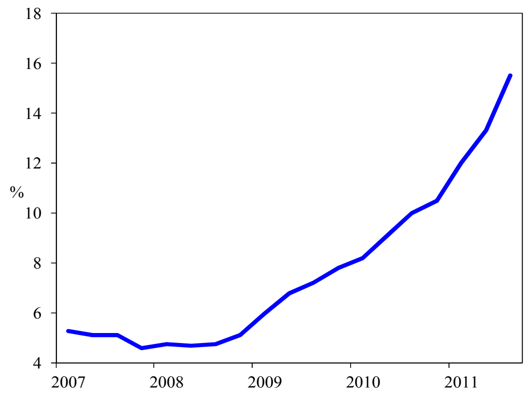

**Note:* Estimate including ELA and ANFA
*Source:* IMF-IFS

**Graph 15. Credit to private sector (per cent change, y-o-y)**



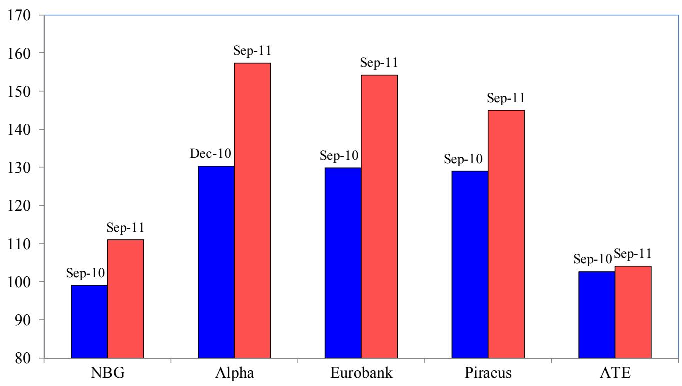

*Source:* Bank of Greece

**Graph 16. Non-performing loans ratio**




*Source:* Bank of Greece

**Graph 17. Loan to deposit ratio by bank**




*Source :* Banks' financial statements

**Table 6. Banking sector soundness indicators**

| | Aggregation basis (1) | 2007 | 2008 | 2009 | 2010 | 2011 Q3 |
|---|---|---|---|---|---|---|
| Capital adequacy ratio | consolidated | 11.3 | 9.5 | 11.9 | 12.3 | 10.5 |
| | *solo* | *12.7* | *10.7* | *13.3* | *13.9* | *12.0* |
| Tier I ratio | consolidated | 9.3 | 8.1 | 10.9 | 11.2 | 9.6 |
| | *solo* | *9.4* | *8.8* | *12.3* | *12.5* | *10.8* |
| Return on assets (after tax) | consolidated | 1.4 | 0.7 | 0.1 | -0.3 | -1.9 |
| | *solo* | *1.0* | *0.2* | *-0.1* | *-0.6* | *-2.1* |
| Return on equity (after tax) | consolidated | 17.8 | 10.0 | 2.3 | -4.2 | -28.2 |
| | *solo* | *14.6* | *3.1* | *-1.7* | *-8.6* | *-34.2* |
| Loan to deposit ratio (2) | consolidated | 106.0 | 114.0 | 113.8 | 121.9 | 132.7 |
| Non-performing loans (3) | *solo* | *4.7* | *5.1* | *8.1* | *10.8* | *15.5* |
| Coverage ratio (4) | *solo* | *53.9* | *49.5* | *42.1* | *46.3* | *45.6* |

Notes: (1) "Solo" refers to banks in Greece, "consolidated" to banking groups. (2) Loans to customers to liabilities due to customers. (3) Non-performing loans as percentage of total gross loans. (4) Provisions as percentage of non-performing loans.

*Source*: Bank of Greece

13. **The quality of domestic loan portfolios of Greek banks has been assessed in a diagnostic study by BlackRock Solutions.** After six months of field work, which consisted in the review of bank loan books and calibrating the models, the contractor submitted its report to the Bank of Greece in January 2012. The estimated credit loss projections for the next three years have been adjusted by the Bank of Greece for the foreign and state-related exposures and will, together with the results of PSI, the forecasts of profitability and risk-weighted assets, feed in the final estimation of capital needs per bank. For this exercise, banks have submitted their business plans, which are also the basis for assessment of their long-term viability. The Bank of Greece endeavoured to take a view on the optimal future structure of the Greek banking sector as a whole. The Bank of Greece has been supported in this effort by a specialised consultant and has collaborated closely with the Commission, the ECB and the IMF staff teams.

14. **The HFSF is preparing to cover the remaining part of capital needs of the viable banks, which will not be covered by the private sector.** To this end, the financial resources of the HFSF will be significantly increased under the second financing programme. Against the critical situation of the Greek economy and the huge sums needed for restoring bank's solvency, the designed recapitalisation framework aims at maximising the participation of private investors by providing targeted incentives. At the same time, it ensures that there is no full transfer of control over the Greek banking sector to the State. In this context, the overhaul of the HFSF governance structure has also been launched. It includes proposals to implement a two tier management system, with a General Council and an Executive Board, and to separate the recapitalisation and resolution functions in the HFSF's internal organisation.

15. **Two small banks were resolved under the new resolution framework.** Soon after implementation of the new bank resolution framework, at the beginning of October, Proton Bank was split into a good bank (Nea Proton) and a bad bank. The resolution arm of the Greek Deposit Insurance Fund (TEKE) covered the funding gap between the assets and liabilities of Nea Proton, while the HFSF provided the capital and assumed responsibility for management oversight of the new institution. In December, another ailing bank, T-Bank, was resolved by a transfer of assets and liabilities to Hellenic Postbank, which previously envisaged a merger with T-Bank. TEKE covered the funding gap between the assets and liabilities of T-Bank that were transferred to TT Postbank. Other non-viable banks may be put in resolution according to the financial sector strategy of the programme. In order to streamline and improve efficiency of the resolution process, the relevant laws are to be amended, taking account of the experience from the first two resolution cases.

16. **The restructuring of individual banks is on-going.** Due to the PSI I-related impairment losses, ATE Bank had to be recapitalised by the State (EUR 290 million) in December. This was the second recapitalisation within a year. Taking into account the track record of received state aid, credit loss projections from the BlackRock diagnostic and the expected impact of PSI-II, the government carried out an assessment of various options to address the bank, and committed to to take a final decision, choosing a specific course of action by end-March 2012. The transfer of the commercial activities of the Hellenic Consignment and Loan Fund (HCLF) to a separate entity was endorsed by an Inter-Ministerial Decision in January 2012 and should be completed by July 2012. The merger of Alpha Bank and Eurobank EFG was approved by the respective general assemblies in November, and cleared by the Hellenic Competition Commission in January, but its finalisation has in the meantime stalled due to the uncertainty surrounding the banks' final capital needs resulting from PSI-II.

17. **The Bank of Greece has launched a comprehensive supervisory strategy for the insurance sector.** This is aimed at enhancing the soundness of Greek insurance undertakings, ensuring their compliance with 'Solvency I' and preparing the sector to comply with the 'Solvency II' requirements in the future. The Bank of Greece requested technical assistance to support the reorganisation of the two Insurance Guarantee Funds (for life and for motor insurance) from the Commission. This technical assistance will also explore solutions in terms of insurance resolution.

# 4. PROGRAMME IMPLEMENTATION AND POLICY DISCUSSIONS

18. **In spite of particularly difficult economic circumstances, Greece made progress in the implementation of the programme.** This applies to fiscal consolidation even if, as anticipated earlier, the annual ESA-based target for 2011 was missed. However, to mitigate this slippage and minimise its carry-over effect on future years, the Greek authorities in 2011 adopted additional consolidation measures that went well beyond those initially planned. It should be noted that, reflecting the higher-than-originally-estimated starting point of the fiscal deficit in 2009, the pace of the reduction in the overall government deficit since 2009 is in line with the original plans. The main objectives of the successor programme remain unchanged compared to the first programme, but the growth-enhancing structural reforms are expected gain stronger momentum and the fiscal targets for 2012-13 have been loosened.

**Table 7. Summary of compliance with policy conditionality**

| | Overall assessment | Comments |
|---|---|---|
| **Fiscal policy** | Partially observed | The agreed fiscal consolidation measures were partially implemented.<br>The end-December quarterly performance criteria on the cash general government primary deficit and the state primary expenditure were respected.<br>There was some reduction in the stock of arrears owed to suppliers.<br>The ESA-based 2011 deficit exceeded the ceiling established at programme inception, although only slightly above the projection of the previous review. |
| **Privatisation and structural fiscal reforms** | Partially observed | The quantitative cumulative criterion on privatisation receipts for end-December was missed by a small margin; several transactions for 2012-13 are under preparation.<br>Further measures have been adopted in relation to the fight against tax evasion and public finance management, and restructuring of public enterprises. However, the fight against tax evasion cannot yet be considered as successful, and there were delays in several specific revenue administration measures. Likewise, several measures to strengthen public financial management were missed.<br>There were also issues in healthcare reform, and the framework law on supplementary pensions. |
| **Financial sector policy** | Largely observed | Payments into the intermediate account of the Hellenic Stability Fund continued according to plans until end-2011.<br>A detailed diagnostic of loan portfolios of banks was prepared.<br>The State increased the ATE share capital.<br>Governance rules were reviewed in preparation of the post-PSI bank recapitalisation. |
| **Growth-enhancing structural reforms** | Partially observed | After attempting a dialogue with social partners, the Government adopted several labour market measures, including a reduction in minimum wages and changes in wage bargaining.<br>Progress in several other areas has been slower, in particular on business environment related measures and the opening of the energy market. |

*Source*: European Commission.

19. **In February and March 2012, Greece implemented several prior actions to bring the fiscal adjustment back of track and enhance the credibility of the second programme.** These prior actions concerned each of the main chapters of the programme: fiscal consolidation, revenue administration, pension reform, statistics, financial sector regulation and supervision, growth-enhancing structural reform (both labour and liberalisation of regulated professions. The completion of these prior actions required acts adopted by the Parliament and Council of Minister, Ministerial Decisions or Joint Ministerial Decisions and Circulars, and administrative actions.

## 4.1. FISCAL POLICY

20. **The end-December 2011 performance criteria for primary expenditures and the primary balance have been met.** Despite the sharp deterioration in economic conditions in the last quarter of 2011, the authorities managed to keep fiscal developments close to previous projections. Tax and social contributions were hit by the deepening recession, increasing unemployment and aggravating liquidity constraints. Moreover, tax

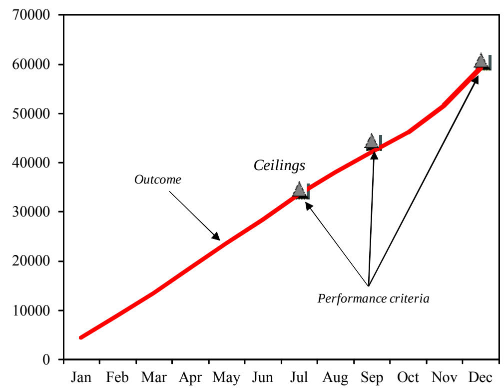
collection was disrupted by frequent industrial action in October and November. However, these effects were mitigated by higher receipts of EU structural funds and cutbacks in capital spending and in other discretionary expenditure.

**Table 8. Fiscal quantitative performance criteria**
**(EUR billion)**

| | end Sep. 2011 | | end Dec. 2011 | |
|---|---|---|---|---|
| | Data | Criterion | Data | Criterion |
| General government primary cash balance | -5.3 | -5.0 | -4.8 | -5.1 |
| State primary spending | 42.0 | 44.5 | 59.1 | 60.8 |
| Central government debt | 371.0 | 394.0 | 371.0 | 394.0 |
| New guarantees granted by the central government | 0.6 | 1.0 | 0.6 | 1.0 |

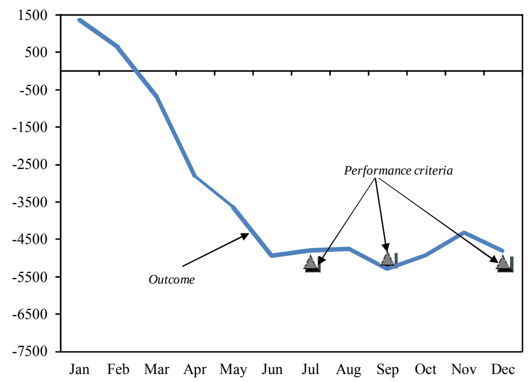
*Source*: Commission services.

**Graph 18. State primary payments - 2011**
**(cumulative, EUR million)**
**Outcomes and quarterly criteria**




*Source*: GAO and Commission services.

**Graph 19. Government primary balance – 2011**
**(cash basis, cumulative balance, EUR million)**
**Outcomes and quarterly criteria**




*Source :* GAO and Commission services..

21. **The indicative criterion of non-accumulation of arrears was missed.** On the basis of the currently available data, the stock of arrears to suppliers at end-2011 was above EUR 5.7 billion, around EUR 0.4 billion higher than a year before. However, the government still made progress in the last months of the year in reducing arrears (in particular those related to investment projects) with the help of retroactive payments by EU structural funds in the context of the decision to increase the average EU cofinancing rate from 75 to 85 percent and the additional facility of 10 percent. Most arrears are owed by hospitals and social security funds to suppliers of medicines and other medical products. Since the ESA-based deficit is calculated in an accruals basis, the delays in payments do not result in an underestimation of the government deficit. However, such an underestimation may occur in relation to delays in tax refunds because taxes and the respective refunds are predominantly recorded according to the effective cash inflows and outflows. The new programme includes financing to settle arrears in a progressive manner. The mission stressed that the clearance of arrears of the several government departments by the State should include a careful verification of arrears claims, and after ensuring that the government entities requesting such a settlement are not accumulating any further arrears and have made progress in their financial management.

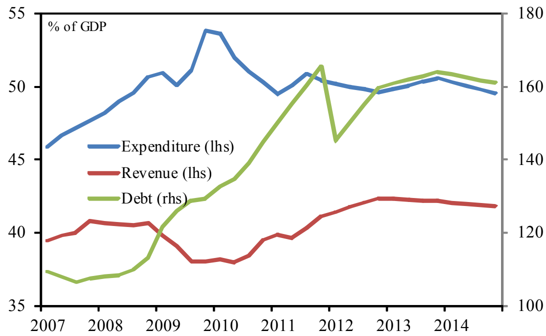
**Table 9. Implementation monitoring.**
Estimated yield of fiscal measures agreed in June and October 2011

| | Oct. 2011 | | Feb. 2012 | | Difference(*) | |
|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 |
| **Total measures** | **7 570** | **18 186** | **6 729** | **18 740** | **-840** | **554** |
| *% of GDP* | *3.5* | *8.5* | *3.1* | *8.9* | *-0.4* | *0.3* |
| **Wage bill** | **743** | **1 712** | **735** | **1 663** | **-8** | **-49** |
| *% of GDP* | *0.3* | *0.8* | *0.3* | *0.8* | *0.0* | *0.0* |
| **Operational expenses** | **180** | **262** | **180** | **262** | **0** | **0** |
| *% of GDP* | *0.1* | *0.1* | *0.1* | *0.1* | *0.0* | *0.0* |
| **Extra-budgetary funds** | **304** | **396** | **297** | **404** | **-7** | **8** |
| *% of GDP* | *0.1* | *0.2* | *0.1* | *0.2* | *0.0* | *0.0* |
| **State-owned enterprises** | **0** | **414** | **0** | **414** | **0** | **0** |
| *% of GDP* | *0.0* | *0.2* | *0.0* | *0.2* | *0.0* | *0.0* |
| **Defence expenditure** | **0** | **0** | **0** | **0** | **0** | **0** |
| *% of GDP* | *0.0* | *0.0* | *0.0* | *0.0* | *0.0* | *0.0* |
| **Health care** | **53** | **267** | **11** | **225** | **-42** | **-42** |
| *% of GDP* | *0.0* | *0.1* | *0.0* | *0.1* | *0.0* | *0.0* |
| **Pharmaceutical spending** | **372** | **601** | **372** | **356** | **0** | **-245** |
| *% of GDP* | *0.2* | *0.3* | *0.2* | *0.2* | *0.0* | *-0.1* |
| **Social benefits** | **967** | **2 329** | **828** | **2 406** | **-139** | **77** |
| *% of GDP* | *0.4* | *1.1* | *0.4* | *1.1* | *-0.1* | *0.0* |
| **Investment spending** | **800** | **804** | **950** | **504** | **150** | **-300** |
| *% of GDP* | *0.4* | *0.4* | *0.4* | *0.2* | *0.1* | *-0.1* |
| **Other expenditure** | **150** | **360** | **150** | **611** | **0** | **251** |
| *% of GDP* | *0.1* | *0.1* | *0.1* | *0.3* | *0.0* | *0.1* |
| **Tax policy** | **4 001** | **11 042** | **3 207** | **11 895** | **-794** | **853** |
| *% of GDP* | *1.8* | *5.2* | *1.5* | *5.6* | *-0.4* | *0.4* |

(*) Ratios to GDP are calculated on the basis of the latest GDP figures.
Note: This table does not include measures for 2012 adopted in February 2012.
*Source*: Commission services.

22. **The ESA-based 2011 government deficit is estimated at 9¼ percent of GDP, 1 1/4 points lower than in 2010.** The decline in the deficit ratio resulted from an increase in the revenue-to-GDP ratio by 1½ points, while the primary expenditure ratio as a share of GDP fell 1 point. The increase in interest expenditure by more than one point means that the improvement in the primary deficit was almost 2½ points. To achieve this result, Greece is estimated to have adopted measures – including the carryover impacts from the measures taken in 2010, and excluding the impact that carry into 2012 – of 7¾ percent of GDP with an increased concentration of measures towards the end of the year. The amount of measures is significantly higher than the reduction in the deficit, suggesting that, most of the measures effectively served to counteract the upward drift in expenditure and downward pressure on revenue. The former mainly results from an automatic trend increase in several large spending components such as pensions and healthcare; the latter mainly stems from the recession but possibly also a deterioration in tax compliance.

**Graph 20. Government revenue, expenditure and gross debt (% of GDP)**




*Data in this chart refer to four consecutive quarters for revenue, expenditure and GDP.*
*Source :* Eurostat for statistics, Commission services for forecasts

**Table 10. Developments in public employment**

| (stock, persons) | end-2009 | end-2010 | Nov. 2011 |
|---|---|---|---|
| **General government** | **715,882** | **683,627** | **664,223** |
| Central government | 465,609 | 446,789 | 428,041 |
| Legal entities | 6,971 | 6,034 | 5,490 |
| Local government | 95,585 | 93,194 | 98,790 |
| Hospitals | 88,230 | 88,564 | 89,838 |
| Social security funds | 31,519 | 29,471 | 26,855 |
| SOEs chapter A | 22,975 | 19,565 | 15,209 |
| Other | 4,993 | 10 | 0 |

*Source*: Ministry of Administrative Reform.

## 4.2. FISCAL STRATEGY IN 2012 AND SUBSEQUENT YEARS

23. **The fiscal outlook for 2012 looks significantly worse than expected just a quarter ago.** This mainly results from the combination of a worse fiscal outturn for 2011, the deterioration in the macroeconomic outlook (including the impact that the lowering in private sector wages resulting from the labour market reforms included in the new programme has on social contribution and personal income tax) and lower-than-envisaged yields of previously adopted measures. These deficit-increasing factors are partly compensated by savings in interest expenditure arising from PSI. If no additional measures were adopted, the 2012 primary deficit could be in the order of 2½ percent of GDP. This compares with a small surplus targeted for 2012 in the previous review of the programme.

24. **In order to accommodate the deterioration in the macroeconomic outlook, the target for the primary balance for 2012 was set at -1.0 percent of GDP**. The target was defined in a manner that requires a similar fiscal effort as before, while letting automatic stabilisers operate. Given the substantial savings in interest expenditure that result from PSI and the shift to a new financing programme, the overall deficit projections for 2012 is only slightly different from the overall deficit target of the first programme.

**Table 11. Main fiscal indicators 2010-14**
(EUR billions, unless otherwise noted)

| | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|
| ESA 95 general government primary balance (projections at unchanged policies) | -5.2 | -2.0 | -4.0 | -2.3 |
| % of GDP | -2.4 | -1.0 | -2.0 | -1.1 |
| General government primary balance target | | -2.0 | 3.7 | 9.4 |
| % of GDP | | -1.0 | 1.8 | 4.5 |
| ESA 95 general government balance (projections at unchanged policies) | -20.0 | -14.8 | -17.0 | -16.1 |
| % of GDP | -9.3 | -7.3 | -8.4 | -7.7 |
| ESA 95 general government balance (consistent with primary targets) | | -14.8 | -9.4 | -4.4 |
| % of GDP | | -7.3 | -4.6 | -2.1 |

*Source*: Commission services.

25. **To achieve the revised fiscal target for 2012, the Government committed to reduce expenditures by 1.5 percent of GDP.** Around three quarters of the cuts is of a permanent nature and have already been introduced in the context of a supplementary budget and other legal acts:

- Reduction in pharmaceutical expenditure by at least EUR 1 080 million, in 2012 by reducing medicine prices (generics and branded medicines), increasing co-payments, reducing pharmacists' and wholesalers' trade margins, applying compulsory e-prescription by active substance and protocols, updating the positive list of medicines and implementing a mechanism of quarterly rebates (automatic claw-back) to be paid by the pharmaceutical industry.
- Reduction in overtime pay for doctors in hospitals by at least EUR 50 million.
- Reduction in the procurement of military equipment by EUR 300 million (cash and deliveries).
- Reduction in the number of deputy mayors and associated staff with the aim of saving at least EUR 30 million.
- Reduction in the central government's operational expenditure, and election-related spending, by at least EUR 270 million, compared to the budget.
- Frontloading cuts in subsidies to residents in remote areas, and cuts in grants to several entities supervised by the several ministries, with the aim of reducing expenditure in 2012 by at least EUR 190 million.
- Reduction in the public investment budget (PIB) by EUR 400 million: this cut will be implemented through cuts in subsidies to private investments and domestically-financed investment projects. The reduction in the PIB budget will not have any impact on projects that are co-financed by structural funds (uncompleted project financed by the 2000-06 operational programmes, cohesion fund (2000-06) projects, 2007-13 operational programmes, and non-eligible expenditure related to the above projects).
- Changes in supplementary pension funds and pension funds with high average pensions or which receive high subsidies from the budget, with the aim of saving at least EUR 300 (net after taking into account the impact of these cuts on taxes and social contributions).
- An average reduction by 12 percent in the so-called 'special wages' of the public sector, to which the new wage grid does not apply. This will apply after 1 June 2012 and it should deliver savings of at least EUR 205 million (net after considering the impact on taxes and social contributions).

**Table 12. Deficit and measures accounting:**

from the deficit in one year to the next

| | EUR million | % of GDP |
|---|---|---|
| **2009 deficit (outcome)** | **36 624** | **15.8** |
| primary deficit drift in 2010 | 5 681 | 2.5 |
| change in interest expenditure | 894 | 0.4 |
| measures in 2010 1/ | 19 074 | 8.4 |
| impact on ratio of nominal GDP growth | -- | 0.3 |
| **2010 deficit (outcome)** | **24 125** | **10.6** |
| primary deficit drift in 2011 | 10 592 | 4.9 |
| change in interest expenditure | 1 964 | 0.9 |
| measures in 2011 1/ | 16 680 | 7.7 |
| impact on ratio of nominal GDP growth | -- | 0.6 |
| **2011 deficit (estimate)** | **20 002** | **9.3** |
| primary deficit drift in 2012 | 10 020 | 4.9 |
| change in interest expenditure | -2 032 | -1.0 |
| measures identified for 2012 1/ | 13 191 | 6.5 |
| impact on ratio of nominal GDP growth | -- | 0.5 |
| **2012 deficit (projection)** | **14 799** | **7.3** |
| primary deficit drift in 2013 | 3 572 | 1.8 |
| change in interest expenditure | 211 | 0.1 |
| measures identified for 2013 1/ | 1 584 | 0.8 |
| measures to be identified in 2013 | 7 639 | 3.8 |
| impact on ratio of nominal GDP growth | -- | 0.0 |
| **2013 deficit (target) 2/** | **9 359** | **4.6** |
| primary deficit drift in 2014 | 1 376 | 0.7 |
| change in interest expenditure | 749 | 0.4 |
| measures identified for 2014 1/ | 3 065 | 1.5 |
| measures to be identified for 2014 | 4 016 | 1.9 |
| impact on ratio of nominal GDP growth | -- | -0.1 |
| **2014 deficit (target) 2/** | **4 404** | **2.1** |

Note: Deficit in year t = Deficit in year t-1 plus primary deficit drift plus change in interest expenditure minus measures (and for the GDP ratios: plus impact on debt ratio of nominal GDP growth).
1/ Including carry-over impacts.
2/ Overall balance consistent with the primary fiscal balance targets.
*Source*: Commission services.

26. **The Government aims at achieving primary surpluses of 1.8 percent and 4.5 percent of GDP in 2013 and 2014, respectively.** These targets are in line with the debt projections on which the euro area summit decided in October 2011 as a precondition for shifting to a second financing programme. However, the current policies are not sufficient to bring the public accounts to these targets. Based on the current projections at unchanged policies, there is a cumulated fiscal gap through 2014 of 5½ percent of GDP. The Government will have to identify this amount of measures by June 2012 and adopt them in the 2013 and 2014 budgets to reach the targets. Given that the scope for horizontal spending cuts or higher taxes has been exhausted and the baseline scenario already includes yields from improved tax compliance, these savings will have to come from structural spending reforms. To identify well-targeted expenditure reductions, the government has initiated a spending review. It will focus on pensions and social transfers (while preserving basic social protection), defence spending (while leaving unaffected the national defence capacity) and restructuring of central and local administrations. A further rationalization of pharmaceutical spending and

operational spending of hospitals, and welfare cash benefits will also be specified in the coming months. The mission encouraged the government to draw on external technical assistance to prepare the spending review.

*Box 3:* **Debt sustainability assessment**

**This box looks at the sustainability of the Greek sovereign debt in view of the latest macroeconomic developments, PSI, OSI decision and the shift to a new official financing programme.** The Greek government debt-to-GDP ratio is projected until 2030, on the basis of a number of assumptions on real and nominal growth, primary surplus and other financial transactions not captured in the ESA deficit, such as privatisation receipts and the recapitalisation of banks, as well as on interest rates on official and market financing.

**The projections show that Greece's public debt may return to a sustainable trajectory if the macroeconomic projections materialise and the programme is fully implemented**. Under a baseline scenario, the debt ratio-to-GDP would decline to below 117 percent in 2020 and would keep declining to below 90 percent in 2030.

**The main assumptions for the baseline debt projections are as follows**:

- **Economic activity**. As discussed in this report, economic activity contracted by 6.9 percent in 2011. A further contraction by 4¾ percent is projected for 2012. Positive growth rates are expected for 2014 as the economic activity would stagnate (zero growth) in 2013. These are weaker growth rates than assumed in the autumn, given unfavourable developments in the last quarter of 2011, and the deterioration in the macroeconomic outlook for Greece's trading partners. The adoption in February 2012 of an ambitious package of labour market reforms (discussed in this report) will reduce internal demand and output in 2012; however, by accelerating the internal devaluation it will help the recovery from the second half of 2013 on. Provided that the agenda of structural reforms in product and service markets is properly implemented, the previous projections for 2015-20 remain viable: Greece would register growth rates of between 3 percent (at the beginning of this period and benefitting from the slack accumulated during the recession) to 2¼ percent, at the end of the decade. The economic activity would then decelerate to growth rates of 1½ percent per annum when approaching 2030, on account of demographic developments.

- **Deflator**. The recession and the need of restoring competitiveness through an internal devaluation mean that the GDP deflator will remain very low for several years. Negative inflation rates are expected for 2012 and 2013. The GDP deflator would progressively converge to the euro area average (just below 2 percent) when approaching 2020.

- **Fiscal stance**. The baseline projections assume that the revised primary surplus targets for 2012-14 are met. Thus, the primary balance would improve from a deficit of 1 percent of GDP in 2012 to a surplus of 4.5 percent of GDP in 2014. While the primary accounts for 2011 and 2012 were/are weaker than assumed in the autumn report, the end-point for the fiscal adjustment (2014: primary surplus of 4.5 percent of GDP) remains unchanged compared to the previous projections. It should be noted that, while the measures that were announced by Greece for 2012 appear to suffice to reach the 2012 target, there is still a sizeable fiscal gap for 2013-14 which will have to be bridged by deficit-reducing measures. The debt projections have been prepared assuming that these measures will be promptly identified and implemented so that the targets are met. After 2014, when Greece will eventually register an overall deficit below the Treaty threshold of 3 percent of GDP, the primary surplus is assumed to remain high, although progressively declining to 4 percent in 2021 and 3½ percent in 2030. Although these primary surpluses are ambitious, they are not without precedent in international comparisons. Moreover, given the expected improvement in economic activity with a progressive absorption in the output gap, they would be consistent with an effective relaxation of the cyclically-adjusted fiscal stance from 2014 on.

- **PSI**. The debt projections take into account the debt exchange transaction which took place in March 2012 (see box). The final impact on the Greek public debt of the debt exchange concerning foreign-law bonds will only be known by end-March. It is assumed that no bondholders included in the debt exchange will be compensated ex post.

- **OSI**. The assumptions about OSI reflect the agreement reached at the Eurogroup meeting of 21 February 2012. Namely, a reduction in the margin of the Greek Loan Facility (GLF) to a uniform 150 basis points; and the commitment by the euro area Member States to transfer to Greece an amount which has been calculated based on the expected income accruing on Greek bonds held by national central banks in their investment portfolio. The former reduces the debt ratio by 2020 by 2.8 percent of GDP in 2020, and the latter by 1.8 percent of GDP. To ensure that these transfers will effectively contribute to reduce the debt, the primary deficit/surplus targets are considered before these receipts.

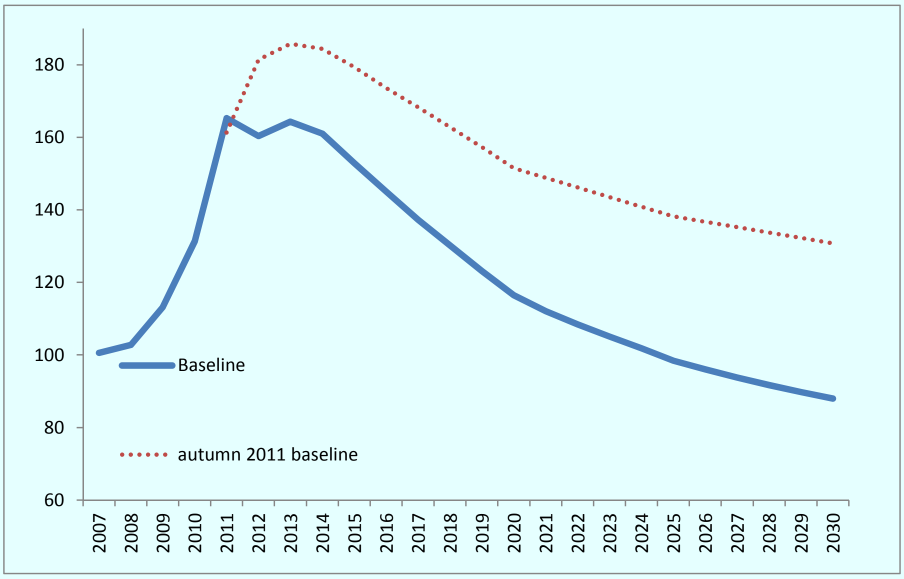
- **Bank recapitalisation**. The cost of the support to the Greek banking system is estimated at EUR 50 billion, EUR 10 million more assumed than in the previous compliance report. This reflects not only the impact of PSI, but also the results of the diagnostic exercise by BlackRock.

- **Privatisation.** The privatisation receipts in the central scenario are in line with the revised programme targets. Although the ultimate objective of Greece privatising EUR 50 billion of assets remains viable, such an objective will take much longer to reach. The projections assume that EUR 12 billion receipts would be collected in 2012-14, and EUR 45 billion until 2020. The assumed privatisation proceeds include EUR 16 billion of sales of shares bought by the State in the context of the banks' recapitalisation.

- **Other.** The projections also take into account small technical differences between accrual and cash accounting, with the latter driving the debt dynamics, the settlement of arrears to suppliers (discussed elsewhere in the report), and the Greek contribution to ESM share capital. An increase in the cash buffer (currently EUR 3 billion) by EUR 5 billion is assumed to be accumulated in 2013-14 to deal with unexpected developments in receipts and payments.

- **Market access.** The baseline projections assume Greece would be able to return to the medium- and long-term financing market in 2015, although market access would be initially be at relatively short maturities. Projections show that, provided market access is restored, small differences in spreads have only a small material impact on the projections.

**Graph 1. Debt sustainability assessment**
**Current baseline and autumn 2011 baseline**
**(% of GDP)**




**As in previous projections, sensitivity scenarios illustrate the wide spectrum of outcomes**, given policy choices and macroeconomic developments. These scenarios show, in particular, that relatively small setbacks in terms of growth, because of an unfavourable external context, or a slow implementation of structural reforms, may have a substantial unfavourable impact on the debt dynamics. If the annual nominal growth rate is permanently lower than in the baseline scenario by 1 percentage point, the debt ratio in 2020 would be 129 percent of GDP. In contrast stronger growth rates (1 percent per year above the baseline) would contribute to a debt ratio of 105 percent already in 2020.

To illustrate the impact of an incomplete fiscal adjustment, the debt was projected assuming that the primary surplus does not exceed 1.5 or 2.5 percent of GDP, respectively and then remains stable at that level over the whole period. In these cases, the reduction in the debt ratio will be much slower. Under the scenario according to which Greece does not manage to achieve a primary surplus above 1.5 percent of GDP, the debt reduction would not become permanent, and the debt ratio could increase again, as soon as the effect of privatisation disappears. Moreover, under the scenario with a primary surplus of 2.5 percent of GDP, the debt ratio would be 131 percent of GDP in 2020 and stabilise at around 120 percent of GDP: a level that would not be reached, in this case, before 2030.

In the case efforts to privatise State assets are blocked by market developments, or administrative and political obstacles, with privatisation proceeds not exceeding EUR 10 billion by 2020, the debt ratio still declines if other parameters are achieved. However, 2020, the debt ratio would still be above 130 percent of GDP.

**A number of features may constitute a barrier to market access in 2015**: after a reduction in the debt-to-GDP ratio in 2012, owing to the debt exchange, the debt ratio will increase again in 2013, given the contraction in nominal GDP and the still low primary surplus. Under the current baseline projections, it is only in 2014 that the debt will start to progressively decline from 164 percent of GDP in 2013 on the back of the fiscal adjustment effort, the return to growth and the privatisation proceeds. Moreover, owing to the agreed co-financing structure, the restructured Greek bonds (estimated at EUR 62 billion) will be senior to new debt issuances, which may complicate market access. Furthermore, the very large share of Greek debt held by the official sector (two thirds of total debt at end-2014) may also discourage private investors owing to a perceived subordination of debt to be issued after market access is regained.

**Graph 2. Debt sustainability assessment**
**Baseline and alternative scenarios**

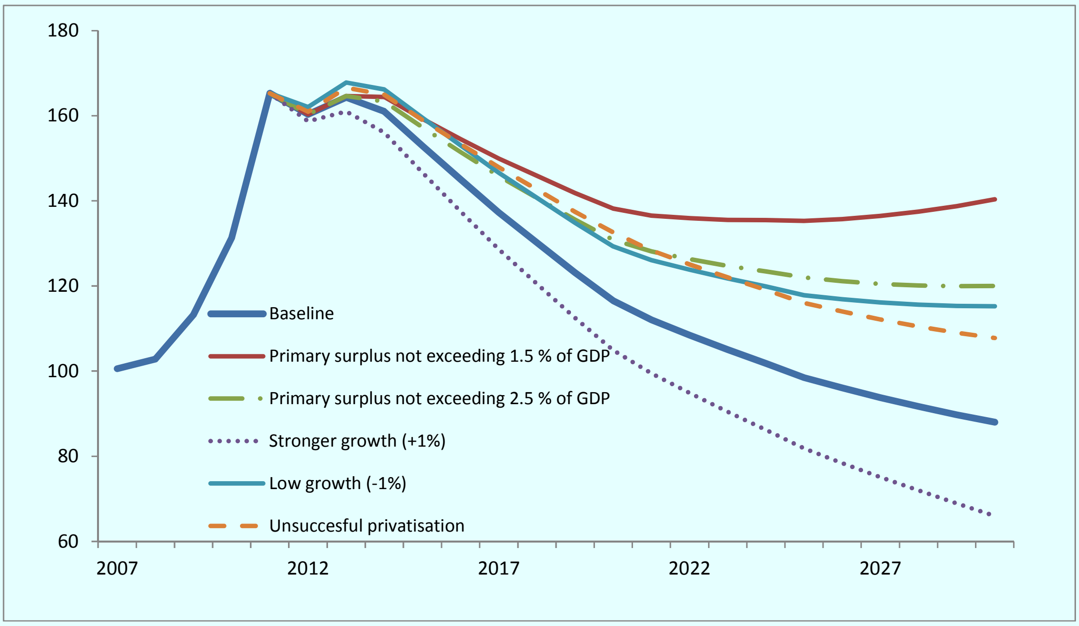


**Table. Debt sustainability assessment**
Baseline scenario

| in bn EUR, unless otherwise noted | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2030 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Financing needs** | | | | | | | | | | | |
| **A. General government cash deficit** | | **12.2** | **7.2** | **1.9** | **1.7** | **2.4** | **2.1** | **2.1** | **1.6** | **1.3** | **4.5** |
| Primary deficit ("-" is surplus) | | 2.0 | -3.7 | -9.4 | -9.7 | -10.1 | -10.6 | -10.5 | -11.0 | -11.3 | -13.4 |
| Interest payments | | 10.2 | 10.8 | 11.2 | 11.5 | 12.5 | 12.6 | 12.6 | 12.6 | 12.6 | 17.9 |
| **B. Other government cash needs** | | **6.9** | **6.3** | **5.9** | **1.8** | **0.9** | **0.9** | **0.9** | **0.9** | **0.9** | **0.0** |
| Estimated cash adjustments | | 2.0 | 1.8 | 1.5 | 1.3 | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 | 0.0 |
| Cash buffer | | 0.0 | 1.0 | 4.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| ESM capital | | 0.9 | 0.5 | 0.5 | 0.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **C. Maturing debt** | | **18.9** | **15.6** | **25.3** | **17.0** | **7.8** | **8.6** | **5.8** | **10.6** | **9.9** | **9.7** |
| Bonds & loans after exchange | | 12.8 | 10.8 | 18.0 | 8.4 | 4.4 | 6.9 | 3.3 | 6.9 | 2.4 | 3.4 |
| EU repayment | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 2.8 | 6.2 |
| IMF repayment | | 0.0 | 1.7 | 7.4 | 8.6 | 3.2 | 1.4 | 2.5 | 3.6 | 4.5 | 0.0 |
| Short-term debt (reduction with official funds) | | 6.0 | 3.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **D. Cost of PSI** | | **78.3** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** |
| Cash upfront | | 29.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Bank recapitalisation | | 48.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **E. Gross financing needs (A.+B.+C.+D.)** | | **116.3** | **29.1** | **33.1** | **20.5** | **11.1** | **11.5** | **8.7** | **13.0** | **12.0** | **14.2** |
| **Financing sources** | | | | | | | | | | | |
| **F. Private financing sources** | | **3.2** | **4.3** | **4.4** | **13.3** | **8.8** | **11.1** | **8.4** | **12.7** | **11.9** | **14.2** |
| Market financing | | 0.0 | 0.0 | 0.0 | 7.6 | 3.0 | 5.0 | 3.3 | 7.4 | 6.4 | 14.2 |
| Privatisation 1/ | | 3.2 | 4.3 | 4.4 | 5.7 | 5.9 | 6.1 | 5.1 | 5.3 | 5.5 | 0.0 |
| **G. Additional OSI** | | **1.2** | **0.6** | **0.5** | **0.6** | **0.6** | **0.4** | **0.3** | **0.3** | **0.2** | **0.0** |
| GLF margin reduction (retroactive application) | | 0.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Grants from ANFA profits | | 0.7 | 0.6 | 0.5 | 0.6 | 0.6 | 0.4 | 0.3 | 0.3 | 0.2 | 0.0 |
| **H. EU-IMF assistance covering needs** | | **112.0** | **24.2** | **28.3** | **6.6** | **1.6** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** |
| Overall fiscal balance (% of GDP) | -9.3 | -7.3 | -4.7 | -2.2 | -0.8 | -1.0 | -0.9 | -0.9 | -0.6 | -0.5 | -1.2 |
| Primary deficit (% of GDP) | -2.9 | -1.0 | 1.8 | 4.5 | 4.5 | 4.5 | 4.5 | 4.3 | 4.3 | 4.3 | 3.5 |
| GDP growth real (%) | -6.8 | -4.7 | 0.0 | 2.5 | 3.1 | 3.0 | 2.8 | 2.6 | 2.5 | 2.3 | 1.5 |
| GDP deflator | 1.6 | -0.7 | -0.4 | 0.0 | 0.9 | 1.1 | 1.4 | 1.7 | 1.8 | 1.9 | 1.9 |
| GDP growth nominal (%) | -5.3 | -5.4 | -0.4 | 2.5 | 4.0 | 4.1 | 4.2 | 4.3 | 4.4 | 4.2 | 3.3 |
| GDP Nominal (bn EUR) | 215 | 204 | 203 | 208 | 216 | 225 | 235 | 245 | 256 | 266 | 383 |
| General government debt (bn EUR) | 356 | 327 | 333 | 335 | 331 | 327 | 322 | 319 | 315 | 310 | 337 |
| **Gross debt (% of GDP)** | **165.3** | **160.3** | **164.3** | **161.0** | **152.9** | **145.0** | **137.3** | **130.2** | **123.2** | **116.5** | **88.0** |

## 4.3. STRUCTURAL FISCAL REFORMS

### 4.3.1. Privatisation

27. **Although only a few transactions have occurred so far, mechanisms are progressively in place to ensure a continuous supply of assets to the market.** Due to negative market conditions, legal complications and delays in implementing some intermediate steps, privatisation proceeds collected in 2011 were slightly below EUR 1.6 billion. In the months preceding the debt exchange operation (PSI), the market was particularly hostile to Greek assets. Although the Privatisation Fund has appointed the necessary technical, legal and financial advisers for the transactions that are expected for 2012 and 2013, several assets are not yet mature enough for privatisation. The intermediate steps include the restructuring of loss-making firms, state-aid clearance, rights clearance, and regulatory changes, including the unbundling of utilities. All these intermediate steps are necessary to ensure privatisation is successful in terms of receipts, but also that it contributes to the opening to competition of some sectors. Concerning real estate, after long delays, a new General Secretariat for Public Property has now become operational. It should accelerate the identification of assets to be sold, and help in clear administrative steps like the reallocation of land uses.

28. **The target of collecting EUR 50 billion in privatisation receipts remains viable, although over a much longer horizon than envisaged initially.** Annual revenue targets have been revised, whereby at least EUR 5.2 billion should be collected by end-2012, EUR 9.2 billion by end-2013, EUR 14 billion by end-2014 and EUR 19 billion by end-2015. These figures are consistent with the debt sustainability analyses prepared since autumn 2011, on the basis of which the euro-area summit agreed in principle on designing a second programme.

**Table 13: Privatisation plan: transactions so far**

| Assets | Date of deal | Stake sold | Remaining stakes owned by the Greek Government | Proceeds (cash, EUR million) | Cumulative since 2011 (EUR million) | Delayed payment |
|---|---|---|---|---|---|---|
| **OTE** | July 2011 | 10% | 4% | 392 | 392 | - |
| **OPAP 1** (license extension 2020-30) | October 2011 | - | - | 375 | 767 | 85 (by Q4 2013) |
| **OPAP 2** (sale of new license for VLTs) | October 2011 | - | - | 474 | 1 241 | 85 (by Q4 2013) |
| **Mobile Telephony Spectrum** (license extension) | December 2011 | - | - | 317 | 1 558 | - |
| **Four aircraft** (sale) | February and March 2012 | - | - | - | 1 558 | 31 (end-March 2012) |

**Table 14: Planned privatisation receipts**

| By the end of: | Cumulative receipts, cumulative since 2011 (EUR million) |
|---|---|
| 2012 Q1 | 1 558 |
| Q2 | 1 558 |
| Q3 | 2 700 |
| Q4 | 5 200 |
| 2013 | 9 200 |
| 2014 | 14 000 |
| 2015 | 19 000 |

## Table 15: Privatisation - transactions in the pipeline

| Timing of Privatization (Launch of Tender) | Project | Transferred to Fund by | Advisors contracted by | Intermediate steps |
|---|---|---|---|---|
| **I. State-owned enterprise/share sale** | | | | |
| 2012 Q1 | Public Gas (DEPA) | 1/ | √ | Call for tender launched in February 2012. |
| Q1 | Public Gas (DESFA) | 1/ | √ | Call for tender launched in February 2012. |
| Q1 | Football Betting (OPAP) | √ | √ | State aid clearance. |
| Q2 | Hellenic Defense Systems (EAS) | 1/ | √ | Clearance by Ministry of Defense. Adopt restructuring law by April 2012. State aid clearance. |
| Q2 | Hellenic Petroleum (HELPE) | March 2012 2/ | March 2012 | Sign MoU with Paneuropean April 2012. |
| Q2 | Horse Racing (ODIE) | March 2012 2/ | √ | Adopt restructuring law and establish time-bound concession rights by March 2012. State aid clearance. |
| Q2 | Athens Water (EYDAP) | March 2012 | March 2012 | Establish regulator and pricing policy by June 2012. Extend |
| Q2 | Thessaloniki Water (EYATH) | March 2012 | March 2012 | Establish regulator and pricing policy by June 2012. Extend |
| Q2 | Mining and Metallurgical Company | March 2012 2/ | √ | Adopt restructuring law by March 2012. |
| Q2 | Hellenic Post (ELTA) | 1/ | March 2012 | Adopt law determining the public service by February 2012. |
| Q2 | Casino Mont Parnes | 1/ | March 2012 | State aid clearance. |
| Q2 | Electricity Company (PPC) | 1/ | March 2012 | Restructuring to be decided by June 2012. |
| Q3 | Hellenic Vehicle Industry (ELVO) | 1/ | March 2012 | Adopt restructuring law by June 2012. |
| Q4 | Railways (Trainose) | 1/ | August 2012 | Ongoing restructuring and last phase of state aid clearance by June 2012. |
| 2013 Q1 | Athens Airport (AIA) | March 2012 2/ | √ | |
| **II. Concessions** | | | | |
| 2011 Q4 | Hellenic Motorways | √ | March 2012 | Complete negotiations. Parliamentary ratification of changes in the concession. Establish regulatory framework by end of 2012. |
| Q4 | State Lottery | √ | √ | Expected financial offer from the three bidders by April 2012. |
| 2012 Q2 | Egnatia Odos | √ | March 2012 | Unbundling into services/motorway rights. Establish regulatory framework by end of 2012. |
| Q2 | Small ports and marinas | 1/ | √ | Identify proper policy. First lot of rights to be transferred by March 2012. Establish regulatory framework by September 2012. |
| Q3 | Regional airports | √ | March 2012 | Identify proper policy. Establish regulatory framework by September 2012. |
| Q4 | Thessaloniki Port (OLTH) | March 2012 2/ | March 2012 | Identify proper policy. All port shares voting rights to be transferred by March 2012. Establish regulatory framework by September 2012. |
| Q4 | Piraeus Port (OLP) | March 2012 2/ | March 2012 | Identify proper policy. All port shares voting rights to be transferred by March 2012. Establish regulatory framework by September 2012. |
| Q4 | Large regional ports | 1/ | March 2012 | Identify proper policy. All port shares voting rights to be transferred by March 2012. Establish regulatory framework by September 2012. |
| Q4 | South Kavala Gas Storage | √ | March 2012 | Clear legal obstacles by September 2012. |
| To be determined | Mining rights | | | |
| To be determined | Digital Dividend | | | |
| **III. Real Estate** | | | | |
| 2011 Q4 | Hellenikon 1 | March 2012 2/ | √ | Adopt law on land use by March 2012. |
| 2012 Q1 | Sale/repo N buildings | √ | √ | Government to sign rental contracts by May 2012. Transfer clean title to the HRADF by May 2012. |
| Q1 | Real Estate IBC | March 2012 | √ | Strategic environmental study. ESCHADA to be issued by June 2012. 3/ |
| Q1 | Real Estate/Astir Vouliagmenis | 1/ | √ | Negotiations with NBG. ESCHADA to be issued. Process led by NBG by June 2012. |
| Q1 | Real Estate/Cassiopi | March 2012 | √ | Move NATO radar. ESCHADA to be issued by June 2012. |
| Q1 | Real Estate lot 1 (Afantou) | 1/ | √ | ESCHADA to be issued by June 2012. |
| Q2 | Real Estate lot 2 | 1/ | √ | Identify assets by June 2012. |
| Q3 | Real Estate lot 3 | 1/ | √ | Identify assets by September 2012. |

Source: HRADF update on projects under development.

1/ Transfer of assets/rights at the point of privatization.

2/ Shares have already been transferred, but not yet voting rights.

3/ ESCHADA = Zoning and land planning permit.

### 4.3.2. Revenue administration, fight against tax evasion and tax reform

29. **The tax reform has been delayed.** The tax reform, whose adoption by Parliament was initially planned for September 2011 and then postponed to March 2012, is now expected to be enacted by end-June 2012. This revision in the time-schedule was in agreement with the staff teams, given that the need to prepare the reform properly and in consultation with a wide range of stakeholders could not be accommodated in view of other urgent tasks that are putting a strain on the authorities' resources (such as the adoption of a wide range of prior actions for the new programme and PSI implementation). However, to ensure that the process gains momentum now, the Government is expected to announce a full schedule of intermediate steps already in March, to ensure consultation and adequate review by the Commission, ECB and IMF staff. The reform should aim at making the tax system simpler, lowering compliance costs, and improving its growth-friendliness. The reform should concern personal income, corporate, VAT and property taxes, as well as the employers' social contributions. In particular, the reform should decrease the high marginal rates on labour and broaden tax bases. The mission was of the view that the tax burden from indirect taxes relative to direct taxes and social contributions should not be reduced. Simplification of the tax system implies the need to eliminate tax exemptions and preferential regimes, including those of a geographic nature. The reform needs to be ambitious in scope but it has to be carefully designed to ensure it reaches its objectives and is fiscally neutral.

30. **The authorities committed to refrain from extending tax amnesties in the future.** Greece has a tradition of very frequent tax amnesties, partially in the form of very generous instalment plans for tax debts. While some of them might have had a positive, albeit rather limited short-term impact on tax collection, their frequent repetition has undermined incentives for tax compliance and the credibility of the government in respect to its willingness and capacity to enforcing tax law, eroding tax morale and thereby promoting evasion. The Government has committed to forego any new tax and social contribution amnesties and to limit instalment plans to small debtors that can be clearly identified as enduring acute financial hardship. In this respect, the Greek government repealed a recent law which would have extended the payment terms for tax debt and overdue social security contributions.

31. **Strengthening revenue administration and fighting tax evasion are amongst the top priorities of the new programme.** This is not only because of the need to increase revenue and reduce the government deficit without further increases in tax rates. It is also important for the social acceptability of the adjustment programme, as the reduction in tax evasion will lead to a fairer sharing of the adjustment burden. Despite some progress, the implementation of those reforms has been slow and results are not yet satisfactory. Tax and social security evasion may have actually increased in 2011, against the backdrop of negative economic growth and increased liquidity constraints of taxpayers. To date, the government has adopted legislation and administrative reforms that aim at enhancing the efficiency of tax administration and controls, putting in place effective project management, and devising an anti-evasion strategy to restore tax discipline and improve compliance. The focus has now shifted towards implementation and the increase in the number of tax audits indicates that the government aims at stepping up its efforts in this regard. Furthermore, the government is about to launch a new performance evaluation system of tax offices, which will help strengthen incentive structures. The government has also initiated the process of merging local tax offices and to equip them with a unified IT system, with a view to having it completed by end-2012. Moreover, the Government is expected to adopt mechanisms to better protect whistle-blowers reporting corruption in the tax administration, introduce procedures for the rotation of managers, and set targets for audits of asset declarations of tax officials, leading to a fully-fledged anti-corruption plan in the autumn 2012.

32. **There are several parallel initiatives to improve tax collection.** The most important are: a new tax dispute resolution system which will make it compulsory to exhaust the administrative dispute phase before moving on to the judicial stage; an increase in the number of tax auditors from 1 000 to 2 000;

and the replacement of managers in tax offices that underperform relative to their performance targets defined under the programme. The mission stressed the importance of making the tax administration progressively more independent and accountable, with headquarters controlling local tax offices. It is also critical to integrate the collection of taxes and social contributions and organise common audits in the near future.

### 4.3.3. Expenditure control

33. **Reforms to strengthen public expenditure management are progressing**. Timely provision of fiscal data has been improved due to the online submission of such data by line ministries, local governments and legal entities. However, the system has to be further improved so as to also include timely, comprehensive and accurate information on social security funds and on the public investment budget. Expenditure control has also improved with the adoption of commitment registries in ministries and other entities, which should effectively detect over-commitments and arrears for the ordinary budget and the investment budget. The General Accounting Office has established a coordination committee to monitor and strengthen the implementation of commitment controls to prevent further accumulation of arrears.

34. **The level of arrears remains high despite the current process of setting up commitment registries**. Although commitment registries are now operational in line ministries, the reform of public finance management is delayed and the level of arrears is still high especially for the social security funds and hospitals. The mission stresses that the high level of arrears, including in tax refunds, has a very negative impact on the economy as a whole. It contributes to the lack of liquidity in the economic system affecting mainly the private firms. In this regard, a settlement of arrears could give a positive impulse to the economy indeed.

**Table 16. Arrears to suppliers**
(EUR million)

| | 31-Dec-10 | 31-Mar-11 | 30-Jun-11 | 31-Jul-11 | 30-Sep-11 | 31-Dec-11 |
|---|---|---|---|---|---|---|
| Total State | 866.2 | 1 071.5 | 980.0 | 949.9 | 924.7 | 588.9 |
| Local Government | 577.0 | 852.8 | 917.4 | 955.8 | 928.5 | 817.8 |
| Hospitals | 1 522.9 | 1 687.1 | 1 848.6 | 1 747.4 | 1 700.8 | 1 281.2 |
| Social Security Funds | 2 086.4 | 2 388.0 | 2 594.8 | 2 684.1 | 2 716.1 | 2 825.6 |
| Other government entities | 284.4 | 245.0 | 230.3 | 221.9 | 233.7 | 219.1 |
| **Total General Government** | **5 336.8** | **6 244.4** | **6 571.1** | **6 559.1** | **6 503.8** | **5 732.5** |

*Source*: General Accounting Office.

### 4.3.4. Public administration, public procurement and social programmes

35. **Public administration reforms are ongoing, although in certain cases it might take some time before tangible results materialise.** After the publication of the OECD report on the "Functional Review of Public Administration in Greece" in December 2011, a new phase of reforms has started with the authorities' efforts reflecting the OECD recommendations in a law (which is currently still under preparation) and the establishment of a concrete road map with the help of external technical assistance. The aim is to tackle the basic deficiencies of the public administration in a comprehensive manner. Progress has been made in the creation of a high-level transformation steering group under the direct supervision of the Prime Minister, while an inter-ministerial coordination working group is under way. Fifteen ministries are planned to be thoroughly restructured by this summer, starting with the Ministry of Administrative Reform. Similar work is also being prepared at the regional and local

levels. The reform of public administration should help the government become more effective, at a time when public employment is falling.

36. **The reduction in public employment has been slower than programmed, as the higher-than-expected number of exits in 2011 was overcompensated by a higher-than-expected inflow.** This trend appears to be related to the lack of effective centralised coordination of public sector employment decisions and the weak implementation of agreed measures aiming to reduce employment. In particular, in 2011 new hiring exceeded the maximum level imposed by the 1:10 attrition rule (by which only one in ten employees exiting from the public sector in 2011 should be replaced by a newly hired employee). Moreover, only a small number of redundant staff were transferred to the labour reserve scheme. This slippage may have been counteracted by a tendency of increased voluntary retirements which may have been induced by the establishment of the labour reserve for redundant staff. The government has stated its commitment to reduce public employment by at least 150 000 in the period 2011–15. To achieve this target, it is expected to strictly apply the existing numerical rule between staff inflow and outflows, reduce contractual employment, and transfer to the labour reserve for redundant staff 15 000 staff prior to their dismissal. The mission stressed that the reduction in staff should not take place in an across-the-board manner, but by on a targeted approach to identify redundancies in the different units or departments with administrative overlap to other parts of the public sector and/or overstaffing. This targeted approach should be supported by the ongoing public administration reform.

37. **The Single Public Procurement Authority (SPPA),** the new central body for the coordination of public procurement policy and for the monitoring, planning and the implementation of procurement procedures in Greece, needs to start operation. The government has delayed the issuing three key ministerial decisions that are necessary for the authority to enter into force; these ministerial decisions provide for the appointment of the members of the board of the SPPA, for the implementing regulation of the authority, as well as for the establishment of positions and organization of human resources in the SPPA. In parallel, following the signature of the contract for an e-procurement platform, the first module on e-auctioning should be operational in March 2012.

38. **Given the poor targeting of social programmes, there is quite some scope to generate additional savings in this area, while, at the same time, more effectively protecting the most vulnerable.** So far, social policies in Greece seem to lack a stringent strategy on how to target those parts of society that are truly in need of government assistance. In particular, while a wide-range of social benefits are allocated without means-testing to particular groups of society which are not subject to acute social hardship, certain groups of households at the lower end of the income distribution remain unprotected and are subject to pronounced poverty risks. The OECD review under preparation is expected to highlight areas where there is room for significant efficiency gains and savings can be generated, while improving social fairness of the respective policies.

### 4.3.5. Healthcare and pension reform

39. **Healthcare reform is a crucial component of Greece's fiscal consolidation efforts,** given the high share of public expenditure that is spent on healthcare. Despite efforts and some progress in reforming the system, major weaknesses still need to be addressed to increase the efficiency, cost-effectiveness and equity of the system. The institutional setup remains fragmented, leading to reduced policy coherence. Corruption is reported, data availability is still inadequate; and the lack of effective monitoring and control mechanisms for prescription of medicines is hampering the achievement of the targets. In 2011, there were delays in the implementation of policy measures on pharmaceuticals. Strong resistance by vested interests, combined with the lack of timely data and effective monitoring mechanisms, has made healthcare reform difficult. However, progress has been observed in areas

such as hospital accounting and centralised procurement, leading to some savings in the hospital sector.

40. **Major policy efforts are necessary in several areas.** In particular, EOPYY, the new national health organisation responsible for purchasing health services, needs to become fully operational in order to induce savings through a more rational use of available resources. In order to reduce the fragmentation and contribute to policy coherence, the Government has expressed the intention of moving all health-related institutions and policies to the responsibility of the Minister of Health, instead of the current distribution of tasks among the ministries of Health, of Labour and of Regional Development. The rationalisation of the hospital network needs to be speeded up and operational costs reduced further. A set of measures should be simultaneously implemented of such as compulsory prescription by active substance (INN), compulsory e-prescription by doctors and pharmacists, regular monitoring of doctors' prescription behaviour and their compliance with binding prescription guidelines, mandatory generic substitution by pharmacies, further reduction of prices of generics and off-patent medicines to move them closer to the prices paid in most other EU countries. Moreover, the Government is putting in place an automatic claw-back mechanism (*i.e.* a rebate which will be charged on pharmaceutical companies on a quarterly basis) will guarantee that outpatient pharmaceutical spending for 2012-15 does not exceed the available annual financial envelope in the budget.

41. **A number of adjustments are still necessary to complete the pension reform.** The reform of the main pension schemes at the beginning of the adjustment programme has substantially improved the dynamics of public pension expenditure. However, the supplementary pension schemes (including welfare lump-sum schemes) remained unreformed, though both auxiliary pension and lump-sum pensions of civil servants have been reduced in 2012. In the most recent projections by the National Actuarial Authority, the budget of the supplementary pension schemes (and other, unreformed, schemes) is projected to be consistently and increasingly in deficit over the coming decades: in 2011, their deficit, about 0.4 percent of GDP, had to be financed through public resources. The current and future deficit in several supplementary funds threatens the viability of these funds already in the short- to medium-term and calls for both an immediate reduction in pension benefits and an in-depth revision of their functioning. Moreover, the existing setup appeared to give rise to persistent inter- and intra-generational differences, and as such is not socially equitable. The Government and mission staff agreed that the forthcoming reform of the supplementary pension funds – initially via a framework law, and later on, through other implementing acts – is of paramount importance to complete the reform of the pension system and to ensure the long-term sustainability of public finances.

## 4.4. GROWTH-ENHANCING STRUCTURAL REFORMS

### 4.4.1. Labour market

42. **In 2011, a number of measures were adopted to allow for a greater role of firm level negotiations in the wage bargaining process** There was action on three main inter-related fronts: first, not extending occupational and sector collective agreements to non-signatory firms; second, ensuring that firm-level agreements prevail over occupational and sector agreements by suspending the so-called favourability clause; and, third, allowing firm-level agreements to be negotiated by workers' associations (in addition to trade unions), with a view to increasing the number of firms that can conclude those type of contracts. Although firm-level collective contracts have increased in importance and helped some firms to adjust their labour costs, the continuing deterioration in economic activity, the increase in unemployment, as well as the persistence of large external imbalances is a clear indication that further labour market reforms are necessary—to allow wages and

hours to adjust faster and in line with the needs of firms and economic activity more broadly, helping to save jobs and create new employment opportunities.

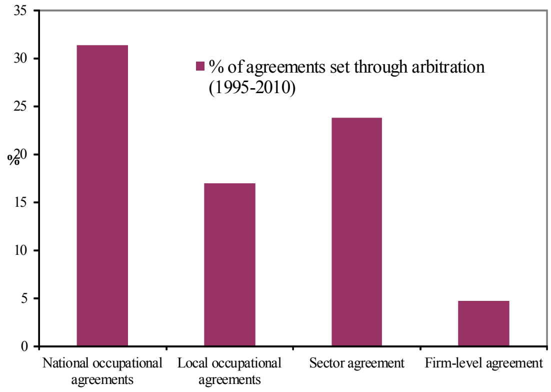
43. **A tripartite dialogue did not deliver a strategy to boost competitiveness and employment.** In late 2011 and early 2012, the Government promoted discussions with, and between, the social partners. However, the agreement reached between the social partners' representatives was not commensurate with the needs of the Greek economy, and did not deliver a strategy to quickly address the large challenges Greece is faced with. In a context of a sharp decline in employment, emergency action was needed to ensure the quick responsiveness of wages to the fall in economic activity. The authorities and the mission staff discussed and agreed on a package of actions to be taken by the Government in the short term, which should contribute to reduce labour costs in the business sector by 15 percent over the programme horizon.

44. **The measures decided by the government build on two pillars: an adjustment of wage floors and a revision of the collective bargaining system, with a view to spurring and easing contract renegotiation and promoting wage flexibility.** Frontloaded action is justified given the downward rigidities in wage-setting systems, which have prevented the adjustment of private sector wages and contributed to the sharp increase in unemployment, in particular among the low-skilled and youth. The prompt adjustment in wages is particularly important in the context of the monetary union, as the effective exchange rate needs to adjust through nominal prices and wages, rather than movements in the nominal exchange. The downward wage flexibility helps viable companies to reduce their production costs, thus creating a potential gains in external market shares, promote investment and thus, to accelerate the much needed change in the structure of the economy. The mission noted, however, that labour and product market reforms need to go in parallel to avoid that wage cuts simply result in an increase in profit margins and rents, which could be socially damaging.

45. **The Government has legislated a reduction in minimum wages.** The wage floors in the National General Collective Agreement (NGCA) have been reduced by 22 percent, or even by 32 percent for those younger than 25. This is important as the level of minimum wages and of other wages regulated by NGCA became more binding as the average wage declines. Thus, the reduction in the minimum wage creates additional room for downward wage adjustment to be decided by employers and employees in each firm or sector. In recent years, minimum wages in Greece ranked among the highest in the EU, when compared, with prosperity indicators like the average wage or GDP per capita. The Greek minimum wage is also nominally higher than in the main competitors, notably neighbouring countries and other Southern European economies. By reducing minimum wage levels, the government also aims to fight informality and undeclared work, pulling employment into the legal sector, as well as helping to support the employment of low-skilled workers. The reduction in the NGCA wages are expected to have a strong signalling role to other sectoral and firm-level wages. To help this process, automatic wage increases (i.e. seniority bonuses) have also been suspended.

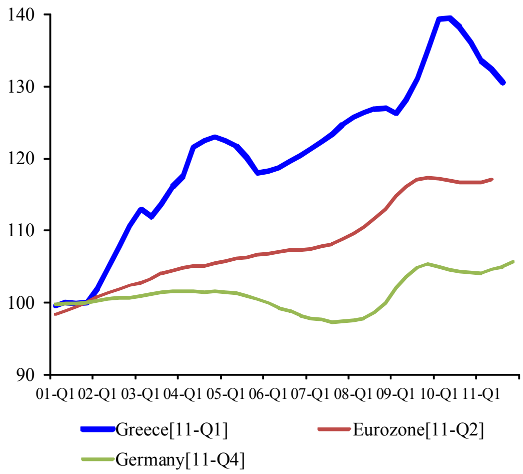
46. **A broader reform of the wage setting system at national level will be prepared in the coming months.** The Government is expected to invite social partners to simplify the NGCA and to establish a single-rate statutory minimum wage on a more permanent basis, similar to most other EU countries. This is relevant as the current system sets different minimum wages according to, for instance, type of work, education, marital status, and seniority, without these differences in wage levels necessarily reflecting productivity. The overall objective of the reform will be to emphasise the nature of the statutory minimum wage, notably to safeguard those workers that have less bargaining leverage, and to avoid abuse.

**Graph 21. Recourse to arbitration to settle negotiations disputes**




*Source:* Greek Government and Commission services calculations

**Graph 22. Nominal Unit Labour Cost**
(2001=100)




*Source:* Eurostat

**Table 17: Minimum Monthly Wages**
(EUR, annual wage divided by 12)

| | 2001 | 2005 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|
| Belgium | 1 129 | 1 210 | 1 323 | 1 388 | 1 388 | 1 429 |
| Bulgaria | 42 | 77 | 112 | 123 | 123 | 123 |
| Czech Republic | 145 | 238 | 318 | 303 | 307 | 324 |
| Estonia | 102 | 172 | 278 | 278 | 278 | 278 |
| Ireland | 977 | 1 238 | 1 462 | 1 462 | 1 462 | 1 462 |
| Spain | 506 | 599 | 700 | 728 | 739 | 748 |
| France | 1 105 | 1 252 | 1 301 | 1 329 | 1 344 | 1 365 |
| Latvia | 99 | 115 | 228 | 255 | 254 | 282 |
| Lithuania | 121 | 152 | 232 | 232 | 232 | 232 |
| Luxembourg | 1 274 | 1 467 | 1 590 | 1 662 | 1 704 | 1 758 |
| Hungary | 158 | 231 | 283 | 266 | 264 | 287 |
| Malta | 539 | 558 | 617 | 635 | 660 | 665 |
| Netherlands | 1 167 | 1 265 | 1 346 | 1 390 | 1 412 | 1 430 |
| Poland | 211 | 209 | 325 | 297 | 319 | 348 |
| Portugal | 390 | 437 | 497 | 525 | 554 | 566 |
| Romania | 49 | 82 | 138 | 146 | 139 | 158 |
| Slovenia | 391 | 490 | 553 | 589 | 666 | 748 |
| Slovakia | 102 | 168 | 255 | 296 | 308 | 317 |
| United Kingdom | 994 | 1 161 | 1 196 | 1 054 | 1 123 | 1 112 |
| **Greece** | **548** | **668** | **794** | **840** | **863** | **870** |

*Source:* Eurostat

47. **The recently legislated reforms will give a big push to the re-negotiation of collective agreements.** In particular:

- **Collective agreements can only be concluded for a maximum duration of 3 years.** The reason is that agreements that have a longer term, or without a fixed term may become inflexible when an economy is going through a period of deflation to restore competitiveness.
- **The regime of 'after effects' is revised**. When a collective agreement expired it remained in force for six months, after which its clauses became the basis of individual contracts. To promote the renegotiation of collective agreements and restore the level-playing field between employers and employees, the intermediate period following expiry is reduced to three months and – until a new collective agreement or new individual contracts are agreed – total remuneration is curtailed, as a number of allowances paid by firms are no longer applicable.
- **Recourse to arbitration to settle negotiation disputes will be allowed only if both parties (employee and employer representatives) agree to it.** This is needed in order to ensure that negotiation effectively takes place. This is expected to put an end to the very high recourse to arbitration in Greece and the high share of agreements that used to be settled through arbitration.
- **Privileged labour conditions in former state-owned firms will be better aligned with those in the rest of the private sector.** Privatised former SOEs are not competitive if they are forced to inherit labour conditions from the public sector, which notably have included public-sector-like tenure and very generous automatic wage increases. Such conditions will be aligned with those in the wider private sector.

48. **Cuts in non-wage labour costs will also help the economy to become more competitive.** Over the coming quarters, social contribution rates are expected to be reduced by 5 percentage points. Given the fiscal consolidation needs this must happen in a budget-neutral way, via a parallel reduction of non-core social benefits. The reduction in non-wage labour costs should give an additional incentive to employment creation. Additionally, formerly state-owned enterprises, have pension schemes that entail higher contributions rates than for the general private sector scheme. This may lead to higher production costs and hence prices. In so far as this concerns utilities, these costs are then effectively spread over the whole economy. Such cases will be assessed through actuarial studies and where necessary contributions and benefits will be adjusted.

49. **The fight against undeclared work and social contribution evasion is very important.** There is evidence suggesting that the evasion of social contribution payments has increased in recent quarters. Moreover, there has been less action in fighting social contribution evasion than in tax evasion. In this context, increasing the effectiveness of the Labour Inspectorate is critical. Efforts to streamline social contribution collection will have to be stepped up in the course of 2012.

### 4.4.2. Regulated professions

50. **Work for the effective implementation of the 2011 law on professional freedom has finally started in earnest.** The government has updated the list of professions and economic activities falling under the scope of this law and the line ministries have identified restrictions within the legislative framework of each profession that conflict with it. The Hellenic Competition Commission (HCC) has issued some opinions on the requests for derogations to the liberalizing provisions of that law submitted by specific professions. Most of these opinions have been against reinstating previously existing restrictions: a development that the mission has welcomed. These work streams should be followed and enhanced by appropriate legislative amendments to the regulations of each profession to ensure that restrictions are effectively identified and removed. With the support of external technical assistance, the Government has started issuing circulars for a group of 20 professions and to finalize all other amendments by end-year.

51. **There have also been positive developments as regards the main regulated professions.** Notaries' fees have been cut by almost 30 percent as these are generally higher than in other euro area countries. The mission has, however, expressed concerns that the planned increase in real estate legal values could jeopardize such a reform and an additional cut in notarial fees would be warranted. The new legislation providing for the freedom of incorporation of law firms in Greece and of law firms to open branches is expected to increase competition, providing efficiency gains to Greek law firms and benefits to clients. Moreover, the powers granted to the Technical Chamber of Greece to control 'unusually low fees' have been repealed. Looking forward, the mission argued that there remains a need to change the rules governing minimum fees of lawyers, engineers and architects. At the same time, additional measures are needed to increase the transparency of all professional bodies in financial and disciplinary matters (an area where there has been limited progress, except for the legal profession), as well as the urgent need to assess and revise the existing reserves of professional services to holders of specific qualifications.

### 4.4.3. Energy and transport

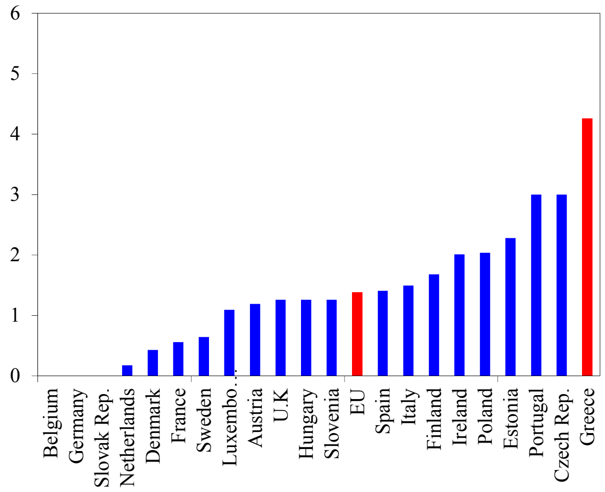
52. **Compliance with energy policy conditionality remains mixed.** The priorities for the sector are increasing competition in the generation side of the market, while at the same time catering for an effective unbundling of transmission and distribution systems in gas and electricity. These requirements should be considered against the backdrop of the privatisation process of gas and electricity undertakings, scheduled for the next quarters. On electricity generation, measures agreed in

previous quarters aim to give access to competitors to the lignite-fired generation capacity as well as to hydro reserves of the Public Power Corporation (PPC), the state-owned vertically-integrated electricity company. The Government has now committed to grant access to 40 percent of lignite capacity to the incumbent's competitors by end-March 2012 and it has put forward the idea of selling hydro plants, which could be combined with the sale of lignite plants.

53. **Electricity and gas transmission systems need unbundling before privatisation.** On electricity, the transfer of assets and personnel to the unbundled transmission system operator (TSO) is now likely to be finalized shortly. Regarding the gas company (DEPA/DESFA), the Greek authorities introduced in December 2011 an amendment to the latest energy law to allow DEPA and DESFA to be sold as a vertically-integrated company, in addition to the option of selling both companies separately following the ownership unbundling of DESFA as originally provided for in that law. Whilst the combined sale of DEPA and DESFA might be financially more attractive in the short term, it may raise energy policy and security of supply issues. The mission has argued that the Greek government should ensure strict adherence to the provisions of the so-called 'Third Energy Package,' addressing also the concerns stemming from a potential joint sale of the two companies.

54. **As transport opens up and implements its restructuring plans, subsectors are readier for privatisation.** The sector has rapidly changed in the last months. Road haulage is now open, with the end of its transitional period in January 2012, and the reduction in costs for issuing new operator licenses. The occasional passenger transport sector has been liberalised with the adoption of secondary legislation in late 2011, and the Government expressed the intention of simplifying the highly regulated structure of regular passenger transport. Concerning railways and regional airports, which have been public monopolies so far, the respective firms are being prepared for privatisation.

**Graph 23. Regulation of the airline industry**




Note: 2008 data.
Data for Belgium, Germany and the Slovak Republic are equal to zero. Index scale of 0-6 from least to most restrictive.
*Source:* OECD, Economic Policy Reforms 2012 – Going for Growth (2012)

### 4.4.4. Business environment and reforms in product and service markets

55. **The publication of the 'business-friendly Greece' (BFG) action plan continues to accumulate delays.** The action plan could serve as a communication tool on the Government's efforts to improve the ease of doing business in Greece. In the meantime, a draft omnibus law has been tabled in Parliament covering several of the actions that the BFG is expected to address, such as the provisions on the new form of limited liability company, the simplification of the regulatory framework on

exports, as well as the streamlining of archaic publication requirements of company data in newspapers.

56. **Draft legislation has also been prepared to strengthen the 'Invest in Greece' agency, the strategic investment promotion agency.** The objective is to adopt more flexible operational rules, as well as enhancing its status vis-à-vis other government bodies involved in the licensing process and to provide it with an adequate allocation of resources. The mission stressed, however, that strengthening 'Invest in Greece' should not reduce efforts to complete and simplify the general regulatory framework of licensing for environmental purposes, for manufacturing activities, as well as the point of single contact (PSC) for service providers. The rationale is that all investors and service providers should benefit from speedier and more predictable procedures, not only those that have been identified as strategic. The Government has pledged to complete the issuance of the pending implementing legislation of both laws by the second quarter of 2012, with a clear view of simplifying procedures and limiting permits and licenses in cases that are strictly need.

### 4.4.5. Absorption of structural funds

57. **Changes in the co-financing rates have contributed to accelerate absorption of structural funds.** The annual target for the submission of 15 large projects was met, and the payment claims submitted for reimbursement (EUR 3 301 million) were above 98 percent of the 2011 annual target. However, this result would, most likely, not have been possible without the increase of the co-financing rate to 85 percent and the 10 percent top-up facility. This institutional change had a total financial impact in 2011 of EUR 958 million. Up to mid-February 2012, the absorption rate of the National Strategic Reference Framework (NSRF), i.e., the reference document for the programming of European Union Funds at national level, was above 40 percent, up from 25 percent one year earlier, and slightly above the EU27 average of 35 percent.

### 4.4.6. Judicial reform

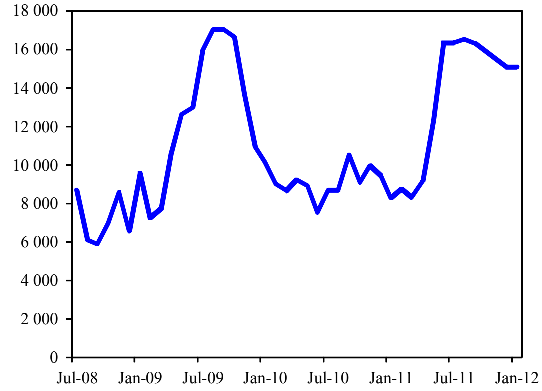
58. **There has been progress in judicial reform.** Steps have been taken to reduce the backlog of tax cases in accordance with a work plan extending until July 2013 and which will be updated quarterly. Moreover, on the backlog of non-tax cases an external advisory group of experts has been appointed by the Government and concrete recommendations are expected in the second quarter of 2012. The Government has continued to introduce various e-justice applications, including the launch of an e-filing pilot project in the Athens Court of First Instance which, based on the e-justice work plan, will accelerate procedures. A newly-established task force will oversee the gradual compilation and publication of information on tax cases, civil cases and corporate insolvency cases starting from end-March 2012, as the basis for the development of a performance and accountability framework.

59. **Other initiatives also aim at increasing the efficiency of the judicial system.** At the beginning of March 2012, the Parliament adopted a multi-subject law addressing judicial case processing, enforcement issues, the cost of civil litigation and the organisation of court and court officials. This legislative initiative is without prejudice to the comprehensive review of the Code of Civil Procedure, in line with international best practice. Also with the goal of increasing efficiency and accelerating procedures, the Government has taken the first steps to promoting alternative dispute resolution, especially mediation, within the business community. The law aims to set up magistrates courts as the gateway to civil justice in Greece, by strengthening and concentrating voluntary jurisdiction at the level of these courts, for example in matters relating to inheritance and setting up and administration of legal entities. The Government has therefore embarked on the reorganisation of the magistrates courts and the allocation of appropriate resources to the new court structure, deploying existing resources available within Greece’s judiciary and public administration.

### 4.5. FISCAL FINANCING AND TREASURY MANAGEMENT

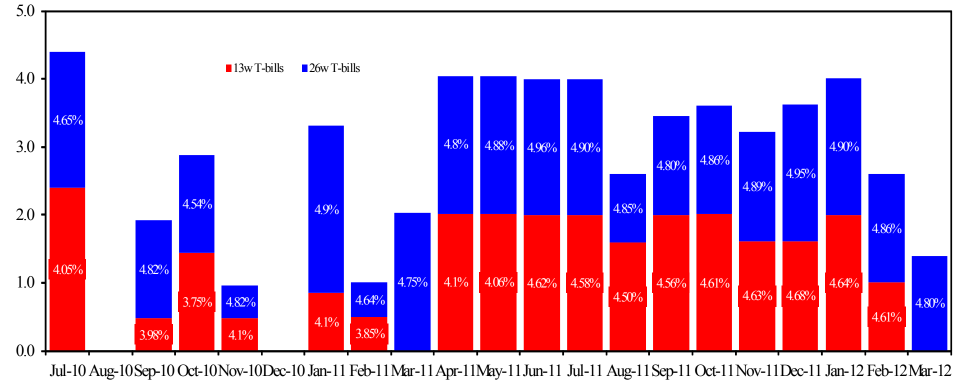
60. **The outstanding stock of T-bills remains large**. After increasing substantially in the summer, the stock of T-bills remained very high in autumn, as the fifth disbursement, initially planned for June was delayed to July, and the sixth disbursement (which turned out to be the last of the first financing programme) took place in December, instead of September. Greek banks and social security funds were the main participants in short-term debt auctions. As a result, the Treasury was able to roll-over maturing short term debt nearly in full and at a relatively low cost. The yields on Treasury bills were thus slightly lower in the autumn auctions compared to the April to July auctions. The stock of short-term debt was EUR 15.1 billion at end-2011. The second financing programme is expected to reduced reliance on T-bills and the reduction in the outstanding stock of T-bills by EUR 8 billion in a gradual manner.

**Graph 24. Outstanding stock of T-bills (EUR million)**




*Source*: GAO.

**Graph 25. T-bill auctions since July 2010**
(amounts: EUR billion and yields)




*Source : PDMA*

61. **A mechanism to better tracing and monitoring the official borrowing and internally-generated funds destined to service debt may contribute to improve Greece's credit standing**. This

mechanism includes a segregated account and the payment to this account before each quarter starts of the necessary resources to service debt. However, the disbursements to Greece by the EFSF and the IMF will still be conditional on compliance with conditionality. Moreover, the government has expressed the intention of adopting legislation giving priority to the debt service vis-à-vis other cash outflows. This legislation, the specific features of which still need to be discussed, could then find its way into the Greek Constitution (as Spain did recently), as soon as a constitutional amendment is possible.

**Table 18. Interest rates and interest payments charged to Greece by the euro area Member States**

| Date | Interest rate | Interest paid EUR billion | Interest to be reimbursed to Greece (2nd amendment of facility agreement) |
|---|---|---|---|
| 15 June 2010 | 3.423% | 0.039 | - |
| 15 September 2010 | 3.719% | 0.138 | - |
| 15 December 2010 | 3.879% | 0.207 | - |
| 15 March 2011 | 4.026% | 0.250 | - |
| 15 June 2011 | 4.173% / 2.673%** | 0.408 | 0.147 |
| 15 September 2011 | 4.494% / 2.994%** | 0.506 | 0.170 |
| 15 December 2011 | 4.528% / 3.028%** | 0.539 | 0.179 |
| 15 March 2012* | 4.426% / 2.926%** | 0.527 | 0.179 |

* Calculated to be paid.

** Reduction of margin to 150 basis points flat. This reduction will be retroactively applied after the second Amendment enters into force.

**Table 19. Schedule of disbursement for the new programme**
(provisional)

| in bn EUR, unless otherwise noted | 2012 | | | | 2013 | | | | 2014 | | | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | |
| **Financing needs** | | | | | | | | | | | | | |
| **A. General government cash deficit** | **6.9** | **1.8** | **1.8** | **1.8** | **4.2** | **1.5** | **0.7** | **0.8** | **3.1** | **0.2** | **-0.9** | **-0.6** | **21.3** |
| Primary deficit ("-" is surplus) | 0.5 | 0.5 | 0.5 | 0.5 | -0.9 | -0.9 | -0.9 | -0.9 | -2.3 | -2.3 | -2.3 | -2.3 | -11.0 |
| Interest payments | 6.4 | 1.3 | 1.3 | 1.3 | 5.2 | 2.4 | 1.6 | 1.7 | 5.5 | 2.5 | 1.5 | 1.8 | 32.3 |
| **B. Other government cash needs** | **1.0** | **1.2** | **1.6** | **3.0** | **1.5** | **1.9** | **1.5** | **1.5** | **1.4** | **1.8** | **1.4** | **1.4** | **19.1** |
| Estimated cash adjustments | 1.0 | 0.3 | 0.3 | 0.3 | 0.5 | 0.5 | 0.5 | 0.5 | 0.4 | 0.4 | 0.4 | 0.4 | 5.3 |
| Arrears | 0.0 | 0.0 | 1.3 | 2.7 | 0.8 | 0.8 | 0.8 | 0.8 | 0.0 | 0.0 | 0.0 | 0.0 | 7.0 |
| Cash buffer | 0.0 | 0.0 | 0.0 | 0.0 | 0.3 | 0.3 | 0.3 | 0.3 | 1.0 | 1.0 | 1.0 | 1.0 | 5.0 |
| ESM capital | 0.0 | 0.9 | 0.0 | 0.0 | 0.0 | 0.5 | 0.0 | 0.0 | 0.0 | 0.5 | 0.0 | 0.0 | 1.8 |
| **C. Maturing debt** | **4.8** | **6.4** | **5.3** | **2.4** | **3.7** | **7.0** | **3.8** | **1.1** | **3.3** | **11.9** | **7.7** | **2.4** | **59.9** |
| Bonds & loans after exchange | 4.8 | 4.4 | 3.3 | 0.3 | 0.6 | 7.0 | 3.1 | 0.1 | 2.0 | 10.0 | 5.9 | 0.1 | 41.6 |
| Bonds after exchange (incl ECB holdings & inelig.) | 4.6 | 3.7 | 3.1 | 0.0 | 0.4 | 6.5 | 2.8 | 0.0 | 1.8 | 9.3 | 5.6 | 0.0 | 37.9 |
| Loans | 0.2 | 0.7 | 0.2 | 0.3 | 0.2 | 0.5 | 0.2 | 0.1 | 0.2 | 0.7 | 0.3 | 0.1 | 3.7 |
| EU repayment | 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 |
| IMF repayment | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.7 | 1.0 | 1.3 | 1.9 | 1.9 | 2.3 | 9.1 |
| Short-term debt (reduction with official funds) | 0.0 | 2.0 | 2.0 | 2.0 | 3.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 9.2 |
| **D. Cost of PSI** | **44.5** | **10.0** | **23.8** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **78.3** |
| Cash upfront | 29.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 29.5 |
| Bank recapitalisation | 15.0 | 10.0 | 23.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 48.8 |
| **E. Gross financing needs (A.+B.+C.+D.)** | **57.1** | **19.5** | **32.5** | **7.2** | **9.4** | **10.5** | **5.9** | **3.4** | **7.8** | **13.9** | **8.2** | **3.2** | **178.6** |
| **Financing sources** | | | | | | | | | | | | | |
| **F. Private financing sources** | **0.0** | **0.0** | **1.0** | **2.2** | **1.1** | **1.1** | **1.1** | **1.1** | **1.1** | **1.1** | **1.1** | **1.1** | **11.8** |
| Market financing | 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 |
| Privatisation 1/ | 0.0 | 0.0 | 1.0 | 2.2 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | 11.8 |
| **G. Additional OSI** | **0.0** | **0.9** | **0.2** | **0.0** | **0.0** | **0.6** | **0.0** | **0.0** | **0.0** | **0.5** | **0.0** | **0.0** | **2.2** |
| GLF margin reduction (retroactive application) | 0.0 | 0.2 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.5 |
| ANFA profits | 0.0 | 0.7 | 0.0 | 0.0 | 0.0 | 0.6 | 0.0 | 0.0 | 0.0 | 0.5 | 0.0 | 0.0 | 1.7 |
| **H. Financing needs per quarter** | **57.1** | **18.6** | **31.3** | **5.0** | **8.3** | **8.8** | **4.8** | **2.3** | **6.7** | **12.3** | **7.1** | **2.1** | **164.5** |
| **I. Official assistance disbursements** | **75.7** | **31.3** | **5.0** | **8.3** | **8.8** | **4.8** | **2.3** | **6.7** | **12.3** | **3.6** | **3.6** | **2.1** | **164.5** |
| IMF disbursements* | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | 19.8 |
| EU disbursements | 74.0 | 29.6 | 3.4 | 6.7 | 7.1 | 3.2 | 0.6 | 5.1 | 10.7 | 1.9 | 1.9 | 0.4 | 144.7 |

*Source*: Commission services.

*Box 4*: **Private Sector Involvement**

In line with the conclusions of the euro area summit of 26 October 2011, Greece organised a debt exchange to which the euro area Member States agreed to contribute up to EUR 30 billion via an EFSF loan. On 21 February 2012, the Eurogroup acknowledged the common understanding that has been reached between the Greek authorities and its private creditors on the general terms of the debt exchange offer. This common understanding provided for a nominal haircut amounting to 53.5 percent.

**Exchange Offer.** On 24 February 2012, Greece launched an exchange offer for bonds with an aggregate outstanding face amount of approximately EUR 206 billion. The exchange offer allowed private sector holders to exchange eligible bonds for:
i) new bonds to be issued by Greece with a face value of 31.5 percent of the face amount of their exchanged bonds;
ii) EFSF notes with a maturity date of two years or less and having a face value of 15 percent of the face amount of their exchange bonds, and
iii) detachable GDP-linked securities issued by Greece.
iv) on the PSI settlement date, Greece also delivers short-term EFSF notes in discharge of all unpaid interest accrued on the exchanged bonds.

**Maturity and coupon.** The new Greek bonds have a term of 30 years (final maturity is in 2042) and an amortization period starying on the eleventh anniversary of the issue date. They bear a coupon of 2.0 percent p.a. to the payment date in 2015, 3.0 percent p.a. to payment date in 2020, 3.65 percent p.a. to payment date in 2021 and 4.3 percent p.a. thereafter. Interest accrues starting from 24 February 2012.

**English law and co-financing structure**. The new bonds are governed by English law and contain standard market clauses such as *pari passu*, negative pledge, events of default, collective action clauses and a waiver of immunity. Holders of the new bonds will be entitled to benefit from a co-financing agreement among Greece, the new bond trustee and the EFSF by linking the servicing of their bonds to the EFSF loan (up to EUR 30 billion). This will be made effective by the appointment of a common paying agent, an inclusion of a turnover covenant, payments of principal and interest on the new bonds and the EFSF loan on the same dates as the EFSF loan and on a *pro rata* basis.

**GDP-linked securities.** In case of an increase of the Greek nominal GDP above a defined threshold and of a positive GDP growth in real terms in excess of specified targets, the GDP-linked securities provide an amount of up to 1 percent of their notional amount for all annual payments beginning in 2015.

**Credit Rating Action**. On 27 February 2012, Greece had its long-term sovereign credit ratings cut from CC to SD (selective default) by Standard & Poor's Ratings Services, which called the action of Greece's government regarding its sovereign debt as a 'distressed debt restructuring.' The downgrade was triggered after Greece retroactively inserted collective action clauses (CACs) in the documentation of certain sovereign debt series. On 9 March 2012, following the confirmation from the Greek government that the exchange of Greek government bonds would proceed, Fitch Ratings also downgraded Greek credit rating from C to RD (restricted default). Moody's Investor Service, which downgraded the Greek rating from Ca to C on 2 March 2012, stated on 9 March 2012 that it considers Greece to have defaulted. Greece's government bond rating remains unchanged at C, the lowest rating on Moody's rating scale.

**The Law on CACs**. The Law on "Rules on the modification of titles issued or guaranteed by the Greek State with the Bondholders' agreement" was voted by the Greek Parliament on 23 February 2012. This Law introduced provisions whereby bondholders may adopt by the qualified majority decisions that are binding on all holders of all eligible titles. Only bonds governed by Greek law and issued or guaranteed by the State before 31 December 2011 fall within the scope of this Law, which therefore, does not capture bonds governed by foreign law. Following the PSI invitation deadline, the Greek Council of Ministers decided on 9 March 2012 to approve the bond holders decision to accept the bond exchange. This decision binds all bondholders of eligible titles.

**Foreign law bonds**. In relation to bonds governed by foreign law, existing collective action clauses that are part of the terms and conditions of those bonds may be used. The expiry date for the invitation on participation in the PSI for the bonds governed by foreign law was extended until 23 March 2012 and bondholder meetings are planned to be held on 27–29 March 2012 with a view to vote on the activation of CACs.

**Result of the Debt Exchange Offer**. From a total of EUR 177 billion of Greek sovereign bonds governed by Greek law and eligible to the exchange offer, Greece received tenders for exchange and consents from holders of EUR 152 billion of bonds, representing 85.8 percent of the outstanding face amount of these bonds. Holders of 5.3 percent of the outstanding face amount of these bonds participated and opposed the proposed amendments. Greece has also received tenders for exchange and consents to the proposed amendments from holders of approximately EUR 20 billion, or 69 percent, of its bonds issued under foreign law and of bonds issued by state-owned enterprises and guaranteed by the Republic. The sum of the face amount of those bonds that will be exchanged and of the other bonds eligible to the exchange offer for which Greece has received tenders for exchange and consents to the proposed amendments amount to approximately EUR 197 billion, or 95.7 percent of the eligible bonds.

**Table. Outcome of the Debt exchange offer (March 2012)**

| Category | Total Outstanding Principal Amount EUR | Tendered for Exchange and Vote In Favour EUR | Consent and Vote In Favor % | Reject and Vote Against EUR | Reject and Vote Against % |
|---|---|---|---|---|---|
| **GGB Greek Law** | € 177,252,131,542.39 | € 152,042,932,772.40 | 85.8% | € 9,308,013,293.14 | 5.3% |
| **GGB Foreign Law** | € 18,644,227,751.00 | € 12,680,381,327.41 | 68.0% | € 588,146,961.51 | 3.1% |
| **SOE** | € 9,671,766,956.00 | € 6,832,321,956.00 | 70.6% | € 462,762,000.00 | 4.9% |
| SOE Greek Law | € 6,701,326,956.00 | € 6,366,276,956.00 | 95.0% | € 0.00 | 0.0% |
| SOE Foreign Law | € 2,970,440,000.00 | € 466,045,000.00 | 15.7% | € 462,762,000.00 | 15.6% |
| **Total** | **€ 205,568,126,249.39** | **€ 171,555,636,055.81** | **83.5%** | **€ 10,358,922,254.65** | **5.0%** |

*Source*: PDMA

**Extension.** Greece has decided to extend the invitation period until 23 March 2012 in respect of each series of its bonds issued under laws other than Greek law and of bonds issued by state enterprises and guaranteed by Greece, to allow holders of those bonds who have not yet tendered them for exchange or submitted consents to do so, and has deferred the settlement date for the exchange offer until 11 April 2012. However, holders of such bonds will not have the right to revoke any participation instructions previously submitted, unless otherwise permitted pursuant to the relevant invitation. In addition, the government confirmed that it intends to issue an invitation to the holders of Greek law-governed bonds issued by state enterprises and guaranteed by the Republic, including bonds that have been tendered in the exchange offer but have not been accepted by the Republic, soliciting consents to amend these bonds as contemplated by the Greek Bondholder Act in a manner similar to the amendments proposed for the Republic's bonds governed by Greek law.

**Credit Default Swaps (CDS)**. On 9 March 2012, the International Swaps and Derivatives Association (ISDA) Determinations Committee decided that the invoking of the collective action clauses by Greece to force all holders to accept the exchange offer for existing Greek debt constituted a restructuring credit event under the 2003 ISDA Credit Derivatives Definitions. According to the Depository Trust and Clearing Corporation's CDS data warehouse, the total net exposure of market participants who have sold CDS credit protection on Greek sovereign debt was approximately USD 3.2 billion as of 2 March 2012. Market participants will conduct an auction through which the recovery value of Greek debt and the net payouts to be made under CDS contracts will be determined. The Determinations Committee decided that an auction will be held in respect of outstanding Greek sovereign CDS transactions on 19 March 2012.

## 4.6. TECHNICAL ASSISTANCE AND MONITORING

62. **Greece is receiving technical assistance coordinated by the Commission's taskforce and provided by the Commission, Member States, the IMF and other sources.** Technical assistance (TA) concerns several areas which are crucial for the success of the programme, such as tax administration and fight against tax evasion, public financial management, the reform of the public administration, as well as in a range of projects improving the business environment. By providing advice based on best practice, TA contributes to enhancing the government's capacity to implement policies. It also helps to increase programme ownership, via the exchange of views and policy options between the government and the TA providers. (For more details on the several TA projects, the reader is referred to the quarterly reports by the Commission's Taskforce.) Greece, the Eurogroup and

the Commission have agreed TA should help further strengthening of Greece's institutional capacity in delivering the agreed policies. With this objective in mind, the Commission is significantly strengthening its presence on the ground in Greece. This will bolster its capacity to provide and coordinate technical assistance. Moreover, a continuous monitoring will contribute to the timely and full implementation of the programme.

# Annex 1: Assessment of compliance with the Memorandum of Understanding on Specific Policy Conditionality (fifth update, 31 October 2011)

## Table A1- Fiscal Consolidation

| *Budget implementation* | | | |
|---|---|---|---|
| The Government implements the revenue and expenditure policies agreed in this and previous memoranda with the aim of minimising any deficit in excess of the deficit ceiling of EUR 17 065 million in 2011, and to reduce the 2012 deficit to below EUR 14 916 million, as established in the Council Decision. | | | **Partially observed.**<br>The 2011 government deficit (ESA) is currently estimated to have been close to EUR 20 billion; i.e. above the ceiling established in May 2010. However, most performance criteria for Q4-2011 have been observed. |
| **Quarterly performance criteria (EUR billion)** | | | |
| | **Criteria** | **Actual** | |
| Floor on the modified general government primary cash balance | -5.1 | -4.8 | **Observed.** |
| Ceiling on State Budget primary spending | 60.8 | 59.1 | **Observed.** |
| Ceiling on the overall stock of central government debt | 394.0 | 371.0 | **Observed.** |
| Ceiling on the new guarantees granted by the central government | 1.0 | 0.6 | **Observed.** |
| Ceiling on the accumulation of new external payments arrears on external debt contracted or guaranteed by general government | 0 | 0 | **Observed.** |
| Floor on privatisation receipts | 1.7 | 1.6 | **Partially observed** (see below) |
| The Government adopts and implements the following measures **prior to the sixth disbursement** (i.e. in December 2011):<br>-A reduction in tax exemptions, in particular the tax-free personal income thresholds, with the aim of increasing revenue by at least EUR 2 831 million in 2012;<br>-A permanent levy on real estate, collected through the electricity invoices, with the aim of collecting at least EUR 1 667 million in 2011, and increasing amounts in subsequent years;<br>-An immediate implementation of the revised wage grid for civil servants, which contributes to reduce expenditure by at least EUR 101 million in 2011, and with a carry over of at least EUR 552 million for 2012, additional to savings provided in the MTFS (Medium-Term Fiscal Strategy through 2015, of June 2011). This reform should cover all general government employees, except those covered by special wage regimes. These net savings take into account the impact of this measure on income tax and social security collection, as well as bonuses to be paid to specific employee categories;<br>-A cut in main, and supplementary, pensions, as well as in lump sums paid on retirement, with the aim of saving at least EUR 219 million in 2011 with a carry over of EUR 446 million in 2012, additional to savings provided for in the MTFS;<br>-Spending by the Green Fund is capped at 5 percent of their deposits, with the aim of saving EUR 360 million in 2012. | | | **Observed.** |

| | |
|---|---|
| The Government also adopts the following acts (which concern measures included in the MTFS), **prior to the sixth disbursement**:<br>-Ministerial Decisions or circulars to start collection of excises on natural gas, heating oil and vehicle tax measures;<br>-Ministerial Decisions to uniformly regulate health benefits for social security funds;<br>-Legislation for the collection of the solidarity surcharge through withholding;<br>-Ministerial Decisions that initiate closing, merging or substantially downsizing entities are adopted. This affects KED, ETA, ODDY, National Youth Institute, EOMEX, IGME, OSK, DEPANOM, THEMIS, ETHYAGE and ERT, and 35 other smaller entities specified in the 'second implementation bill';<br>-Ministerial Decisions specifying the disability criteria consistent with achieving the MTFS saving objectives;<br>-A Law to freeze the indexation of main and supplementary pensions through 2015;<br>-Finalise the positive list for pharmaceuticals that establish prices charged to social security funds. | **Observed.** |
| The Government prepares the budget for 2012 **[November 2011]** in line with the MTFS targets, this Memorandum, and the Council Decision's deficit ceilings. Information on the several measures provided for in the MTFS will be updated and made public.<br>The several tax and expenditure legislative acts that are necessary to implement the budget are adopted at the same time of the budget. **[December 2011]** | **Observed.** |
| In order to prepare the measures that will be adopted with the 2013 and 2014 budgets, the Government initiates a review of public expenditure programmes that should be completed by **June 2012**, with the aim of identifying measures amounting to 3 percent of GDP (including one percent of GDP in contingency measures). The review will draw on external technical assistance and will focus on pensions and social transfers (in a manner that will preserve basic social protection); defence spending without prejudice to the defence capability of the country; and restructuring of central and local administrations. By the same date, adjustments to special wage regimes; further rationalization of pharmaceutical spending and operational spending of hospitals, and welfare cash benefits will also be specified. | *Not yet applicable.* |
| The Ministry of Finance ensures a tight supervision of expenditure commitments by the government departments, including extra-budgetary funds, public investment budget, social security funds and hospitals, local governments and state-owned enterprises, and an effective tax collection, in order to secure the programme quantitative criteria (Article 1 (2 and 3) of the Council Decision, and of the MEFP).<br>The Government stands ready to define and enact additional measures, if needed, in order to respect the budgetary ceilings established in the Council Decision. | **Observed.** |

# Table A2-Structural Reforms

| | **Comments** |
|---|---|
| ***Asset management and privatisation*** | |
| The Government implements the privatisation programme with the aim of collecting EUR 35 billion by end-2014 and EUR 50 billion by end-2015 (see cumulative quarterly targets in Annex 1, plus the bank equity acquired through recapitalisation). | **Partially observed.**<br>Compared to the target of EUR 1 700 million (which was defined ion a cash basis), the Government collected EUR 1 558 million in cash (since June 2011). |
| The Government stands ready to offer for sale its remaining stakes in state-owned enterprises, if necessary in order to reach the privatisation objectives. Public control will be limited only to cases of critical network infrastructure. | |
| To ensure that the plan objectives are achieved, the Government continuously transfers assets to the Hellenic Republic Asset Development Fund (HRADF). In particular, **prior to the sixth disbursement**, it will transfer to the privatisation fund the following assets:<br>Alpha Bank (0.619% of shares);<br>National Bank of Greece (1.234% of shares);<br>Piraeus Bank (1.308% of shares);<br>Piraeus Port Authority (23.1% of shares);<br>Thessaloniki Port Authority (23.3% of shares);<br>Elefsina, Lavrio, Igoumentsia, Alexandropoulis, Volos, Kavala, Corfu, Patras, Rafina, Heraklion port authorities (100%);<br>Athens Water and Sewerage Company (27.3%);<br>Thessaloniki Water and Sewerage Company (40%);<br>Regional state airports (transfer of concession rights);<br>Off-shore natural gas storage facility 'South Kavala' (transfer of rights of current and future concessions);<br>Hellenic motorways (transfer of economic rights of current and future concessions);<br>Egnatia odos (100%);<br>Hellenic Post (90%);<br>OPAP, SA (29%)<br>4 state buildings. | **Observed.** |
| The legal, technical and financial advisors for at least fourteen of these transactions that are planned until end-2012 are appointed **prior to the sixth disbursement**. | |
| For the other transactions planned for 2012, advisors are appointed by **end-November 2011** | **Partially observed.**<br>10 out of the 14 projects for 2012 and 6 out of 17 projects for 2013 are fully staffed |
| The Government continues compiling and publishing an inventory of state-owned assets, including stakes in listed and non-listed enterprises and commercially viable real estate and land to ensure it is comprehensive. The inventory will be published in successive stages by **end-2011**, **mid-2012** and **end-2012**. | **Ongoing.**<br>The strategic plan for the development of real estate assets which includes categorization of real estate assets in groups is expected to be completed by June 2012. |

| | |
|---|---|
| The Government accelerates state land ownership registration, and adopts secondary legislation on tourism housing and on land use **[Q4-2011].** | **Partially observed.**<br>The First Implementation Bill (Chapter 2, Arts 10-17) includes the development of state property (public land). Still pending: Revision of Ministerial Decision on Strategic Spatial Planning Framework for Tourism; and revision of Law on land-use planning. |
| A new General Secretariat of Public Property is established and made operational with the aim of improving management of real estate assets, clearing them of encumbrances and preparing them for privatisation. The real estate entities KED and ETA are merged and professionally managed in coordination with the HRDAF. The HRDAF creates six real estate portfolios. **[Q4-2011]**.<br>Proceeds from privatisation of financial and non-financial assets do not substitute fiscal consolidation efforts and will not be considered when assessing compliance of the annual general government deficit with the ceiling established in the Council Decision (see technical memorandum of understanding).<br>When restructuring state-owned enterprises with a view to preparing them for privatisation, specific attention will be given to a timely clearance of state aid issues. | **Observed.**<br>The General Secretariat of Public Property has been established. KED and ETA have been merged (ETAD). The HRADF has created the six real estate portfolios. |
| ***Fighting waste in public enterprises and other public entities*** | |
| The legal act on the transfer to the State of the mobile and immobile assets of entities that are closed is adopted. **[end-2011]** | **Observed.**<br>The assets are transferred to the States according to each acts that closes public entities. |
| Tariffs in OASA, OSE group and other state-owned enterprises increase by at least 25 percent, while their business plans are appropriately updated. **[Q1-2013]** | *Not yet applicable.* |
| ***Tax policy and revenue administration reforms*** | |
| In line with the anti-tax evasion action plan, the Government will step up audits of large-scale tax payers, high-wealth individuals and self-employed, it will accelerate the resolution of tax arrears, and better integrate anti-laundering tools into the strategy. Progress will be monitored by quantitative indicators. These quantitative indicators and compliance with these targets will be monitored and made public. | **Observed with delay.** |
| The audits of 1 700 high-wealth and self-employed individuals identified by the anti-evasion task force will be initiated **immediately**. | |
| To advance the reforms of revenue administration, the Government:<br>- activates a large-taxpayers unit; **[end-October 2011]**<br>- removes barriers to effective tax administration by implementing the key reforms of the new tax law, including replacing managers who do not meet performance targets **[end-2011]**, reassessing tax auditors' qualifications **[end-2011]** and hiring new auditors in the course of **2012**<br>- makes operational the newly created fast-track administrative dispute resolution body to deal rapidly with large dispute cases (i.e. within 90 days). **[November 2011]**<br>- centralises the functions of, and merges, at least 31 tax offices by **end-October 2011**, and merges, 31 transfers competences, eliminates management positions and closes some 200 local tax offices identified as inefficient, in the course of **2012**<br>- puts in place a new IT system that interconnects all tax offices. | **Partially observed.**<br>31 tax offices closed or merged and key functions consolidated Performance-based contracts for auditors have been approved. Reassessment of tax auditors' qualifications is ongoing.<br>The large taxpayer unit has been established, but not yet fully staffed. |

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| The preparation of the new IT system involves the following main steps in relation to the new data centre, web-facing and back-office applications:<br>-15 new electronic services and enhancements are running by **end-December 2011**. These concern mainly the corporate income tax.<br>- the new data centre hardware is in place and running by **end-March 2012**;<br>- 20 more new electronic services and enhancements by **end-June 2012**. These concern mainly taxes withheld at source.<br>-database and application design and implementation, **by end-October 2012**;<br>-8 remaining new electronic services and enhancements by **end-December 2012**. These concern forms filed late with a fine, real-estate tax, and VAT administration.<br>-system and user tests, user training, and migration of all tax offices to the centralized database: by **end-December 2012**;<br>-operational use of the new IT infrastructure by all tax offices: **1 January 2013.** | **Observed.**<br>*or*<br>*Not yet applicable.* |
| To speed up tax-related judicial appeals, the government has created the possibility of dedicated court chambers for tax cases; 24 chambers are expected to be operational by **end-2011**. | **Observed.** |
| The Government prepares a tax reform that aims at simplifying the tax system, eliminating exemptions, including and broadening bases, thus allowing reductions in tax rates in a prudent and fiscally-neutral manner. This relates to the personal income tax, corporate income tax and VAT, as well as social contributions. The reform will also simplify the Code of Books and Records. **[March 2012]** | *Not yet applicable* |
| ***Public financial management reforms*** | |
| A plan for the clearance of arrears is published in **November 2011**. The Government ensures that the stock of arrears steadily declines from the **sixth disbursement onwards**. Data on arrears are published **monthly** with a lag of not more than 20 days after the end of each month. | **Not observed.**<br>The delays in the sisth disbursement did not allow preparing a plan for the clearance of arrears. However, available data indicated that the stock of arrears to suppliers declined in the fourth quarter of 2011. |
| To strengthen expenditure control, the Government:<br>appoints permanent financial accounting officers in all Ministries **[end-November 2011]**;<br>continues the process of establishing commitment registries, which should cover the whole general government; **[Q1-2012]**<br>enforces the obligation of accounting officers to report commitments, including by enacting sanctions to entities not submitting the data and disciplinary action for accounting officers; **[Q1-2012]**<br>tables legislation streamlining the procedure for submission and approval of supplementary budgets. **[February 2012]** | **Observed.**<br>*or*<br>*Not yet applicable.* |

***To modernise public administration***

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| *Functional reviews* | |
| The Government assesses the results of the first phase of the independent functional review of central administration. This assessment will result in an action plan for the implementation of operational policy recommendations. These recommendations should determine how to achieve a more streamlined and effective public service, to define clear responsibilities and command lines of ministerial departments, eliminating overlapping competences, and to improve inter- and intra- mobility. **[October 2011]**<br>A second phase of the review will lead to an action plan and to the drafting of framework legislation by **end-2011**. | **Ongoing.**<br>The OECD Report on central administration reforms was published in December 2011. The recommendations of this report are being considered by the authorities.<br>A road map has been identified to implement these reforms throughout 2012. A draft law is being prepared. |
| The ongoing functional review of existing social programmes is finalised **[Q4-2011]**.<br>A second phase will include a more detailed review of specific social programmes, aiming at reducing excessive fragmentation, generating savings and creating efficiencies. [**Q1-2012**] | **Ongoing.**<br>A joint OECD-IMF Technical Assistance team has collected data on social programmes from all line ministries. A final report is expected shortly.<br>The second phase will be merged with the functional review and the final report will be ready shorlty. |
| *Public sector wages and human resource management* | |
| The Government publishes a medium-term staffing plan **[end-December 2011]** for the period up to 2015, in line with the rule of 1 recruitment for 5 exits. The recruitment/exit rule applies to general government as a whole without sectoral exceptions. | **Not observed.**<br>Medium-term staffing plans identifying the recruitment needs of each ministry have not yet been published. |
| Before **end-2011**, about 15 000 staff currently employed by various government entities are transferred to the labour reserve, while about 15 000 will be placed in pre-retirement. Staff in the labour reserve, and in pre-retirement, will be paid at 60 percent of their basic wage (excluding overtime and other extra payments) for not more than 12 months, after which they will be dismissed. This period of 12 months may be extended up to 24 months for staff close to retirement. Payments to staff while in the labour reserve are considered part of their severance payments. | **Not observed.**<br>Approximately, 10 000 employees left the public sector under the pre-retirement scheme. As a result of merges and closers, 630 employees were shifted in the labour reserve. |
| Additional redundant staff will be transferred to the labour reserve in the course of **2012**, in connection with the identification of entities or units that are closed or downsized, and in case the recruitment rule is violated. Staff transferred to the Government from either state-owned enterprises or other entities under restructuring are considered as new recruitments. The same applies to staff in the labour reserve that is transferred to other government entities, after screening of professional qualifications by ASEP under its regular evaluation criteria. The overall intake in the professional schools (e.g. military and police academies) is adjusted in line with the staffing plans. | *Not yet applicable.* |
| The staffing plans per Ministry and each group of public entities will include tighter rules for temporary staff, cancellation of vacant job post and reallocation of qualified staff to priority areas and takes into account the extension of working hours in the public sector. The staffing plans and monthly data on staff movements (entries, exits, transfers among entities) of the several government departments are published on the web. **[monthly starting end-November 2011]** | **Not observed.**<br>Medium-term staffing plans identifying the recruitment needs of each ministry has not yet been prepared. |
| The Government commissions an expert assessment of the new wage grid. **[end-2011]**<br>This assessment will focus on the wage drift that is embedded in the new promotion mechanism. If the assessment reveals any excessive wage drift, the promotion rules are adjusted before **end-2012**. No promotion takes place before the assessment and adjustment to the promotion rules. | **Not observed**<br>*or*<br>*not yet applicable.* |

*Public procurement*

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| The Government launches the development of an e-procurement IT platform and sets intermediate milestones in line with the action plan. These milestones include testing a pilot version, availability of all functionalities for all contracts and phasing-in of the mandatory use of e-procurement system for supplies, services and works. **[October 2011]** | **Observed**.<br>The contract to develop an e-procurement platform was signed on 14 October 2011. The first module on e-auctions is expected to be operational in March 2012. The e-procurement platform is for supplies only. It will at a later stage accommodate services and eventually, public works. |
| A thorough review of the system of redress against award procedures and the role to confer to the SPPA is carried out, in agreement with the European Commission. **[Q4-2011]** | **Ongoing**.<br>The Commission has received some data on appeals lodged throughout the various stages of the life of procurement contracts based on a questionnaire submitted to 500 public bodies. Data refer to 2010 and to the first half of 2011 to procurement of goods and services. Looking forward, data should also indicate among others, how many appeals reach the judicial system and cover other types of procurement contracts, such as works.<br>The Ministry of Development, Competitiveness and Shipping is working on draft legislation to reduce the number of steps within the life of a procurement contract where decisions of the contracting authorities that can be appealed. |
| The Government undertakes a review identifying areas to increase the efficiency of the public procurement system outside the SPPA, as specified in the Action Plan. The review includes conclusions and actions in agreement with the European Commission. **[Q4-2011]** | **Ongoing**.<br>Greece has already submitted a preliminary study which maps numerous other public bodies with public procurement competences and points to possible frictions with the mandate of the Single Public Procurement Authority (SPPA). The Taskforce Greece (TFGR) is ready to provide technical assistance on public procurement commitments and in this respect, a study synthesising main provisions of national public procurement legislation is being prepared. |

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| The Government issues decisions, in consultation with the Commission services<br>- to provide for the institution and establishment of positions for the SPPA's personnel, as well as for the organisation of human resources and services of the Authority in accordance with the provisions of the law on the SPPA; **[October 2011]**<br>- to appoint the members of the SPPA; **[October 2011]**<br>- to provide for the operational regulation of the SPPA. **[Q4-2011]** | **Not observed**. |
| The SPPA starts its operations with the necessary resources to fulfil its mandate, objectives, competences and powers as defined in the law on the SPPA and the Action Plan agreed with the European Commission in November 2010. This includes the adoption of the operational regulation of the SPPA. **[January 2012]** | |
| The e-procurement platform is fully operational, and a common website is created for the publication of all procurement procedures and outcomes. **[October 2012]** | *Not yet applicable.* |
| ***To complete the pension reform*** | |
| The National Actuarial Authority (NAA) continues the submission of long-term projections of pension expenditure up to 2060 under the adopted reform. The projections encompass the main supplementary (auxiliary) schemes (ETEAM, TEADY, MTPY), based on comprehensive data collected and elaborated by the NAA. The projection will be peer-reviewed and validated by the EU Economic Policy Committee and the European Commission, ECB, and IMF staff. For the remaining supplementary schemes, the same procedure is followed. **[end-November 2011]** | **Observed.**<br>Long-term projections of pension expenditure were submitted and presented at the AWG, peer-reviewed and endorsed by the AWG of the Economic Policy Committee. |
| The list of heavy and arduous professions is revised and its coverage is reduced to less than 10 percent of employment. The new list of difficult and hazardous occupations (Law 3863/2010) is published by **end-October 2011** and applies **immediately** to all workers. No profession will be added to the list after its revision. | **Observed.**<br>The list has been revised with categories being removed and some new ones added in. It now covers less than 10 percent of current employment. |

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| In addition to an initial cut (see above), the Government proceeds with an in-depth revision of the functioning of secondary/supplementary public pension funds, including welfare funds and lump-sum schemes. The aim of the revision is to stabilise pension expenditure, guarantee the budgetary neutrality of these schemes, and ensure medium- and long-term sustainability of the system. The revision achieves:<br>- a further reduction in the number of existing funds;<br>- the elimination of imbalances in those funds with deficits;<br>- the stabilisation of the current spending at sustainable level, through appropriate adjustments to be made from 1 January 2012;<br>- the long-term sustainability of secondary schemes through a strict link between contributions and benefits. **[Q4-2011]** | **Observed with delay.**<br>The NAA projections show that there are substantial deficits in supplementary pension funds (close to 0.4% of GDP) which will increase over time if no reform took place.<br>A framework law to reform supplementary pension schemes was adopted in February 2012 |
| The reform of the secondary/supplementary schemes is designed in consultation with European Commission, ECB and IMF staff, and its estimated impact on long-term sustainability is validated by the EU Economic Policy Committee. The parameters of the new secondary notional defined-contribution system ensure long-term actuarial balance, as assessed by the NAA. **[**legislation: **Q4-2011**; implementation: **Q1-2012]** | |
| The Government identifies the schemes for which lump sums paid on retirement are out of line with contributions paid, **[November 2011]** and adjusts the payments. **[Q1-2012]** | **Not observed.**<br>However, there has already been adjustment to lump sums paid on retirement. |
| The reform contributes to achieving the overarching target of reducing the overall (basic, contributory, supplementary and any other related scheme, including lump sums at retirement) increase of public sector pension spending, over the period 2009-60, to under 2.5 percentage points of GDP. If the projections by the NAA show that, even after the reforms of the supplementary schemes, the projected increase in the total public pension expenditure exceeds the limit of 2.5 percentage points of GDP over 2009-60, The Government revises also the main parameters of the pension system provided by Law 3863/2010. **[Q4-2011]** | *Not yet applicable.* |
| The Health Committees set up by Law 3863/2010 will start operating the planned revision of disability status and produce a first quarterly report of its activities by **end-December 2011**. | **Partially observed.**<br>The Committee has started operating with substantial delay compared to initial timetable and has just started revising the disability categories. The report has not been submitted. |
| The objective is to reduce the disability pensions to not more than 10 percent of the overall number of pensions. For this purpose, the definition of disability and respective rules will be revised, and the central evaluation office is operational since **September 2011**. | **Partly observed**.<br>Central evaluation office is in operation but no report has been produced. |
| The Government implements the reform of the secondary/supplementary pension schemes, by merging funds and starting the calculation of benefits on the basis of the new notional defined-contribution system. The Government freezes nominal supplementary pensions and reduces the replacement rates for accrued rights in funds with deficits, based on the actuarial study prepared by the NAA. In case the actuarial study is not ready, replacement rates are reduced, starting from 1 January 2012, to avoid deficits. All funds set up a computerised system of individual pension accounts. **[Q1-2012]** | *Not yet applicable.* |
| The Bank of Greece commits not to grant pension privileges to its staff and to revise the main parameters of its pension scheme, so that they remain aligned to those of IKA. | |

***To modernise the health care system***

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| The Government continues to implement the comprehensive reform of the health care system started in 2010 with the objective of keeping public health expenditure at or below 6 percent of GDP, while maintaining universal access and improving the quality of care delivery. Policy measures include the integration of primary healthcare, strengthening central procurement and e-health capacity. | **Ongoing with delay.** The reform is continuing and there has been some progress. However, there have been delays and in some areas, like pharmaceuticals, there has been a lack of policy implementation *i.e.* agreed measures have not been implemented. |
| The Government continues to undertake measures yielding savings on pharmaceuticals of at least EUR 2 billion relative to the 2010 level, of which at least EUR 1 billion in 2011. This will bring average public spending on outpatient pharmaceuticals to about 1 percent of GDP (in line with the EU average) by end 2012. | **Partially observed.** There has been a reduction in outpatient pharmaceutical expenditure of almost EUR 1 billion since 2009 but the reduction in 2011 compared to 2010 was negligible. This has been due to the lack of implementation of structural and good practice reforms regarding pharmaceuticals which are common in other EU countries. The reduction in spending was mainly due to a one-off across-the-board cut in prices and entry fees for the positive list.<br>Additional measures were legislated in February and March 2012. |
| The provisions of Article 31 and 32 of Law 3863/2010 are implemented. In particular, the Health Benefit Coordination Council (SYSPY):<br>- continues the work on establishing new criteria and terms for the conclusions of contracts by social security funds with all healthcare providers, and all other actions envisaged in Article 32 with the aim of achieving the targeted reduction in spending;<br>- initiates joint purchase of medical services and goods to achieve substantial expenditure reduction of at least 25 percent compared to 2010 through price-volume agreements. **[Q4-2011]** | **Ongoing.** New types of contracts have been established and some price-volume agreements have been made. The work needs to speed up and intensify. |
| The Government equalises the common benefit package for the insurers of EOPYY, with the aim of full equalisation of benefits and contributions across funds by **December 2011**. | **Observed.** |
| Contributions paid by OGA members are progressively equalised to those of other members of EOPYY, as envisaged in the medium-term fiscal strategy. The process of equalisation of contributions is legislated by **end-2011**, implemented in **January 2012** and will be completed in 30 months. | **Ongoing.** |
| EOPYY starts operating by **end-October 2011**. The new fund will lead to a substantial reduction of administrative staff of at least 50 percent and of contracted doctors of at least 25 percent as compared to the four originating funds combined. The aim is to achieve a ratio of patients per doctor in line with the European average. | **Ongoing with delay.** EOPYY has nominally started to operate only in January 2012, with significant delay, and only a minor part of the administrative staff allocated to EOPYY has physically moved to its offices and started working full time in EOPYY. There has been a decrease in the number of contracts with doctors, though the number of doctors under contract remains very high by EU standards. |
| The Government revokes market regulation 40 (17.12.1990) to abolish the 0.4 percent contribution of wholesale sales prices in favour of the Panhellenic Pharmaceutical Association. **[Q4-2011]** | **Observed.** |

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| An action plan is adopted by early November 2011, based on the final report of the task force (see below), including a timetable for concrete actions. **[Q4-2011]** | **Ongoing with delay.**<br>There was a delay in the submission of the final report of the Task Force (submitted in January 2012). As a consequence, there has been no government action plan so far. |
| *Pricing of medicines and medical services* | |
| The Government updates the complete price list for the medicines in the market, using a new pricing mechanism based on the three EU countries with the lowest prices. The list will be updated on a quarterly basis. **[November 2011]** | **Observed with delay.** |
| Fees for medical services outsourced to private providers are reviewed with the aim of reducing related costs by at least 15 percent in 2011, and by an additional 15 percent in 2012. **[Q4-2011]** | **Ongoing with delay**.<br>Limited reduction in the price of services contracted to private providers has been realised so far in some areas but need to be extended to other areas.<br>Additional measures were legislated in February and March 2012. |
| Starting from 2012, the pharmacies' profit margins are calculated as a flat amount or flat fee combined with a small profit margin with the aim of reducing the overall profit margin to no more than 15 percent, including on the most expensive drugs as defined in law 3816/2010. **[Q1-2012]** | *Not yet applicable.* |
| *Prescribing and monitoring* | |
| The Government:<br>- publishes binding prescription guidelines for physicians defined by EOF on the basis of international prescription guidelines to ensure a cost-effective use of medicines; **[November 2011]**<br>- publishes and continuously updates the positive list of reimbursed medicines using the reference price system developed by EOF. **[November 2011]** | **Partially observed.**<br>Only about 150 guidelines have been published (with substantial delays). No guideline has been implemented or made binding so far. A positive list of reimbursed medicines has been published but it does not work as a standard "reference price mechanism" for reimbursement. It is used as a list of products reimbursed by the State, with an entry fee charged to new medicines on the list.<br>Additional measures were legislated in February and March 2012. |

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| The Government takes further measures to extend in a cost-effective way the e-prescribing of medicines, diagnostics and doctors' referrals to all social security funds, health centres and hospitals. 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). **[Q4-2011]** | **Partially observed.**<br>The tender for e-prescription has been launched with significant delays and is ongoing. There has been some extension of the e-prescription system but very limited and unsuccessful: less than 40 percent of doctors prescribe electronically and the share of outpatient pharmaceutical expenditure covered by e-prescription is 12 percent. There is no effective control of volume and value of prescription and doctors' behaviour. |
| EOPYY and the remaining social security funds establish a process to regularly assess the information obtained through the e-prescribing system and produce regular reports, at least on a quarterly basis, to be transmitted to the competent authorities in the Ministry of Labour, Ministry of Health, Ministry of Finance and ELSTAT. Monitoring and assessment is carried out through a dedicated common unit under SYSPY. Feedback is provided to each physician at least every quarter and a yearly report is published. Sanctions and penalties will be enforced as a follow-up to the assessment. **[Q4-2011]** | **Not observed.**<br>The dedicated unit has not yet been created in EOPYY. IDIKA has done a basic assessment of the number and value of prescriptions by different funds. Feedback and sanctions remain sporadic. Nevertheless, new contracts between EOPYY and private physicians are more stringent regarding prescription behaviour. |
| The Government starts to produce a semi-annual report on the prescription and consumption of medicines and diagnostic tests. This report includes information on the rebate received from pharmacies and from pharmaceutical companies and on the volume and value of medicines. The Ministry of Health provides a feedback report to all physicians on their prescription volume and value, at least on a quarterly basis. Monitoring and reporting of misconduct and conflict of interest in prescription behaviour are intensified. **[Q4-2011]** | **Not observed**. |
| E-prescribing covers all medical acts (medicines, referrals, diagnostics, surgery) in both NHS facilities and providers contracted by EOPYY and the social security funds. Detailed monthly auditing reports are produced by NHS facilities and by providers. **[Q1-2012]** | *Not yet applicable.* |
| *Increasing use of generic medicines* | |
| Additional measures are taken to promote the use of generic medicines through:<br>- setting the maximum price of generics to 60 percent of the branded medicine with similar active substance; **[November 2011]**<br>- establishing and monitoring compulsory e-prescription by active substance and of less expensive generics when available; **[Q4-2011]**<br>- associating a lower cost-sharing rate to generic medicines that have a significantly lower price than the reference price (lower than 60 percent of the reference price) on the basis of the experience of other EU countries. **[Q1-2012]** | **Partially observed.**<br>The price of generics was 63 percent of the branded at the end of 2011. A December 2011 decision set the price at 55 percent of the branded medicine, but it is still a fixed price not a maximum price. As a result there is no competition in this market, that could lead to lower prices over time.<br>There is no compulsory prescription by active substance INN, no generic substitution in pharmacies and no guidelines ensuring the less expensive medicine is provided<br>There have been no changes in cost-sharing which is partly related to the fact that there is no real reference price system for reimbursement.<br>Additional measures were legislated in February and March 2012. |

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| The Government takes further measures to ensure that at least 50 percent of the volume of medicines used by public hospitals is composed of generics with a price below that of similar branded products and off-patent medicines, in particular by making compulsory that all public hospitals procure pharmaceutical products by active substance. **[Q4-2011]** | **Ongoing.**<br>About 30 percent of the expenditure on pharmaceuticals in hospitals is made of generics and this can still go up. |
| *NHS (ESY) service provision* | |
| A plan for the reorganisation and restructuring is prepared for the short and medium term with a view to reducing existing inefficiencies, utilising economies of scale and scope, and improving quality of care for patients. The aim is to reduce hospital costs by at least 10 percent in 2011 and by an additional 5 percent in 2012 in addition to the previous year. This is to be achieved through:<br>- increasing the mobility of healthcare staff (including doctors) within and across health facilities and health regions. **[Q4-2011]**<br>- adjusting public hospital provision within and between hospitals within the same district and health region; **[Q4-2011]**<br>- revising the activity of small hospitals towards specialisation in areas such as rehabilitation, cancer treatment or terminal care where relevant; **[Q4-2011]** | **Partially observed.**<br>Hospital operational expenditure was reduced by 13.4 percent since 2009 (7.2 percen reduction in 2011 compared to 2010). Hospital administrations have been merged (82 rather than 131 hospital boards) but not necessarily the hospitals within each administration. The number of hospital beds has been reduced. Some facilities have been closed or transformed. No progress regarding mobility of staff. |
| A system for comparing hospital performance (benchmarking) is set up on the basis of a comprehensive set of indicators. **[Q4-2011]** Annual reports will be published as of **Q1-2012**. | **Ongoing**.<br>On the basis of ESY.net a basic set of financial and activity indicators is now compiled for all NHS hospitals. A first report is due by March 2012. |
| *Wages and human resource management in the health care sector* | |
| The Ministries of Health and Labour, in cooperation with the Ministry of Finance, prepare the first draft report presenting the structure (age, specialty, grade, regional distribution), levels of remuneration (including fees provisions to consultants and doctors) and the volume and dynamics of employment in hospitals, health centres, and health funds. This report will be updated annually and will be used as a human resource planning instrument. The 2011 report will present plans for the allocation and re-qualification of human resources for the period up to 2013. It will also provide guidance for the education system and it will specify a plan to reallocate qualified and support staff within the NHS and health funds. **[Q4-2011]** | **Ongoing.**<br>A basic report has been done presenting the number of physicians, nurses, auxiliary and administrative staff by region, by age and by education level. The study is being upgraded for specialty. |
| The Government extends the use of capitation payments of physicians, currently used by OAEE, to all contracts between social security funds and the doctors they contract. The new payment mechanism starts for each new contract renewed in 2011 and for all contracts from 2012. It defines a minimum number of patients per doctor, on the basis of the experience of other EU countries. The new system will lead to a reduction in the overall compensation cost (wages and fees) of physicians by at least 10 percent in 2011, and an additional 15 percent in 2012, as compared to the previous year. **[November 2011]** | **Partially observed**.<br>The capitation system has been extended to almost all contracts between EOPYY and private physicians and a reduction in payroll has been observed. However, the number of patients per doctor is still very high by EU standards and there are many specialist physicians compared to general practitioners and paediatricians. |
| *Accounting and control* | |
| Internal controllers are assigned to all major hospitals. **[December 2011]** | **Observed.** |
| By **end-October 2011**, the Government starts publishing the monthly report with analysis and description of detailed data on healthcare expenditure by all social security funds with a lag of three weeks after the end of the respective month. | **Observed.**<br>Monthly data are available for all social security schemes. |
| Social security funds start publishing an annual report on medicine prescription. The annual report and the individual prescription reports examine prescription behaviour with particular reference to the most costly and most used medicines. **[Q1-2012]** | *Not yet applicable.* |
| All hospitals adopt commitment registers. **[Q1-2012]** | |

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| *Hospital computerisation and monitoring system* | |
| The necessary tendering procedures are carried out to develop the full and integrated system of hospitals' IT systems. **[Q4-2011]** | **Ongoing with delay**.<br>The Ministry of Health has prepared the terms of reference. |
| The Ministry of Health completes the ERP (enterprise-resource planning) programme of hospital computerisation and extends coverage of the web-based platform ESY.net to all hospitals. **[Q4-2011]** | **Ongoing with delay.**<br>Planned for March 2012 |
| Further measures are taken to improve the accounting, book-keeping of medical supplies and billing systems, through:<br>- finalising the introduction of double-entry accrual accounting systems and the regular annual publication of balance sheets in all hospitals;<br>- the calculation of stocks and flows of medical supplies in all the hospitals using the uniform coding system for medical supplies developed by the Health Procurement Commission (EPY) and the National Centre for Medical Technology (EKEVYL) for the purpose of procuring medical supplies;<br>- timely invoicing of treatment costs (no later than 2 months) to Greek social security funds, other EU countries and private health insurers for the treatment of non-nationals/non-residents. **[Q4-2011]** | **Partially observed.**<br>Double-entry accounting system has been finalised.<br>**T**he calculation of stock and flows covers 80 percent of the procedures,<br>NHS facilities are now timely invoicing treatment costs. However, these invoices cover only partially the costs of treatment and will be updated when DRGs are in place. |
| The programme of hospital computerisation allows for a measurement of hospital and health centres activity. The Government defines a core set of activity and expenditure indicators in line with Eurostat, OECD and WHO health databases. ELSTAT starts providing data in line with the System of Health Accounts (joint questionnaire collection exercise). **[Q4-2011]** | **Ongoing with delay.** |
| The programme of hospital computerisation allows for the setting up of a basic system of patient electronic medical records. **[Q4-2011]** | **Ongoing.**<br>Basic patient records exist in 55 percent of the NHS hospitals. |
| In all NHS hospitals, the Government pilots a set of DRGs (diagnostic-related groups), with a view to developing a modern hospital costing system for contracting (on the basis of prospective block contracts between EOPYY and NHS). To support the development of DRGs, the government develops clinical guidelines. **[Q4-2011]** | **Ongoing**.<br>DRGs have been piloted and are now being revised as a consequence. |
| *Centralised procurement* | |
| The Government will move towards a new centralised procurement of pharmaceuticals and medical goods for the NHS through the Supplies Coordination Committee with the support of the Specifications Committee, using the uniform coding system for medical supplies and pharmaceuticals. **[Q1-2012]** | *Not yet applicable.* |

*Independent task force of health policy experts*

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| The independent task force of health policy experts produces, in cooperation with the European Commission, ECB and IMF, a first draft of its policy report, with specific recommendations on policies to be implemented. **[end-October 2011]** The report and policies proposals cover the following areas:<br>- health system governance to reduce the fragmentation of the system;<br>- financing: pooling, collection and distribution of funds;<br>- harmonisation of health packages across funds;<br>- service provision and incentives for providers including:<br>▪integration between private and public provision;<br>▪primary care vis-à-vis specialist and hospital care;<br>▪efficiency in the provision of hospital services;<br>▪pharmaceutical consumption;<br>▪human resources;<br>- public health priorities, health promotion and disease prevention;<br>- data collection, health technology assessment and assessment of performance;<br>- expenditure control mechanisms.<br><br>The report will provide preliminary quantitative targets in the fields above, in order to contribute to keep public health expenditure --constant at, or below, 6 percent of GDP. | **Observed with delay**.<br>The first draft was submitted at end November and the final draft by mid-January. An internal workshop took place to discuss the report and the report has been given to the Ministry of Health. The report provides an overview of the measures implemented and recommendations for future measures. |
| The task force of health policy experts produces the final comprehensive policy report, with specific recommendations on policies to be implemented. **[end-November 2011]** | |
| On the basis of this report, the Government adopts an action plan by **end-2011**, including a timetable for concrete actions. | **Not observed.**<br>Since the report was delayed, the Ministry of Health is now preparing the action plan. |
| The taskforce produces an implementation report, revising the policies implemented so far. **[Q2-2012]** | *Not yet applicable.* |

# Table A3- Fiscal sector regulation and supervision

| | Comments |
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| **Each quarter**, the Government transfers EUR 1 000 million to a dedicated government account opened by the General Accounting Office. Funds from this account are regularly paid to the HFSF (Hellenic Financial Stability Fund) to ensure the latter keeps a cash balance of EUR 1 500 million and if programme reviews of bank capital suggest that the resources are necessary. The release of the funds from that account is subject to agreement by the European Commission, ECB and IMF staff. Any support provided with HFSF resources will continue to be in line with state aid rules. | **Observed.**<br>Total EUR 3 000 million have been transferred to the account. |
| The Bank of Greece and the HFSF complete a memorandum of understanding to further strengthen their cooperation, including sharing of appropriate supervisory information, **prior to the sixth disbursement**. | **Observed.** |
| Over the medium term, banks will need to reduce their reliance on Eurosystem borrowing and government guarantees. Regular updates of medium-term funding plans under guidance of the Bank of Greece will be an important tool to ensure that this process proceeds at a pace consistent with the programme's macroeconomic, fiscal, and financial framework. The next update is finalised by **end-2011**. | **Observed.** |
| Banks' consolidated core tier 1 minimum regulatory capital requirement will be set at 10 percent from **January 2012** on. The core tier 1 capital requirements will exclude hybrid capital, but will include preference shares issued by banks and subscribed by the Greek government at the onset of the global financial crisis in 2008-09. | *Revised*. |
| The Bank of Greece ensures an equivalent capital treatment of risks related to Greek government bond exposures across all institutions (with reference to the NPV reduction of the PSI). In this context, the Bank of Greece updates its last Pillar II assessment [one month] after completion of the PSI. | **Observed.** |
| The diagnostic of bank loan portfolios commissioned by the Bank of Greece will be concluded by **end-December 2011**. The Bank of Greece will ensure that any existing under-provisioning revealed by this exercise will be recognized in banks' profit and loss accounts. The Bank of Greece, in cooperation with the Commission, the ECB, and the IMF staff teams will use the diagnostic results to determine capital needs over the three year horizon, based on a minimum core tier 1 target capital ratio of 6 percent under an adverse stress test scenario. The capital needs will be assessed per bank and disclosed to the market by **end-February 2012**. | *Revised*. |
| Following the additional capital needs assessment based on the diagnostic study, banks may be given time to raise this additional capital on the market. If the Bank of Greece determines that a period of time should be allowed for a bank to meet capital requirements, the relevant bank will be asked to present, by **end-April 2012**, a viable 3-year business plan to this end. Any bank in this circumstance will have to meet capital requirements by no later than **end-August 2012**. Any capital to be raised to this end should consist of instruments qualifying as Tier I capital. | *Not yet applicable* |

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| The governance arrangements of financial oversight agencies will be reviewed in consultation with the European Commission, ECB, and IMF staff:<br>the organisational arrangements for the Bank of Greece to ensure that they are in line with best international practice and that any potential conflict of interest in its expanded supervision and resolution role is avoided;<br>the corporate governance arrangements for the HFSF (including the need for internationally recognized professionals with banking experience to be members of the board with voting rights); and<br>the governance arrangements for the HDIGF (to address potential conflicts of interest).<br>The enactment of legislation to address any outstanding issues in these areas will be completed by **end-2011**. | **Observed.** |
| The government commits to fully subscribe its share in cash in ATE bank, and to purchase any other unsubscribed shares (after notification to the European Commission). An appropriate amount of funds will be set aside for this purpose. This capital increase will be reflected in ATE's restructuring plan, an update of which will be resubmitted to the European Commission by **end-October 2011**. | **Observed..** |
| Regarding the Hellenic Consignment and Loan Fund (HCLF), an implementing decree and commitments to comply with state aid rules will clarify the future tasks of the remaining activities of the HCLF, ensuring that these will not be in competition with commercial activities. A more detailed schedule for transferring the commercial activities and the above-mentioned commitments will be specified by **end-October 2011** and will thereafter be endorsed by an Inter-Ministerial Decision. The disposal of the commercial activities branch will be completed on or before **end-July 2012**.<br>Any support provided by the HDIGF and the HFSF in the framework of resolution will be notified to the European Commission under state aid rules. | **Observed.** |
| The Bank of Greece will require capital shortages to be addressed by **end-November 2011**, [or take the appropriate actions to deal with the situation (by **end-November 2011**)] in line with EU state aid rules. Until capital shortages have been resolved, the Bank of Greece will closely monitor affected banks and continuously enforce appropriate remedial measures. | **Observed.**<br>Action taken on T bank and FBBank. |
| The Bank of Greece commits to continue efforts to reduce remuneration of its staff in light of the overall effort of fiscal consolidation. | |

## Table A4- Growth enhancing structural reforms

| | **Comments** |
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| ***To strengthen labour market institutions*** | |
| *Wage setting* | |
| The Government initiates discussions **[Q4-2011]** with social partners to examine all labour market parameters that affect the competitiveness of the companies and the economy as a whole. The goal is to conclude a national tripartite agreement which addresses the macroeconomic challenges to support stronger competitiveness, growth and employment. | **Observed.**<br>The Government initiated discussions with social partners. However, since the outcome was not satisfactory, the Government adopted legislation to reduce labour costs. |
| Moreover, based on a dialogue with social partners and taking into account the objective of creating and preserving jobs and improving the firms' competitiveness, the Government adopts further measures to allow the adaptation of wages to economic conditions. In particular:<br>–the extension of occupational and sectoral collective agreements is suspended until end-2014;<br>–the so-called favourability principle is suspended throughout the MTFS period, in such a manner that firm-level agreements take precedence over sectoral and occupational agreements;<br>–firm-level collective contracts can be signed either by trade unions or, when there is no firm-level union, by work councils or other employees' representations, irrespective of the firms' size.<br>These amendments are legislated **prior to the sixth disbursement**. | **Observed.** |
| *Fighting undeclared work* | |
| Quantitative targets on the number of controls of undeclared work to be executed are set for the Labour Inspectorate. A pilot study is implemented in order to verify the favourable financial net impact on the overall social security budget of a discount of up to 10 percent on social contributions for those enterprises introducing the labour card. The pilot study covers a limited scope of firms (maximum 100), over a short period of time (maximum four months). **[December 2011]** | **Not observed.**<br>There has been no pilot study. |
| An assessment on the effectiveness of the Labour Inspectorate law will be made six months after its implementation. **[Q4-2011]** Should the law prove ineffective, an appropriate amendment will be adopted. In particular, any wider-scale application of a discount of up to 10 percent on social contributions for those enterprises introducing the labour card will be conditional on the pilot study showing sufficient evidence of a favourable financial impact of the discount on the overall social security budget. | |

***To improve the business environment and enhance competition in open markets***

*Regulated professions*

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| In the implementation of Law 3919/2011, any decision to reinstate a restriction considers the need to promote competition and takes into account international best practice. The Government consults widely, and in particular with the Hellenic Competition Commission. [not later than **end-Q4 2011]** | **Ongoing**.<br>As of mid-February 2012, the Ministry of Finance received requests for derogation of chapter A of law 3919/2011 for 53 professions. In general, the Hellenic Competition Commission has issued opinions against those requests barring the cases of<br>i) manufacturing and marketing of weapons and explosives,<br>ii) private primary and secondary schools,<br>iii) tutoring centres and language schools,<br>iv) vocational training institutes,<br>v) vocational training centres,<br>vi) post-secondary education centres,<br>vii) liberal arts studios where the maintenance of the prior authorization regime were deemed to be warranted. |
| The Government repeals Ministerial Decision 648/2011 and issues a new Joint Ministerial Decision significantly reducing the value of a transaction above which the notaries' *pro rata* fee for drafting contracts is the maximum permissible fee. In addition, the new Ministerial Decision defines *pro rata* fees for transactions below this maximum value at successively decreasing rates in inverse proportion to the graduated increase, ensuring a sharp reduction of the fees already charged. To this end, the new ministerial decision reduces *pro rata* fees by at least 30 percent in the first two tranches defined in Ministerial Decision 648/2011, with larger cuts in the *pro rata* fees applicable to subsequent tranches. The new Joint Ministerial Decision also lowers fees for copies and for additional pages. **[Q4-2011]** | **Observed.**<br>A joint ministerial decision reduced notaries' fees by 27% in the first two tranches compared to the 2011 decision. It also reduced fees for copies and for additional pages by EUR 1each and provided that starting from EUR 20 million the fee defined in the decision is the maximum fee (compared to EUR 30 million before). |
| For the legal profession, the Government issues a Presidential Decree revising the percentages applicable to the reference amounts (Article 96(2) of the Code of Lawyers, as amended), which sets prepaid amounts for each procedural act or court appearances (i.e., it sets a system of prepaid fixed/contract sums for each procedural act or appearance by a lawyer which is not linked to a specific ‘reference amount’). **[Q4-2011]** | **Ongoing**.<br>As of mid-February 2012 a draft Presidential Decree had been prepared, but it needed further refinements to be in line with the law on fair trial and denial of justice adopted by the Hellenic Parliament on 6 March 2012. |
| An audit is launched to assess to what extent the contributions of lawyers and engineers to cover the operating costs of their professional associations are reasonable, proportionate and justified. **[Q4-2011]** | **Partially observed.**<br>The Ministry of Infrastructure has provided information to the Commission services on the profit and loss account of the Technical Chamber of Greece.<br>The Ministry of Justice still has to provide similar information for the legal profession. |

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| The Government publishes a report, by **mid-November 2011**, on the implementation of Law 3919/2011, including:<br>1. the list of professions falling under the scope of the law;<br>2. the list of professions exempted from the lifting of restrictions by Presidential Decree and the justifications for such exemptions;<br>3. an assessment on whether further measures are needed on the rules on access to, and exercise of the profession, and on pricing to align Greek legislation with EU law and competition rules;<br>4. a timetable to screen existing legislation and to adopt the necessary changes to the existing specific regulations of the professions (i.e., Presidential Decrees, Ministerial Decisions and Circulars) to make them fully compatible with Law 3919/2011, EU law and competition rules. | **Partly observed.**<br>The third and fourth elements have not been complied with. |
| Changes to Presidential Decrees, Ministerial Decisions and Circulars following the screening of legislation are adopted. **[March 2012]**. | *Not yet applicable.* |
| Measures are identified to ensure that providers of services are not subject to requirements which oblige them to exercise a given specific activity exclusively, or which restrict the exercise jointly or in partnership of different activities, except in the circumstances and under the conditions set in the Services Directive. **[December 2011]** | **Not observed**. |
| The Government identifies measures to remove complete prohibitions on commercial communications by the regulated professions and to ensure that professional rules on commercial communications are non-discriminatory, justified by an overriding reason relating to the public interest and proportionate. **[Q4-2011]** | **Partly observed**.<br>The main outstanding case of complete bans on advertisement applied to the legal profession (namely, to lawyers, law firms and notaries).<br>PD 95/2011 and Art. 6 of Law 4038/2012allow more flexibility in the commercial communications of notaries and lawyers, respectively. However, law 4038/2012 keeps a complete ban on TV, radio and billboards, which appears contrary to Art. 24 of the Services Directive and to the European Court of Justice caselaw. |
| The Government identifies measures to reinforce transparency in the functioning of professional bodies by requiring them to publish an annual report on their webpage regarding their financial performance and statistics on disciplinary actions in defence of consumers' interests. **[November 2011]** | **Partly observed**<br>(observed only for the legal profession)<br>Law 4038/2012 provides for the publication of the annual accounts of the bar associations in Greece as well as of aggregate information on disciplinary procedures.<br>The principle of transparency should however, be applied to all other regulated professions. |
| The Government monitors the implementation of Law 3919/2011 and launches a study on how effective such a law is in increasing competition and reducing prices **[October 2011]**. The study is regularly updated, with the first results available by **end-December 2011**. If necessary, adjustments to the law with the aim of increasing competition are adopted by **March 2012**. | **Observed**.<br>The study is being carried out by KEPE, a Greek think- tank. An interim report was completed and presented in December 2011. |
| The Government presents the results of screening of the regulations of the main regulated professions to assess the justification and the proportionality of the requirements reserving certain activities to providers with specific professional qualifications. **[November 2011]** | **Not observed**. |

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| The Government prepares acts by **end-2011**, to be adopted by **Q1-2012,** at the latest, in order to:<br><br>1. abolish provisions of the regulations of the professional chambers on access to, and exercise of, the profession and on pricing, that are against Law 3919/2011 and EU law including competition rules; | **Not observed**.<br>There are on-going discussions on specific provisions of the code of lawyers regarding minimum levels of remuneration applicable to salaried lawyers and on areas reserved to the legal profession. |
| 2. ensure that providers of services are not subject to requirements which oblige them to exercise a given specific activity exclusively, or which restrict the exercise jointly or in partnership of different activities, except in the circumstances and under the conditions set in the Services Directive; | **Not observed**.<br>(This follows from lack of compliance with the identification of restrictions to multidisciplinary activities referred to above) |
| 3. remove complete prohibitions on commercial communications by the regulated professions and to ensure that professional rules on commercial communications are non-discriminatory, justified by an overriding reason relating to the public interest and proportionate; | **Partly observed**<br>Observed for the legal profession (i.e., notaries, lawyers and law firms). |
| 4. reinforce transparency in the functioning of professional bodies; | **Observed**<br>for the legal profession (i.e., lawyers).<br>**Not observed** for other professions.. |
| 5. set up contributions of lawyers and engineers to their professional associations that reflect the operating costs of the services provided by those associations. These contributions are paid periodically and are not linked to prices charged by professions; | **Not observed**. |
| 6. simplify the requirements reserving certain activities to the legal and engineering professions that are not justified or proportionate; | **Not observed**. To date, discussions have only started with the Ministry of Justice regarding certain reserved activities in favour of Greek lawyers covering mediation and mandatory presence in contracts where notaries' participation are also required. |
| 7. amend Article 6 of Law 3919/2011 to provide for the freedom of incorporation of law firms and the freedom to the opening of branches inside Greece. | **Observed.** |
| 8. abolish Article 7.1 b) of Law 3919/2011, regarding the powers of the Technical Chamber of Greece to monitor and to open disciplinary proceedings for unusually low fees. | **Observed.** |
| 9. tackle any other issues identified in the assessment of the implementation of Law 3919/2011. | |
| The Government requests the Hellenic Competition Commission to issue an opinion of the proposed acts. **[Q4-2011]** | **Observed**. |
| *Recognition of professional qualifications* | |
| All the necessary measures are taken to ensure the effective implementation of EU rules on the recognition of professional qualifications, including compliance with ECJ rulings (*inter alia*, related to franchised diplomas). The Government:<br>- updates the information on the number of pending applications for the recognition of professional qualifications, and sends it to the Commission; **[October 2011]**<br>- presents draft legislation by **October 2011**, to be adopted by **end-year**, in order to remove the prohibition to recognise the professional qualifications derived from franchised degrees. Holders of franchised degrees from other Member States should have the right to work in Greece under the same conditions as holders of Greek degrees. | **Partially observed**<br>Information on the number of pending applications for recognition of professional qualifications was transmitted to the Commission in December 2011.<br>The draft legislation providing for the recognition of franchised diplomas for professional is pending. |

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| *Services Directive* | |
| The Government completes the adoption of changes to existing sectoral legislation in key services sectors such as retail (e.g. open air markets and outdoor trade), wholesale (e.g. central markets), agriculture (e.g. veterinary services), employment (employment agencies), and technical services. The Government also adopts changes to the remaining sectoral regulation, ensuring full compliance with the directive.<br>Regulations should:<br>–facilitate the establishment by:<br>▪abolishing or amending requirements which are prohibited by the Services Directive;<br>▪abolishing or amending unjustified and disproportionate requirements, including those relating to quantitative and territorial restrictions, legal form requirements, shareholding requirements, fixed minimum and/or maximum tariffs and restrictions to multidisciplinary activities.<br>–facilitate the provision of cross-border services, so that providers of cross-border services are required to comply with specific requirements of the Greek legislation only in exceptional cases (when admitted by Articles 16 or 17 of the Services Directive).<br>–provide legal certainty for providers of cross-border services by setting out in the respective (sectoral) legislation which requirements can, and which requirements cannot, be applied to cross-border services. **[Q4-2011]** | **Essentially observed**.<br>Since the previous review there has been good progress in the adoption of sectoral legislation deriving from the implementation of the services directive. There is however pending legislation in the field of employment (to remove *inter alia*, minimum fees in employment agencies) and on technical professions (i.e., a series of Presidential Decrees simplifying the access and exercise of a number of technical professions such as electricians, plumbers, machine operators, etc.). |
| The Government ensures:<br>–that the point of single contact (PSC) is fully operational in all sectors covered by the Services Directive;<br>–that the PSC distinguishes between procedures applicable to service providers established in Greece and those applicable to cross-border providers (in particular for the regulated professions);<br>–that there is adequate connection between the PSC and other relevant authorities (including one-stop shops, professional associations and the recognition of professional qualifications). **[Q4-2011]** | **Ongoing**.<br>Since the last review there has also been good progress towards the completion of the Point of Single Contact (PSC). However, the Greek PSC needs to improve to increase the information available in English as well as the number of procedures that can be completed online. It has been estimated that in 30% of the cases, the PSC provides information only and in almost 20% of the procedures, the PSC does not provide any information (or access to the electronic completion of procedures) at all. |
| *Sectoral growth drivers* | |
| The Government publishes reports analysing:<br>- the potential contribution of the tourism sector to growth and jobs. In an Action Plan, the Government identifies legislative, administrative and other obstacles hindering competition and market entry to the realisation of sector potential; **[November 2011]**<br>- the potential contribution of the retail sector to price flexibility, growth and jobs. It should identify legislative, administrative and other obstacles hindering competition and market entry to the realisation of sector potential. **[November 2011]** | **Not observed** (tourism)<br>**Partly observed** (retail).<br>The Ministry of Development, Competitiveness and Shipping (MDCS) submitted in December 2011 a list of actions taken or to be taken in response to the study on retail carried out by McKinsey. |

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| The necessary legal acts and other structural actions are adopted **[Q4-2011]** to implement the findings of these reports. | **Observed** (retail).<br>As of February 2012, legislation had been adopted to lift constraints on the sale by other retailers of currently restricted product categories, such as baby milk. There was also draft legislation ready i) to allow the sale of bake off bread through retailers other than bakeries; ii) to simplify the system of submission of wholesale and retail price lists, cost elements and contracts to the Ministry of Competitiveness. |
| The Government initiates additional studies on manufacturing, energy, and wholesale sectors with a view to removing remaining obstacles to growth in these sectors. On the basis of these studies, the Government prepares concrete actions and a timetable for implementation [**March 2012**]. | *Not yet applicable* |
| *Business environment* | |
| The Government publishes a plan **[October 2011]** for a "Business-Friendly Greece" tackling 30 remaining restrictions to business activities, investment and innovation. The plan identifies hurdles to innovation and entrepreneurship - ranging from company creation to company liquidation - and presents the corresponding corrective actions. The plan includes measures, among others, in order to:<br>–simplify and reduce costs linked to company publication requirements;<br>–complete the setting-up of the General Commercial Registry (GEMI) by promptly taking measures such as the training of OSS and GEMI users, the completion of the GEMI database, the further development of web services and use of electronic signatures, the interconnection of GEMI to the Chamber's information systems and to the PSC, in order to ensure access to online completion of procedures both for company formation and for any administrative procedures necessary for the exercise of their activities;<br>–simplify location, environmental, building and operating permits;<br>–eliminate distortions in fuel distribution;<br>–develop a "single electronic window" centralizing standardized trade-related information and simplifying the number of documents needed to export;<br>–address restrictions in the transport sector, including the transport of empty containers and of non-hazardous waste;<br>– reduce the complexity of the Code of Books and Records and provide clarity on all categories of non-deducted expenses. | **Partially observed**.<br>Although a draft plan exists, it has not yet been published. |
| The Government concludes the screening of Ministerial Decision A2-3391/2009 on market regulations, as well as any other related regulations. The screening is carried out, in cooperation with the Hellenic Competition Commission, with a view to identifying administrative burdens and unnecessary barriers to competition to be eliminated, and developing alternative, less restrictive, policies to achieve government objectives. A draft proposal of market regulation is ready by **[end-December 2011]**. | **Ongoing.**<br>The Ministry of Development Competitiveness and Shipping is expected to issue in April 2012 a new Ministerial Decision on market regulations to replace Ministerial Decision A2-3391/2009. Draft sections of the new decision on market regulations –covering fresh foods, meat and fish– are treated as a pilot and are expected to be available for discussion in March 2012. |

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| A comprehensive list of non-reciprocating charges in favour of third parties is presented, identifying beneficiaries and quantifies contributions paid by consumers in favour of those beneficiaries. **[October 2011]** | **Observed.**<br>The Ministry of Finance submitted a comprehensive list of non-reciprocating charges to the Commission services in November 2011. The list has to be further refined to quantify the contributions and to better identify beneficiaries. |
| The Government reviews and codifies the legislative framework of exports (i.e., Law 936/79 and Law Order 3999/59), simplifies the process to clear customs for exports and imports and gives larger companies or industrial areas the possibility to be certified to clear cargo for the customs themselves. The obligation of registration with the exporters' registry of the Chamber of Commerce is abolished. **[December 2011],** while the e-customs system is fully operational. **[June 2012]** | **Ongoing.**<br>As of February 2012, the Government had submitted to Parliament draft legislation replacing Law 936/79 and Law Order 3999/59 and abolishing the need to register with the exporters' registry of the Chamber of Commerce.<br><br>Regarding the simplification of customs' procedures, the Ministry of Finance issued a Ministerial Decision allowing the exporter to get an authorization to export without prior submission of custom declarations and without presentation of the goods to the customs premises. Another Decision provides for a simplified import clearance procedure and for clearing the goods in the importer's premises. The simplified procedures are those in Community Customs' regulations. |
| In order to help attract investment in key sectors, the Government speeds up the review of project applications in the pipeline of the procedure for large investments for at least three large investment projects by **end-November 2011,** with two more projects one month later. | **Observed**.<br>The interministerial committee for strategic investment approved the inclusion in the procedures of fast-track three investment projects in renewable energy.<br>Four projects have completed their electronic submission in strategic investment. |
| The Decrees necessary for the implementation of the law on fast-track licensing procedure for manufacturing activities and business parks are implemented. **[October 2011]** | **Ongoing**.<br>As of mid-February 2012, three implementing regulations deriving from this law have been issued.<br>The majority of the implementing decisions is, nonetheless, pending. |
| The Government accelerates **[Q4-2011]** the completion of the land registry, with a view to:<br>–tendering cadastral projects for additional 4 million rights by December 2011;<br>–digitalising the operations of all mortgage and notaries' offices and conveying all newly registered deeds to the cadastre by 2015;<br>–exclusively-operating cadastral offices for large urban centres by 2015;<br>–establishing a complete cadastral register and exclusively operating cadastral offices nationwide by 2020. | **Observed**.<br>7 million rights were tendered in December 2011. |
| A Ministerial Decision on market regulations is issued following the screening launched in Q2-2011. **[Q4-2011]** | **Ongoing.**<br>See comment above on the screening of Ministerial Decision on market regulations. |

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| An *ex post* impact assessment is presented in order to evaluate Law 3853/2010 on the simplification of procedures for the establishment of companies in terms of savings in time and cost to set up a business, as well as to verify that all secondary legislation is in force. **[Q1-2012]** | *Not yet applicable* |
| *Transport* | |
| Liberalisation of tourist coaches is immediately effective after passing legislation in early August 2011. Secondary legislation establishing the costs and the time required for issuing new licences is adopted by **end-October 2011**. Such costs will not exceed the administrative costs and the required timing will not exceed 20 business days in total. | **Observed**. |
| The Government submits a policy paper, indicating how all regional airports will be merged into groups ensuring that regional airports become economically viable in compliance with state-aid rules, including realistic projections identified by the appointed financial advisors. **[Q4-2011]** After ensuring that regional airports are economically viable, the Government launches an effective transaction strategy leading to their privatisation. **[Q1-2012]** | **Ongoing with delay**.<br>The Privatisation Fund is preparing the policy paper. |
| A report is submitted on the functioning of the regular passenger transport services (KTEL), presenting options for liberalisation. **[Q4-2011]** | **Ongoing with delay**.<br>Consultants working on the report. Final results expected to be ready by March 2012. |
| The transitional period established in Law 3887/2010 for the reduction in costs for issuing new road transport operator licences is brought to an end on 1 January 2012. The necessary secondary legislation as foreseen in that law (Article 14(11)) is adopted, specifying the cost for issuing new road transport operator licences. This cost is transparent, objectively calculated in relation to the number of vehicles of the road transport operator and does not exceed the relevant administrative cost. **[Q4-2011]** | **Observed**. |
| In line with the policy objectives of Law 3919/2011 on regulated professions, the Government removes entry barriers to the taxis market (in particular, restrictions on the number of licences and price of new licences), in line with international best practice. **[Q4-2011]** | **Not observed**.<br>Draft law is still under discussion. |
| *Energy* | |
| The Government finalises the remedies to ensure the access of third-parties to lignite-fired electricity generation. **[October 2011]** | **Not observed**. |
| The Government ensures that network activities are effectively unbundled from supply activities.<br>In particular, for electricity:<br>- all the necessary transfers of staff and assets of the transmission system operator (TSO) are completed; the TSO management, it supervisory body and the compliance officer are appointed in accordance with the Electricity Directive 2009/72/EC; [**Q4-2011]**<br>- all necessary transfers of staff and assets to the legally unbundled distribution system operator (DSO) are completed; [**Q1-2012]**<br>- the unbundled TSO is certified by the Greek energy regulator. **[Q2-2012]** | **Ongoing**.<br>The Q4-2011 deadline for the transfer of assets and personnel to the unbundled TSO was partly complied with by the end of 2011, but is likely to be complied fully in Q1-2012.<br>It is also likely that the Q1-2012 deadline for the implementation of the DSO unbundling will be observed. |

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| For gas:<br>- ownership unbundling is implemented as foreseen in the Greek energy law. **[Q1-2012]** | **Not observed**.<br>In December 2011 the Greek authorities introduced an amendment to Law 4001/2011 on the operation of gas and electricity markets as well as the exploration and production of hydrocarbons, to allow for the implementation of the ITO-model for the gas TSO, DESFA. This allows also for DEPA and DESFA to be sold as a vertically integrated company (as opposed to selling both companies separately, which was the policy originally provided for in the energy law, intentionally negotiated with the Greek authorities and included in the previous update of the MoU). Ownership unbundling still remains an option for the unbundling of the gas TSO. |
| - the unbundled TSO is certified by the Greek energy regulator. **[Q2-2012]** | *Not yet applicable.* |
| The Government starts implementing the measures ensuring the access by third parties to lignite-fired electricity generation. **[Q4-2011]** | **Not observed**.<br>This follows from the lack of compliance with the deadline to finalize the remedies to grant access to 40% of lignite fired capacity in Greece to competitors of PPC. |
| Detailed plans are presented for ensuring a maximum market opening as regards the non-interconnected system, covering among others, access of suppliers to the non- interconnected system markets in particular in Rhodes and Crete. The Government submits a request for derogation under certain conditions of Article 44 of Directive 2009/72 for small isolated systems. **[Q4-2011]** | **Partially observed**.<br>Greece has submitted in January 2012 a request for derogation for the non-interconnected islands to the Commission. However, the code for ensuring maximum market opening on the non-interconnected islands has not yet been adopted. |
| Legislation is adopted to award the hydro reserves management to an independent body. **[Q4-2011]** | **Not observed**.<br>Following announcements of the Greek ministry of environment, the Ministry of Energy is considering the option of selling lignite plants with hydro plants in the context of the privatization of PPC. Depending on how it is implemented, this measure could help to solve the lack of competition on the generation side of the electricity market, where to date PPC keeps privileged access to both energy sources, and hence, an unfair advantage over other electricity producers that rely exclusively on gas and renewables, which are relatively more expensive. This measure could also be an alternative solution to awarding the management of hydro reserves to an independent body. |

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| The Government removes regulated tariffs for customers except households and small enterprises (as defined in the second and third energy liberalisation packages). **[Q4-2011]** | **Observed**.<br>A Ministerial Decree was issued in January 2012 which deregulates medium voltage consumers. |
| Further measures are adopted to ensure that the energy component of regulated tariffs for households and small enterprises reflects, at the latest by June 2013, wholesale market prices, except for vulnerable consumers. **[Q4-2011]** | **Ongoing.**<br>Oother measures have been undertaken to bring the remaining regulated customers (low-voltage customers, i.e. mainly households and small businesses) closer to the market price. Regulated prices were increased by 3% at the beginning of 2012. |
| The Government completes the implementation of the measures to ensure access by competitors of PPC to lignite-fired electricity generation. Third parties can effectively use lignite-fired generation in the Greek market. **[Q2-2012]** | *Not yet applicable.* |
| *R&D and innovation* | |
| The Government pursues an up-to-date and in-depth evaluation of all R&D and ongoing innovation actions, including in various operational programmes with their costs and benefits. It presents a strategic action plan for policies aimed at enhancing the quality and the synergies between public and private R&D and innovation, as well as tertiary education. This action plan identifies a clear timetable for relevant measures to be taken, taking the budgetary impact into account and harmonising these actions with other relevant initiatives in these areas, in particular the investment law. **[February 2012]** | **Ongoing**. |

| *Better regulation* | |
|---|---|
| The Government tables legislation **[November 2011]** to improve regulatory governance covering, in particular:<br>–the principles of better regulation;<br>–the obligations of the regulator for the fulfilment of those principles;<br>–the tools of better regulation, including the codification, recast, consolidation, repeal of obsolete legislation, simplification of legislation, screening of the entire body of existing regulation, *ex-ante* and *ex-post* impact assessments and public consultation processes;<br>–the transposition and implementation of EU law and exclusion of *gold plating*;<br>–the setting-up of better regulation structures in each ministry as well as the creation of a Central Better Regulation unit;<br>–the requirement that draft laws and the most important draft legislative acts (Presidential Decrees and Ministerial Decisions) are accompanied by an implementation timetable;<br>–electronic access to a directory of existing legislation and an annual progress report on Better Regulation.<br><br>On impact assessments, legislation provides that:<br>–implementing legislation with potentially large significant impact is also subject to the requirement to produce an impact assessment;<br>–impact assessments address the competitiveness and other economic effects of legislation by making use of the Commission Impact Assessment guidelines and the OECD Competition Assessment toolkit;<br>–the Central Better Regulation Unit can seek the opinion of other ministerial departments and independent authorities for regulations that fall under their respective competences so as to improve the quality of impact assessment;<br>– an independent authority and the Central Better Regulation Unit carry out quality checks of impact assessments.<br>– the Central Better Regulation Unit consults the Hellenic Competition Commission when formulating and drafting the guidelines to be implemented by the ministries' better regulation units;<br>– impact assessments are published. | **Ongoing**.<br>A draft law has been tabled in Parliament; it largely complies with the MoU criteria. |
| The Government identifies priority areas to codify and simplify existing legislation within the better regulation agenda. **[December 2011]** | **Not observed**. |
| On administrative burden reduction, the Government submits a list of 13 selected priority areas to the European Commission that will be subject to measurement. It also sets deadlines for the completion of measurements in each area, for the identification of proposals to reduce burdens and for the amendment of the regulations. This policy initiative should reduce administrative burdens by 25 percent (compared with the baseline year 2008) in the 13 priority areas. **[December 2011]** | |

***To raise the absorption rates of structural and cohesion funds***

| | |
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| The Government meets targets for payment claims and major projects in the absorption of EU structural and cohesion funds set down in the table. Compliance with the targets shall be measured by certified data. | **Observed**.<br>The government has met the annual target for the submission of 15 large projects. Moreover, payment claims of approximately EUR 3 301 million were declared to the Commission in 2011 against the annual target of EUR 3 350 million, implying that overall compliance stood at 98.6% of the annual target.<br>By type of fund, the European Regional Development Fund (ERDF)/Cohesion Fund target of EUR 2.6 billion was exceeded by 4.5% (with payment claims of around EUR 2 718 million), whereas European Social Fund (ESF) payment claims (amounting to a total of EUR 583.8 million) were at 78% of the annual target. |
| In meeting absorption rate targets, recourse to non-targeted state aid measures is gradually reduced. The Government provides data on expenditure for targeted and non-targeted *de minimis* state aid measures co-financed by the structural funds in 2010 **[October 2011]** and in 2011 **[Q4-2011].** | **Not observed**.<br>Data on non-targeted *de minimis* state aid for 2011 have not been provided. |
| Legislation is adopted, and immediately implemented, to shorten deadlines and simplify procedures on contract award and land expropriations, including the deadlines needed for the relevant legal proceedings. **[Q4-2011]** | **Not observed**. |
| The Government earmarks appropriate amounts to:<br>–complete unfinished projects included in the 2000-06 operational programme closure documentation (ca. EUR 260 million), as well as an appropriate amount for the rest of the implementation and closure of the 2000-06 cohesion-fund projects;<br>–to cover the required national contribution, including non-eligible expenditure (i.e. land acquisitions) in the framework of the 2007-13 operational programmes. **[Q4-2011]** | **Ongoing**. |
| The Government identifies EUR 500 million from ERDF within the 2007-13 operational programmes for the creation of a guarantee fund for small and medium-sized enterprises. **[Q1-2012]** | **Observed**. |
| The Government launches a web-based monitoring tool of procedures for the approval of project proposals and for the implementation of public projects, **[October 2011]**, which should be fully operational by **end-2011**. | **Observed**. |
| The managerial capacity of all managing authorities and intermediate bodies of operational programmes under the framework of the National Strategic Reference Framework 2007-13 is certified according to the standard ISO 9001:2008 (quality management). **[Q4-2011]** | **Largely observed**. |
| The Government provides an impact assessment of measures since 2010, in order to accelerate the absorption of structural and cohesion funds adopted since May 2010, and it indicates any additional measures. **[Q4-2011]** | **Observed**. |

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| With the aim of accelerating the absorption of EU financing and in order to adapt itself to the increase in the EU co-financing rates, the Government will, by **December 2011**:<br>- establish priority projects per operational programme, including, where appropriate major projects, which will have a significant impact on cohesion, growth and employment, and their respective estimated allocation. These projects should be operational by 2015; [**December 2011]**<br>- activate or eliminate sleeping projects (i.e. projects already approved in the operational programmes but not yet contracted within the timeframes as defined at the national level). For those projects which are retained, it indicates which conditions must be met in order that the co-financing is upheld; [**December 2011]**<br>- create a central database monitoring compensation and the time elapsed for the completion of expropriations incurred in the framework of the implementation of projects co-financed by the ERDF and the Cohesion Fund; [**Q1-2012]**<br>- simplify tasks relating to project implementation by mapping responsibilities and removing unnecessary steps in accordance with the management and control systems while also consolidating management capacities where appropriate (e.g. waste treatment). **[Q2-2012]** | **Observed** (for the propriety projects)<br><br>**Ongoing** (for the identification of sleeping projects)<br><br>*Not yet applicable.* |
| ***To upgrade the education system*** | |
| The Government prepares, and starts implementing, an action plan for the improvement of the effectiveness and efficiency of the education system, taking into account the measures recommended by the independent task force's report. **[end-October 2011]** | **Partially observed**.<br>The action plan needs improving. |
| Based on the recommendations of the blueprint and the action plan, the existing legal/institutional framework for primary, secondary and tertiary education will be amended with a view to increasing the efficiency and effectiveness of the education system. The Government starts publishing a bi-annual progress report on the implementation of the law on quality assurance in Higher Education. **[Q4-2011]** | **Ongoing with delay**.<br>Legal framework still under preparation. |
| The new tertiary education framework law, aimed at reducing excessive costs and at improving its overall efficiency and effectiveness, is implemented. **[Q2-2012].** | *Not yet applicable.* |

***To reform the judicial system***

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| In order 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:<br>(i) ensures effective and timely enforcement of contracts, competition rules and judicial decisions;<br>(ii) increases efficiency by broadening the skills' base of senior judges to whom court management tasks have been assigned;<br>(iii) speeds up the system by eliminating backlog of courts cases and by facilitating out-of-court settlement mechanisms.<br>Specifically, the Government:<br>- launches **[October 2011]**, jointly with an external body of experts, a study of the backlog of non-tax cases in courts. The study includes the Supreme Court and the Supreme Administrative Court, with data available by **end-March 2012** and the analysis by **end-June 2012**.<br>- puts in place implementing rules for Law 3898/2010 on mediation in civil and commercial matters; **[October 2011]**<br>- identifies dormant cases, i.e. cases pending before the civil courts in which the relevant court's file records that they have been postponed or never received a hearing date and no party activity for receiving a hearing date has taken place for at least 18 months; [**October-2011**] | **Observed**.<br><br>The external body of experts has been appointed and the study is ongoing.<br><br>The following implementing rules have been adopted: Presidential Decree No 123/2011 of 9 December 2011 and Decisions No 109087 and 109088 of the Ministry of Justice, Transparency and Human Rights dated 12 December 2011. The joint ministerial decisions under Articles 5(3), 6(2), 6(3) and 9(2) of Law 3898/2010 and the decisions of the Ministry of Justice, Transparency and Human Rights under Articles 6(5) and 12(3) of Law 3898/2010 are pending.<br><br>Regular reporting of dormant cases will be requested starting from end-June 2012. |
| The Government presents a working plan for the clearance of the backlog of tax cases in all administrative tribunals and administrative courts of appeal by the end of July 2013, which provides for intermediate targets for reducing the backlog by at least 15 percent by **December 2011**, 50 percent by **July 2012** and 80 percent by **December 2012**; **[Q4-2011]** | **Observed**.<br>The Government met the 15 percent reduction target on the basis of its interpretation of backlog clearance that it equates with the fixing of a hearing date. In particular, a hearing date was fixed until 31 December 2011 for 24 780 out of 156 862 cases that were pending on 31 August 2011 at first instance level, and 3 260 out of 8 590 cases that were pending at appeal level. |
| The Government prepares a working plan for the use of e-registration, e-tracking of the status of individual cases in all courts of the country, and for e-filing. The work plan includes deadline for the evaluation and completion of current pilot projects (e.g. e-filing) and their extension to all courts. The plan **[Q4-2011]** envisages that e-registration, and e-tracking is extended to all courts by end-2013; | **Partly observed and ongoing**.<br>A technically detailed work plan has been submitted presenting the current state of affairs. However, the forward-looking part of the plan with deadlines for the evaluation/completion/extension of current pilot projects (e.g. e-filing) is missing. There is no information concerning the extension of e-registration and e-tracking to all courts by end-2013. |
| The Government improves alternative dispute resolution for out-of-court settlement and actively promotes pre-trial conciliation, mediation, and arbitration, with a view to ensuring that a significant amount of citizens and businesses make use of the new legal framework for mediation; **[Q4-2011]** | **Observed**.<br>The Ministry of Justice has started promoting alternative dispute resolution, especially mediation, in close cooperation with chambers of commerce. |

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| The Government produces an evaluation or impact assessment of existing and required additional efficiency measures (such as the fast-lane procedure at the Athens Court of First Instance) in order to reduce the processing time of cases, including further simplifying case registration, further rationalizing docket management with a view to allowing the resolution of docketed cases, and providing increased computer support to judges in order to allow the issuance of written decisions in all courts within two weeks from the judge taking the decision; **[Q4-2011]** | **Ongoing**. The Ministry of Justice is of the view that the explanatory memorandum of the law addressing issues of fair trial and denial of justice would suffice to meet this requirement. The required evaluation/impact assessment is expected to be available shortly. |
| The Government takes the necessary measures in order to be able to publish quarterly reports on recovery rates by bailiffs and notaries, duration and costs of corporate insolvency cases and tax cases. For the purposes of this Memorandum, 'recovery rate' refers to the ratio of the amount collected by the creditor in enforcement proceedings -following the issuance of an enforceable title- to the amount adjudicated by the court; **[Q4-2011]** | **Ongoing**. The Federation of Court Bailiffs of Greece and the National Council of Greek Notaries have informed the Ministry of Justice that court bailiffs and notary associations do not collect data on recovery rates by bailiffs or notaries. Statistics on tax cases and corporate insolvency cases will be requested to be compiled and published starting from the first quarter of 2012 for tax cases and the third quarter of 2012 for corporate insolvency cases. |
| The Government conducts an assessment on whether the reform of the Code of Administrative Procedure has delivered the results that the legislation had set out to do; **[Q4-2011]** | **Observed**. |
| The Government increases the costs of civil litigation in line with the policy underlying the increase of litigation costs in administrative matters; **[Q4-2011]** | **Ongoing**. The law addressing issues of fair trial and denial of justice that was adopted by the Hellenic Parliament on 6 March 2012 provides for the increase of the costs of civil litigation, especially for litigants who are defeated at the appeal stage. The Government expects that the draft law will be adopted during the current parliamentary term. |
| The Government establishes a task force with a mandate to design a performance framework for courts with a view to considering links to resource allocation in future revisions of this Memorandum. The task force will develop by **September 2012**: i) a dependable data management system, a workload measurement system, and a management structure, that is conducive to a more effective, responsible, and accountable judicial management; ii) a fully operational and publicly available database with case data for each court (as well as consolidated data for all courts), giving basic performance data, including number of judges and staff, number of cases (including by case type) and backlogs; iii) a work plan on benchmarking cases for workload measurement, including focusing on delays in case processing, and the types of cases where such delays are most acute. **[Q4-2011]** | **Observed or ongoing**. The Government established a working group mandated to design a performance and accountability framework for courts. The working group has initially been set up until 31 May 2012 and will also be responsible for the project on statistics for justice contained in the December 2011 e-justice work plan. |
| In order to improve the efficiency of courts, the Government amends Law 1756/1988 on the organisation of the courts and the situation of court officials, and relevant implementing rules, always respecting the independence of justice, so as to allow and facilitate the introduction of human resource management measures in courts, such as mobility of court officials, incentives for the efficient administration of courts and continuous management training programmes for court officials with management tasks; **[Q1-2012]** | **Ongoing**. The law addressing issues of fair trial and denial of justice provides for an amendment of Law 1756/1988. In particular, the draft law amends provisions regulating matters such as leave, promotion, transfer, career review and disciplinary action. |
| The Government imposes additional dissuasive measures against non-cooperative debtors in enforcement cases; **[Q1-2012]** | **Ongoing**. In the area of enforcement, the law addressing issues of fair trial and denial of justice shortens statutory time periods and tightens |

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|---|---|
| | conditions under which enforcement action may be suspended |
| The Government presents a qualitative study on recovery rates in enforcement proceedings, evaluating the success rates and the efficiency of the various modes of enforcement. **[Q1-2012]** | **Ongoing**.<br>The Ministry of Justice plans to contact the President of the National Council of Greek Notaries, the Federation of Court Bailiffs of Greece and several high street banks for the purpose of this study. |
| The Government decides on the date by when it will open access to the regulated profession of mediator to non-lawyers in line with this memorandum conditionality on regulated professions and presents an action plan ensuring that non-lawyers may offer mediation services on that date. **[Q1-2012]** | *Not yet applicable.* |
| The Government establishes a task force that is broadly representative of the legal community, including, but not limited to, academia, practising lawyers, in-house lawyers, lawyers from other EU Member States established or offering their services in Greece, aimed at reviewing the Code of Civil Procedure and bring it in line with international best practices on, *inter alia*, (i) judicial case management, including the possibility of removing dormant cases from court registers; (ii) relieving judges from non-adjudicatory work, such as pre-mortgaging of immovable property, formation and dissolution of incorporated entities and consensual/non-litigious family law applications, (iii) the enforcement of decisions and of orders to pay, in particular small claims cases with a view to reducing the role of the judge in these procedures, and (iv) enforcing statutory deadlines for court processes, in particular for injunction procedures and debt enforcement and insolvency cases. For the purposes of this Memorandum, judicial case management shall mean the possibility of judges to be involved early in identifying the principal factual and legal issues in dispute between the parties, require lawyers and litigants to attend pre-hearing conferences and manage the conduct of proceedings and the progression of the case to achieve the earliest and most cost-effective resolution of the dispute. **[Q2-2012]** | |
| The Government carries out an evaluation **[Q3-2012]** of the backlog reduction plan of tax cases in all administrative tribunals and administrative courts of appeal established in Q4-2011, it also updates the plan and it takes remedial action, should there be deviations in achieving full clearance of the backlog by **end-July 2013**; | |
| By **end-August 2012**, the Government presents, based on the study conducted jointly with an external body of experts, an action plan with specific targets for a reduction of the backlog of non-tax cases in courts of at least 50 per cent by **end-July 2013** and it starts implementing the action plan. | |
| The Government conducts an assessment of whether the enactment of Law 3898/2010 on mediation on civil and commercial matters has delivered the results which the legislation had set out to do, and presents data and analysis concerning costs, time and success rates associated with the enforcement of agreements arising from alternative dispute resolution as compared with the enforcement of judicial decisions. **[Q4-2012]** | |
| The taskforce on the review of the Code of Civil Procedure makes specific recommendations on: (i) case management, (ii) relieving judges from non-adjudicatory work; (iii) the reduction of the role of the judge in the enforcement of decisions and of orders to pay and (iv) on enforcing statutory deadlines for court processes. **[Q1-2013]** | |

# Table A5 – Reform Monitoring and Technical Assistance

| **Actions in the Memorandum of Understanding on specific policy conditionality** | **Comments** |
|---|---|
| The Ministry of Finance's directorate of planning, management and monitoring becomes operational with the aim of improving reform management and oversight. It starts publishing quarterly monitoring indicators for each of the key structural reform initiatives, on a quarterly basis. **[Q4-2011]** | **Not observed**. |
| The Government will request technical assistance to be provided by the EU Member States, the European Commission the IMF or other organisations in priority areas. These technical assistance actions will be coordinated by the Commission's technical assistance taskforce. | **Ongoing**.<br><br>The Commission's taskforce for technical assistance for Greece has been very active in several projects (see the respective quarterly report). |

# Annex 2: Macroeconomic forecast

**Table A1: USE AND SUPPLY OF GOODS AND SERVICES (volume)**

| *Annual % change* | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|
| 1. Private consumption expenditure | -1.3 | -3.6 | -7.2 | -5.7 | -1.1 | 0.9 |
| 2. Government consumption expenditure | 4.8 | -7.2 | -9.5 | -11.0 | -9.5 | -4.7 |
| 3. Gross fixed capital formation | -15.2 | -15.0 | -17.0 | -6.6 | 6.7 | 9.8 |
| **4. Final domestic demand** | **-3.1** | **-6.2** | **-9.1** | **-6.7** | **-1.3** | **1.4** |
| 5. Change in inventories + net acquisitions of valuables | -1.1 | -0.5 | 0.2 | 0.0 | 0.0 | 0.0 |
| **6. Domestic demand** | **-5.0** | **-5.7** | **-8.6** | **-6.9** | **-1.3** | **1.4** |
| 7. Exports of goods and services | -19.5 | 4.2 | 3.0 | 3.2 | 5.5 | 7.0 |
| *7a. - of which goods* | *-15.7* | *5.4* | *2.5* | *3.2* | *4.0* | *7.0* |
| *7b. - of which services* | *-22.5* | *3.2* | *3.5* | *3.2* | *6.8* | *7.0* |
| **8. Final demand** | **-8.0** | **-4.2** | **-6.6** | **-5.0** | **0.1** | **2.6** |
| 9. Imports of goods and services | -20.2 | -7.2 | -7.0 | -5.1 | 0.0 | 2.4 |
| *9a. - of which goods* | *-21.0* | *-10.7* | *-7.0* | *-5.1* | *0.3* | *2.4* |
| *9b. - of which services* | *-16.5* | *7.0* | *-7.2* | *-5.1* | *-1.0* | *2.4* |
| **10. Gross domestic product at market prices** | **-3.2** | **-3.5** | **-6.9** | **-4.7** | **0.0** | **2.5** |
| *Contribution to change in GDP* | | | | | | |
| 11. Final domestic demand | -3.6 | -7.0 | -10.0 | -7.2 | -1.4 | 1.5 |
| 12. Change in inventories + net acq. of valuables | -2.3 | 0.6 | 0.7 | -0.2 | 0.0 | 0.0 |
| 13. External balance of goods and services | 3.1 | 3.1 | 2.8 | 2.3 | 1.4 | 1.2 |

**Table A2: USE AND SUPPLY OF GOODS AND SERVICES (value)**

| *Annual % change* | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|
| 1. Private consumption expenditure | -1.1 | 0.7 | -4.4 | -6.1 | -1.3 | 1.1 |
| 2. Government consumption expenditure | 12.6 | -12.7 | -12.2 | -12.8 | -10.5 | -4.7 |
| 3. Gross fixed capital formation | -11.3 | -14.4 | -16.2 | -6.2 | 6.9 | 10.3 |
| **4. Final domestic demand** | **-0.6** | **-4.3** | **-7.5** | **-7.1** | **-1.5** | **1.7** |
| 5. Change in inventories + net acquisition of valuables | | | | | | |
| **6. Domestic demand** | **-2.7** | **-4.0** | **-7.1** | **-7.1** | **-1.5** | **1.7** |
| 7. Exports of goods and services | -20.2 | 9.9 | 6.1 | 3.0 | 5.2 | 6.9 |
| *7a. - of which, goods* | -18.9 | 13.8 | 5.5 | 2.9 | 3.8 | 6.9 |
| *7a. - of which, services* | -21.2 | 6.8 | 6.6 | 3.0 | 6.5 | 6.9 |
| **8. Final demand** | -5.7 | -2.0 | -4.9 | -5.3 | -0.2 | 2.8 |
| 9. Imports of goods and services | -19.1 | -2.4 | -3.7 | -5.1 | 0.7 | 3.7 |
| *9a. - of which goods* | -20.2 | -5.2 | -3.7 | -5.1 | 1.0 | 3.7 |
| *9a. - of which, services* | -13.9 | 9.2 | -3.8 | -5.1 | -0.4 | 3.6 |
| **10. Gross domestic product at market prices** | **-0.8** | **-1.9** | **-5.3** | **-5.4** | **-0.4** | **2.5** |
| **11. Gross national income** | **-0.3** | **-2.2** | **-5.5** | **-4.2** | **-0.2** | **2.2** |
| 12. Compensation of employees | 2.6 | -5.1 | -8.8 | -12.4 | -1.5 | 0.7 |
| 13. Gross operating surplus and mixed income | -1.0 | -1.5 | -3.6 | -1.0 | 0.0 | 3.8 |
| **14. Gross value added at basic prices** | **0.5** | **-3.0** | **-5.7** | **-5.5** | **-0.5** | **2.7** |
| *14a. - of which, labour costs, including self-employed* | 2.9 | -5.1 | -8.8 | -12.4 | -1.5 | 0.7 |
| 15. Taxes net of subsidies | -10.0 | 6.6 | -1.7 | -3.6 | 1.2 | 1.7 |
| *16. - taxes on products* | -9.8 | 6.1 | -1.4 | -3.4 | 1.2 | 1.8 |
| *17. - subsidies on products* | 76.7 | -16.4 | 20.0 | 2.6 | 2.6 | 2.6 |

**Table A3: COSTS AND PRICES**

| *% change in implicit price deflator* | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|
| 1. Private consumption expenditure | 1.1 | 4.5 | 3.0 | -0.4 | -0.3 | 0.2 |
| 2. Government consumption expenditure | 2.0 | -6.0 | -3.0 | -2.0 | -1.0 | 0.0 |
| 3. Gross fixed capital formation | -0.2 | 0.7 | 1.0 | 0.4 | 0.2 | 0.4 |
| *3a. - of which, construction* | 0.3 | 0.3 | 0.9 | 0.4 | 0.1 | 0.4 |
| *3b. - of which, equipment* | -0.6 | 1.3 | 0.8 | 0.4 | 0.0 | 0.4 |
| **4. Final domestic demand** | **1.3** | **2.0** | **1.8** | **-0.4** | **-0.2** | **0.2** |
| **5. Domestic demand** | **1.4** | **1.8** | **1.6** | **-0.3** | **-0.2** | **0.2** |
| 6. Exports of goods and services | -0.2 | 5.5 | 3.0 | -0.2 | -0.2 | -0.1 |
| *6a. - of which, goods* | -1.1 | 7.9 | 3.0 | -0.2 | -0.2 | -0.1 |
| *6b. - of which, services* | 0.5 | 3.5 | 3.0 | -0.2 | -0.2 | -0.1 |
| **7. Final demand** | **1.3** | **2.3** | **1.8** | **-0.3** | **-0.2** | **0.2** |
| 8. Imports of goods and services | -0.7 | 5.2 | 3.5 | 0.0 | 0.6 | 1.3 |
| *8a. - of which, goods* | -2.1 | 6.1 | 3.5 | 0.0 | 0.7 | 1.3 |
| *8b. - of which, services* | 6.2 | 2.1 | 3.7 | 0.0 | 0.6 | 1.2 |
| **9. Gross domestic product at market prices** | **1.6** | **1.7** | **1.6** | **-0.7** | **-0.4** | **0.0** |
| 10. Terms of trade of goods and services | 0.4 | 0.3 | -0.5 | -0.2 | -0.9 | -1.4 |
| *10a. - of which, terms of trade of goods* | 1.0 | 1.7 | -0.5 | -0.2 | -0.9 | -1.4 |
| *10b. - of which, terms of trade of services* | -5.3 | 1.4 | -0.7 | -0.2 | -0.8 | -1.3 |
| **11. HICP** | **1.3** | **4.7** | **3.1** | **-0.5** | **-0.3** | **0.1** |
| *11a. -at constant taxes* | *1.1* | *1.4* | *1.2* | *-1.2* | *-0.8* | *0.1* |

**Table A4: LABOUR MARKET AND LABOUR COST**

| *Annual % change* | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|
| 1. Gross value added at 1995 basic prices | -1.4 | -3.6 | -8.0 | -5.0 | -0.2 | 2.6 |
| 2. Employment ('000) | -0.7 | -1.9 | -6.3 | -4.8 | -0.2 | 1.6 |
| 3. GVA per occupied person | -0.7 | -1.7 | -1.8 | -0.2 | 0.0 | 1.0 |
| 4. Compensation of employees (per employee) | 3.6 | -3.3 | -2.7 | -8.0 | -1.3 | -0.9 |
| 5. Unit labour costs (1995=100) | 4.3 | -1.6 | -1.0 | -7.8 | -1.3 | -1.9 |
| 6. Total population | 0.4 | 0.2 | 0.4 | 0.4 | 0.4 | 0.4 |
| 7. Population of working age (15-64 years) | 0.1 | 0.0 | -0.2 | -0.3 | -0.2 | -0.2 |
| 8. Total labour force | 1.1 | 1.2 | -1.5 | -2.5 | -0.3 | 0.2 |
| **9. Total employment** | -0.7 | -1.9 | -6.3 | -4.8 | -0.2 | 1.6 |
| *9(a). - of which, employees* | -0.9 | -1.9 | -6.3 | -4.8 | -0.2 | 1.6 |
| *9(b). - of which, self-employed* | -0.3 | -1.9 | -6.3 | -4.8 | -0.2 | 1.6 |
| **10. Unemployment** | 24.4 | 33.0 | 34.5 | 9.5 | -0.7 | -6.3 |
| *10a. Calculated unemployment rate (%)* | 9.1 | 11.7 | 15.9 | 17.9 | 17.8 | 16.7 |

**Table B1: USE AND SUPPLY OF GOODS AND SERVICES (value, in EUR billion)**

| *levels* | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** |
|---|---|---|---|---|---|---|
| 1. Private consumption expenditure | 168.2 | 169.4 | 161.9 | 152.1 | 150.1 | 151.7 |
| 2. Government consumption expenditure | 47.3 | 41.3 | 36.3 | 31.6 | 28.3 | 27.0 |
| 3. Gross fixed capital formation | 44.1 | 37.8 | 31.7 | 29.7 | 31.8 | 35.0 |
| **4. Final domestic demand (1+2+3)** | **259.7** | **248.5** | **229.9** | **213.4** | **210.2** | **213.7** |
| 5. Change in inventories + net acquisition of valuables as % of GDP | -1.7 | -1.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **6. Domestic demand (4+5)** | **257.9** | **247.5** | **229.9** | **213.4** | **210.2** | **213.7** |
| 7. Exports of goods and services | 44.5 | 48.9 | 51.9 | 53.4 | 56.2 | 60.1 |
| *7a. - of which, goods* | 20.1 | 22.8 | 24.1 | 24.8 | 25.7 | 27.5 |
| *7a. - of which, services* | 24.4 | 26.1 | 27.8 | 28.6 | 30.5 | 32.6 |
| **8. Final demand (6+7)** | **302.4** | **296.4** | **281.7** | **266.9** | **266.4** | **273.8** |
| 9. Imports of goods and services | 70.8 | 69.1 | 66.5 | 63.1 | 63.5 | 65.9 |
| *9a. - of which goods* | 57.1 | 54.2 | 52.1 | 49.5 | 49.9 | 51.8 |
| *9a. - of which, services* | 13.6 | 14.9 | 14.3 | 13.6 | 13.6 | 14.0 |
| **10. Gross domestic product at market prices ( 8-9 )** | **231.6** | **227.3** | **215.2** | **203.8** | **202.9** | **207.9** |
| *11. - of wich, external balance of goods and services* | -26.3 | -20.2 | -14.6 | -9.7 | -7.3 | -5.8 |
| 12. Balance of primary income with rest of the world | -5.6 | -6.2 | -6.4 | -3.6 | -3.1 | -3.7 |
| **13. Gross national income at market prices (10+12)** | **226.0** | **221.1** | **208.9** | **200.2** | **199.7** | **204.2** |
| 14. Compensation of employees | 86.4 | 82.0 | 74.7 | 65.5 | 64.5 | 64.9 |
| 15. Gross operating surplus and mixed income | 122.4 | 120.6 | 116.3 | 115.1 | 115.1 | 119.4 |
| **16. Gross value added at basic prices** | **206.6** | **200.6** | **189.0** | **178.4** | **177.3** | **181.9** |
| *16a. - of which, labour costs, including self-employed* | 131.5 | 124.8 | 113.8 | 99.7 | 98.2 | 98.9 |
| 17. Taxes net of subsidies (18-19) | 25.03 | 26.69 | 26.2 | 25.3 | 25.6 | 26.0 |
| *18. - taxes on products* | 25.6 | 27.1 | 26.8 | 25.8 | 26.1 | 26.6 |
| *19. - subsidies on products* | 0.5 | 0.4 | 0.5 | 0.5 | 0.6 | 0.6 |
| **20. Gross domestic product at market prices ( 16 + 17 )** | **231.6** | **227.3** | **215.2** | **203.7** | **202.9** | **207.9** |

**Table B2: LABOUR MARKET AND LABOUR COST (in EUR billion unless otherwise stated)**

| *levels* | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** |
|---|---|---|---|---|---|---|
| 1. Gross value added at 1995 basic prices | 180.3 | 173.9 | 160.1 | 152.1 | 151.8 | 155.8 |
| 2. Employment ('000) | 4834.8 | 4743.4 | 4444.6 | 4231.2 | 4222.8 | 4290.3 |
| 3. GVA per occupied person (1:2) | 37.3 | 36.7 | 36.0 | 36.0 | 36.0 | 36.3 |
| 4. Compensation of employees (per employee) | 27.2 | 26.3 | 25.6 | 23.6 | 23.3 | 23.0 |
| 5. Unit labour costs (4:3) (1995=100) | 72.9 | 71.8 | 71.1 | 65.5 | 64.7 | 63.5 |
| 6. Total population | 11287.8 | 11310.1 | 11349.7 | 11389.4 | 11429.3 | 11469.3 |
| 7. Population of working age (15-64 years) | 7542.0 | 7539.6 | 7524.5 | 7501.9 | 7486.9 | 7471.9 |
| 8. Total labour force | 5305.9 | 5369.9 | 5287.3 | 5154.0 | 5139.1 | 5148.9 |
| *9. Calculated activity rate (%) (8:7)* | *70.4* | *71.2* | *70.3* | *68.7* | *68.6* | *68.9* |
| 10. Total employment | 4762.7 | 4743.4 | 4444.6 | 4231.2 | 4222.8 | 4290.3 |
| **11. Total employment** | **4762.7** | **4743.4** | **4444.6** | **4231.2** | **4222.8** | **4290.3** |
| *11(a). - of which, employees* | *3174.9* | *3114.6* | *2918.4* | *2778.3* | *2772.8* | *2817.1* |
| *11(b). - of which, self-employed* | *1587.7* | *1628.8* | *1526.2* | *1452.9* | *1450.0* | *1473.2* |
| *12. Calculated employment rate (11:7)* | *64.1* | *62.9* | *59.1* | *56.4* | *56.4* | *57.4* |
| **13. Unemployment (8 - 11)** | **471.1** | **626.5** | **842.7** | **922.7** | **916.3** | **858.5** |
| *13a. Calculated unemployment rate (%) (13:8)* | *8.9* | *11.7* | *15.9* | *17.9* | *17.8* | *16.7* |

**Table B3: EXTERNAL BALANCE**

| *levels* | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** |
|---|---|---|---|---|---|---|
| 1. Exports of goods (fob) | 20.1 | 22.8 | 24.1 | 24.8 | 25.7 | 27.5 |
| 2. Imports of goods (fob) | 57.1 | 54.2 | 52.1 | 49.5 | 49.9 | 51.8 |
| **3. Trade balance (goods, fob/fob) (1-2)** | **-37.1** | **-31.3** | **-28.1** | **-24.7** | **-24.2** | **-24.3** |
| ***3a. p.m. (3) as % of GDP*** | *-16.0* | *-13.8* | *-13.0* | *-12.1* | *-11.9* | *-11.7* |
| 4. Exports of services (a) | 24.4 | 26.1 | 27.8 | 28.6 | 30.5 | 32.6 |
| 5. Imports of services (a) | 13.6 | 14.9 | 14.3 | 13.6 | 13.6 | 14.0 |
| **6. Services balance (a) (4-5)** | **10.8** | **11.2** | **13.5** | **15.0** | **17.0** | **18.6** |
| ***6a. p.m. 6 as % of GDP*** | *4.6* | *4.9* | *6.2* | *7.4* | *8.4* | *8.9* |
| **7. External balance of goods & services (3+6)** | **-26.3** | **-20.2** | **-14.6** | **-9.7** | **-7.3** | **-5.8** |
| ***7a. p.m. 7 as % of GDP*** | *-11.4* | *-8.9* | *-6.8* | *-4.7* | *-3.6* | *-2.8* |
| 8. Balance of primary incomes and current Transfers | -6.8 | -7.8 | -7.5 | -4.4 | -3.5 | -3.8 |
| *8a. - of which, balance of primary income* | *-5.6* | *-6.2* | *-6.4* | *-3.6* | *-3.1* | *-3.7* |
| *8b. - of which, net current Transfers* | *-1.2* | *-1.6* | *-1.1* | *-0.8* | *-0.4* | *-0.1* |
| *8c. p.m. 8 as % of GDP* | *-3.0* | *-3.5* | *-3.5* | *-2.2* | *-1.7* | *-1.8* |
| **9. Current external balance (7+8)** | **-33.1** | **-28.0** | **-22.1** | **-14.1** | **-10.8** | **-9.6** |
| ***9a. p.m. 9 as % of GDP*** | *-14.3* | *-12.3* | *-10.3* | *-6.9* | *-5.3* | *-4.6* |
| 10. Net capital transactions | 2.4 | 3.9 | 4.2 | 4.3 | 4.5 | 4.7 |
| **11. Net lending (+)/ net borrowing (-) (9+10)** | **-30.8** | **-24.1** | **-18.0** | **-9.7** | **-6.3** | **-4.9** |
| *11a. p.m. 11 as % of GDP* | *-13.3* | *-10.6* | *-8.3* | *-4.8* | *-3.1* | *-2.4* |

**C1: FISCAL ACCOUNTS AND FORECAST**

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|
| | | | *Levels (in EUR billion)* | | | |
| **Total revenue** | **88.1** | **89.8** | **88.5** | **86.3** | **85.5** | **86.9** |
| Indirect taxes | 26.2 | 27.3 | 27.8 | 26.1 | 26.0 | 26.1 |
| Direct taxes | 19.1 | 17.5 | 17.8 | 19.9 | 19.0 | 19.8 |
| Social contributions | 29.5 | 29.8 | 27.3 | 25.1 | 25.2 | 25.8 |
| Sales | 5.2 | 5.5 | 5.2 | 5.0 | 5.0 | 5.1 |
| Other current resources | 4.9 | 5.1 | 5.3 | 5.0 | 5.1 | 5.3 |
| Capital transfers received | 3.2 | 4.6 | 5.0 | 5.2 | 5.2 | 4.8 |
| **Total expenditure** | **124.7** | **113.9** | **108.5** | **101.1** | **102.5** | **103.0** |
| Intermediate consumption | 17.1 | 14.0 | 11.2 | 10.7 | 10.9 | 10.9 |
| Compensation of employees | 31.0 | 27.5 | 26.2 | 24.0 | 23.8 | 23.4 |
| Social transfers other than in kind | 49.0 | 47.2 | 46.2 | 43.3 | 43.9 | 43.8 |
| Interest | 12.0 | 12.9 | 14.8 | 12.8 | 13.0 | 13.8 |
| Subsidies | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Other current expenditure | 3.5 | 3.3 | 2.8 | 2.7 | 3.2 | 3.3 |
| Gross fixed capital formation | 7.3 | 6.6 | 4.7 | 5.1 | 5.3 | 5.4 |
| Other capital expenditure | 4.9 | 2.3 | 2.3 | 2.3 | 2.3 | 2.3 |
| **General Government balance** | **-36.6** | **-24.1** | **-20.0** | **-14.8** | **-17.0** | **-16.1** |
| **Primary balance** | **-24.7** | **-11.3** | **-5.2** | **-2.0** | **-4.0** | **-2.3** |
| **Primary target balance** | | | | **-2.0** | **3.7** | **9.4** |
| *Measures to be identified* | | | | *0.0* | *-7.6* | *-11.7* |
| | | | *% of GDP* | | | |
| **Total revenue** | **38.0** | **39.5** | **41.1** | **42.3** | **42.2** | **41.8** |
| Indirect taxes | 11.3 | 12.0 | 12.9 | 12.8 | 12.8 | 12.6 |
| Direct taxes | 8.3 | 7.7 | 8.3 | 9.8 | 9.4 | 9.5 |
| Social contributions | 12.7 | 13.1 | 12.7 | 12.3 | 12.4 | 12.4 |
| Sales | 2.3 | 2.4 | 2.4 | 2.4 | 2.4 | 2.5 |
| Other current resources | 2.1 | 2.2 | 2.5 | 2.5 | 2.5 | 2.6 |
| Capital transfers received | 1.4 | 2.0 | 2.3 | 2.6 | 2.6 | 2.3 |
| **Total expenditure** | **53.8** | **50.1** | **50.4** | **49.6** | **50.5** | **49.5** |
| Intermediate consumption | 7.4 | 6.1 | 5.2 | 5.3 | 5.4 | 5.2 |
| Compensation of employees | 13.4 | 12.1 | 12.2 | 11.8 | 11.7 | 11.3 |
| Social transfers other than in kind | 21.1 | 20.8 | 21.5 | 21.3 | 21.6 | 21.1 |
| Interest | 5.2 | 5.7 | 6.9 | 6.3 | 6.4 | 6.6 |
| Subsidies | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other current expenditure | 1.5 | 1.5 | 1.3 | 1.3 | 1.6 | 1.6 |
| Gross fixed capital formation | 3.1 | 2.9 | 2.2 | 2.5 | 2.6 | 2.6 |
| Other capital expenditure | 2.1 | 1.0 | 1.1 | 1.1 | 1.1 | 1.1 |
| **General Government balance** | **-15.8** | **-10.6** | **-9.3** | **-7.3** | **-8.4** | **-7.7** |
| **Primary balance** | **-10.6** | **-5.0** | **-2.4** | **-1.0** | **-2.0** | **-1.1** |
| **Primary target balance** | | | | **-1.0** | **1.8** | **4.5** |
| *Measures to be identified* | | | | *0.0* | *-3.8* | *-5.6* |

**C2: GOVERNMENT DEBT**

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|
| | | | *levels (EUR billion)* | | | |
| **Debt** | **299.5** | **329.4** | **355.8** | **327.0** | **333.0** | **335.0** |
| Change in debt | 36.4 | 29.9 | 26.4 | -28.8 | 6.0 | 2.0 |
| **Government deficit (level)** | **-36.6** | **-24.1** | **-20.0** | **-14.8** | **-9.4** | **-4.4** |
| **Stock-flow adjustment** | **-0.2** | **5.8** | **6.4** | **-43.6** | **-3.4** | **-2.4** |
| | | | *% GDP* | | | |
| **Debt** | **129.3** | **144.9** | **165.3** | **160.5** | **164.2** | **161.1** |
| Change in the ratio | 16.5 | 15.6 | 20.4 | -4.7 | 3.6 | -3.0 |
| *Contributions:* | | | | | | |
| **Primary balance (+ is a deficit)** | **10.6** | **5.0** | **2.4** | **1.0** | **-1.8** | **-4.5** |
| **“Snow-ball” effect** | **5.9** | **8.1** | **15.0** | **15.7** | **7.1** | **2.6** |
| **Stock-flow adjustment** | **-0.1** | **2.5** | **3.0** | **-21.4** | **-1.7** | **-1.2** |

# Annex 3: Updated programme documents

Athens, 11 March 2012

Mr. Jean-Claude Juncker,
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 Juncker, Rehn and Draghi,

The attached Memorandum of Economic and Financial Policies (MEFP) and Memorandum of Understanding on Economic Policy Conditionality (MoU) outline the economic and financial policies that Greece will implement during the remainder of 2012 and in the period 2013-14. These policies aim to address Greece's competitiveness gap, support growth and employment, restore public finances to sustainability, secure financial system stability, and distribute the cost of adjustment in an equitable way, within our commitment to the common currency.

In support of our objectives, we have committed to a set of key policies, building on what has been achieved under the programme agreed in May 2010. This set of policies places strong emphasis on restoring growth and ensuring an equitable fiscal adjustment:

- To restore competitiveness and growth, our policies aim to accelerate the implementation of deep structural reforms in the labour, product and service markets. Indeed to give a strong upfront impetus to unit labour cost reductions, and protect employment, we have already reformed the collective bargaining framework and reduced the minimum wage as a prior action for this programme. And to reduce market rigidities, boost productivity, and increase long-term growth potential we are implementing reforms in product and service markets and improvements in the business environment.
- To bring the fiscal deficit to a sustainable position, while protecting the most vulnerable members of the population, our policies target bold structural spending and revenue reforms. The adjustment will be achieved through permanent expenditure reductions. Measures to this end have already been implemented as prior actions. These efforts will be supported on the revenue side by a tax reform to broaden the tax base and achieve a fairer distribution of the tax burden, and by revenue administration reforms to improve tax and social contribution, collection. To reinvigorate this crucial latter effort, we have taken prior actions to strengthen the tax administration.
- We have adopted a comprehensive banking sector strategy to secure a viable and well-capitalized private banking sector that supports the economic recovery and sustained

growth. The banking system will be restructured and recapitalized following the upcoming sovereign debt exchange. We have completed a capital needs assessment and a plan for a large state-owned bank as prior actions. In support of these efforts, and as a further prior action, we have strengthened our resolution and financial oversight framework

- We remain committed to our ambitious privatization plans. Transferring assets in key sectors of the economy to more productive uses through privatization and concessions will encourage private investment and support long-term growth.

In support of our ambitious multi-year policy program, we request a financing arrangement, until end-2014, by the European Financial Stability Facility (EFSF) in the overall amount of EUR 144.7 billion (including the already committed or disbursed amounts for PSI liability management exercise and banks recapitalisation). At the same time, we are requesting financing by the IMF, under the Extended Fund Facility, in the amount of EUR 28 billion in a four-year arrangement, of which EUR 19.75 billion are expected to be disbursed by end-2014.

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.

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

This letter is being copied to Ms Lagarde.

/s/

Lucas Papademos
Prime Minister

/s/

Evangelos Venizelos
Deputy Prime Minister and Minister of Finance

/s/

George Provopoulos
Governor of the Bank of Greece

## GREECE: MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

### Objectives, Strategy, and Outlook

1. **Greece faces three key challenges**. First, the Greek economy lacks competitiveness. While progress has been made since 2010 in containing unit labor costs, the estimated real effective exchange rate overvaluation still amounts to perhaps 15–20 percent. Second, fiscal sustainability needs to be restored. The primary deficit has been brought down considerably since 2009, but the estimated 2011 outcome, a primary deficit of about 2½ percent of GDP, remains well below the debt-stabilizing surplus. Lastly, the financial sector faces liquidity and solvency issues due to its exposures to the sovereign, deteriorating quality of the domestic loan portfolio, and a steady loss of deposits.

2. **To address these challenges, the government will build on policies laid down in its previous program, but amend the mix of adjustment and financing**. To reduce policy conflicts, the program will continue to place emphasis on ambitious implementation of productivity-enhancing structural reforms in the labor, product, and service markets and to improve the business environment. However, we must be realistic about the ultimate magnitude and timing of their effects, which is inherently uncertain. To rebalance the economy, support growth and employment, restore fiscal sustainability, and secure financial stability, we will thus:

- Place more emphasis on securing reductions in unit labor costs and improvements in competitiveness, through a combination of upfront nominal wage cuts and structural labor market reforms. In unison with the elimination of rigidities in product and service markets, these are expected to lower costs and facilitate the reallocation of resources towards the tradable sectors, stronger growth, and higher employment.

- Smooth the impact of the deep and prolonged recession and deeper structural reforms (and give them time to take effect) by reducing the amount of fiscal adjustment in 2012.

- Fundamentally reduce the footprint of government in the economy through bold structural fiscal reforms and by privatizing public assets. Greece’s recovery must come from a vigorous private sector response and this cannot happen with the government controlling access to key assets.

- Strengthen the capacity of the government to implement policies, via a wide ranging administrative reform. We need to improve significantly the quality of public services, the efficiency and effectiveness of the civil service (including in mobilizing structural funds), and its ability to manage economic policy.

- These cost-reducing structural reforms and FDI-encouraging privatization plans, when combined with fiscal retrenchment and gradual arrears clearance, will free up liquidity for the private sector. Together with continued program finance, and liquidity assistance for the banking system, this will help improve the tight financial conditions now affecting the economy.

3. **Nonetheless, the government recognizes that eliminating Greece’s large initial imbalances, and achieving a balanced growth path, will take significant time:**

- **Real GDP** is expected to recover to positive quarter-on-quarter growth rates during 2013. The program assumes that over time business sentiment benefits from the successful implementation of the PSI operation, and economic activity and employment growth gather momentum as unit labor costs decline, other productivity-enhancing structural reforms are implemented, and fiscal adjustment is completed. Still in the short-term GDP is projected to contract by another 4–5 percent cumulatively in 2012–13 on account of the worsened external environment, the needed fiscal consolidation, private sector wage adjustment, and adjustments in the banking system.

- **Competitiveness** is programmed to improve at an accelerated pace, supported by upfront labor market reforms and by a comprehensive set of product market reforms. Inflation is projected to drop significantly below the euro area level as cost-reducing reforms and wage reductions filter through to prices. It should be possible to significantly shrink the competitiveness gap relative to trading partners by the end of the program period, and the economic system should continue to adjust for some time thereafter to fully eliminate the gap.

- The **external balance** is projected to adjust only modestly in the remainder of 2012 given the deterioration of global economic conditions. However, as domestic demand continues to contract and competitiveness improves the pace of external adjustment should pick up. Still it is projected to take some time before Greece's current account deficit falls to a level that will allow Greece's external debt to steadily decline.

4. **The government's policy program, assisted by debt relief from private creditors and official support on favorable terms, should put public debt on a sustainable path**. Under our program baseline, public debt will remain high during the program period, but is projected to fall to about 120 percent of GDP by 2020, with continued declines thereafter. Given the lengthy period of elevated debt levels, and Greece's continued vulnerability to shocks, we recognize that full and timely policy implementation will be critical to realize this debt trajectory, notwithstanding the favorable financing we have received. These policies and program financing are discussed in more detail in what follows.

**Economic Policies**

## A. Fiscal Policy

5. **The government is committed to achieve a general government primary surplus of 4½ percent of GDP by 2014**. This is above Greece's debt stabilizing primary balance, and will allow debt to gradually decline (even with small shocks), and it is a level which Greece and many other countries have sustained in the past. Mindful of the initial fiscal position, the potential macroeconomic impact of fiscal tightening, and limitations on the pace at which we can develop and implement structural fiscal reforms, we have adjusted our 2012 fiscal target to a primary deficit of 1 percent of GDP (versus our previous target of a small surplus). We will target an adjustment of 2¾ percent of GDP in the primary balance in both 2013 and 2014, drawing on bold fiscal structural reforms to be defined in the context of the 2012 update of the MTFS, due in June. We would consult with the EC, ECB, and IMF in the event of a significantly deeper than anticipated recession, to evaluate whether the fiscal adjustment path should be extended beyond 2014.

6. **To secure the program's fiscal adjustment path, the government will undertake bold structural spending reforms.** Accounting for the projected pace of recovery, Greece's ongoing problems with tax compliance, and the need to adjust some of our previous measures, additional measures will be needed beyond those already approved in the context of the 2011 MTFS and 2012 budget. We project a need for 1½ percent of GDP in measures in 2012, 1½ percent of GDP in tax administration improvements, and a further 5½ percent of GDP in spending measures in 2013-14 to get to the primary surplus target of 4½ percent of GDP by 2014. The bulk of adjustment will be achieved through expenditure cuts that aim at permanently reducing the size of the state and improving government efficiency, including by closing entities that no longer provide a cost-effective public service and by targeted reductions in public employment. Many of these cuts will need to fall on social transfers, the category of spending which increased most explosively in the post euro accession period, but specific measures will be introduced to protect the core of our social safety net and the most vulnerable segments of the population.

7. **Key reforms, including those defined under the MTFS and 2012 budget, include:**

- **Public sector wage bill reductions.** We intend to bring our general government wage bill into line with the performance of the most efficient OECD countries. This would yield 1½ percent of GDP in savings by 2015, including ¼ percent of GDP in new savings not captured in the existing MTFS. To achieve this objective, we will combine reforms of employee compensation with personnel reductions.

  - **Reform of the public sector employee compensation.** By end-June, we will reform the special wage regimes (that account for about one-third of the public sector wage bill). In line with the principles of the reform initiated in 2011, we will adjust the wage grid for special regimes effective July 1, 2012 (including for judges, diplomats, doctors, professors, police and armed forces), while protecting those at lower pay scales, to realize permanent net savings of about 0.2 percent of GDP on an annual basis. We will also review the new promotion system to ensure that there are appropriate controls against wage drift through such channels.

  - **Personnel reductions.** We remain committed to reduce general government employment by at least 150,000 in the period 2011–15. To achieve this target, we will continue to strictly apply the existing 1:5 hiring to attrition ratio (1:10 for state-owned enterprises) as well as the newly established pre-retirement scheme, reduce contractual employment, and furlough enough redundant public employees into the labor reserve by end-2012 to achieve 15,000 mandatory separations (i.e. once their time in the labor reserve has been exhausted). The planned functional review of public administration (below), and plans to close, merge or shrink general government entities, will help identify redundant public employees.

  - **Controls on hiring.** To better control and limit hiring, we will: (i) reduce the annual intake into schools for public sector employees, namely military and police schools and other public academies, to a level consistent with hiring plans; (ii) augment the labor reserve annually; and (iii) eliminate vacant positions in the context of public sector restructuring. If slippages vis-à-vis the targeted personnel reductions emerge, we will immediately enact a hiring freeze.

- **Rationalizing and better targeting of social spending.** Over the last few years, we started reforms to contain the projected increase in pension spending to less than 2½ percentage points of GDP by 2060 (from a projection of 12½ percent of GDP), maintain public health expenditures at about 6 percent of GDP, and to improve the targeting of our social benefits. In our program we intend to bring this work agenda to closure, realize in total around 4 percent of GDP in additional savings, while improving social programs for those who are most in need:

  - **Pension reform**. Given the high share of pensions in Greek government spending, the large remaining fiscal adjustment will necessarily have to involve further pension adjustments. We will do this in a way that protects lower income pensioners. As upfront measures, to generate savings of about €450 million in 2012 (0.2 percent of GDP), we will: (i) reduce with a progressive schedule supplementary pensions above €200 per month; (ii) adopt a framework law to eliminate the structural deficit in supplementary pension funds over time; and (iii) reduce by 12 percent the part for main pensions exceeding €1,300 a month. Looking forward, by end-June, we will introduce reforms to eliminate arrears and deficits in lump sum pension funds.

  - **Health spending.** Our key aims are to bring pharmaceutical spending closer to levels in other European countries, and to continue to reform health system governance. For 2012, we have set a target to reduce public spending on outpatient pharmaceuticals from 1.9 to 1⅓ percent of GDP. Key upfront actions include: promotion of the use of generics (e.g. via compulsory prescription by active substance), reduction by about 15 percent in the maximum price of generic relative to branded medicines, reduction in margins of pharmacists, and extend the coverage of copayments. An automatic claw back mechanism will guarantee that outpatient pharmaceutical spending for 2012–15 will not exceed budget limits. Through the new health fund EOPYY, we will also complete the introductions of new and more cost-effective contracts for physicians and adopt uniform conditions for the purchase of health services. To rationalize the system and exploit economies of scale, we will merge all health funds in EOPYY and move its responsibility to the Ministry of Health.

  - **Other social benefit programs**. Greece’s level of social spending (as a share of GDP) remains well above the euro area average. We will thus continue to reform social benefit programs and the governance of social assistance and social security programs. As an upfront measure, we will improve the targeting of the family allowances by excluding high income earners. Drawing on external assistance, we will also undertake a thorough review of social spending programs with the aim to identify 1½ percent of GDP in additional measures to be taken over 2013-14. The review, to be completed by end-June 2012, will identify programs to be discontinued, and opportunities to rationalize and strengthen core social programs to better support individuals in need, while reducing transfers to individuals who do not require them.

- **Restructuring of government operations**. The Greek public administration is highly fragmented, has overlapping structures, and lacks coordination and adequate IT systems. To address this we will take upfront actions, and identify deeper changes to implement over the course of the program:

- **Upfront actions**. To help meet our 2012 fiscal target, we will: (i) in anticipation of the forthcoming functional review, curtail operational spending and selected subsidies and transfers at the central government level by an additional 0.2 percent of GDP (compared to the 2012 budget); and (ii) reduce investment subsidies and lower-priority investment projects by 0.2 percent of GDP (compared to the 2012 budget).

- **Deeper restructuring**. By end-June 2012, we will complete a plan to restructure government operations and achieve additional savings of at least 1 percent of GDP over the period 2013-14. The focus will be on closing and downsizing general government units; identifying opportunities to outsource functions; identifying redundancies, and restructuring both central and local public administrations. The plan will also include the rationalization of defense spending (without compromising defense capabilities).

8. **Tax system reforms will also contribute to the fiscal adjustment through base broadening, and reforms will also aim to facilitate revenue-neutral tax rate reductions**. The strategy involves:

- **Tax reform.** We intend to introduce a budget-neutral tax reform to simplify the tax system, broaden the tax base to allow reductions in selected tax rates, and rebalance the tax burden across tax categories to foster growth and competitiveness. We will define a full schedule of intermediate steps towards adoption of such a tax reform, including initial public consultation, review by the EC/ECB/IMF staff and release of a formal proposal for discussion. This process will be concluded with the presentation to parliament and enactment of reform legislation by end June 2012. The reform package will include: (i) the repeal of the Code of Books and Records and its replacement by simpler legislation, (ii) the elimination of several tax exemptions and preferential regimes; (iii) simplification of the VAT and of the property tax rate structure; (iv) a more uniform tax treatment of individual capital income; and (v) a simplified personal and corporate income tax schedule.

- **Revenue administration reforms**. Given our low tax collection compared to other European countries, our adjustment strategy relies on the introduction of extensive revenue administration reforms (see below). These reforms will facilitate a more equitable distribution of the adjustment burden across taxpayers. For medium-term budget planning purposes, these reforms will be assumed to provide only back loaded gains, limited to 1½ percent of GDP over the period 2011–15 and expected to accrue only from 2013.

9. **We are committed to deliver our fiscal target and stand ready to take corrective measures in the event of underperformance.** Corrective measures, if necessary, would include additional targeted reductions in the public sector wage bill and social transfer expenditures. Likewise, in the event of a sustained over performance that is deemed permanent, we will tighten our deficit targets, but may also consider a reduction in social contribution rates. We intend to maintain the relative tax burden from indirect taxes.

10. **To secure early gains we will implement several prior actions, and to assist with subsequent monitoring of the fiscal adjustment program, we will set several key steps as program benchmarks**. As **prior actions** for the program, we will: (i) fully implement all

overdue measures (Annex I); and (ii) enact and implement measures needed to reach the fiscal deficit target in 2012 (Annex II). The adoption of a budget-neutral tax reform by end-June 2012, and the completion of reviews of social spending programs and government functions that identify, respectively, 1½ and 1 percent of GDP in additional measures, are proposed as **structural benchmarks** for end-June 2012. Identification and enactment (where feasible) of all measures necessary to attain the medium-term fiscal target will be an over-arching condition for completion of the first program review.

### B. Fiscal Institutional Reforms

11. **Strengthening fiscal institutions is of the utmost importance.** Greece has for many years suffered from a widespread problem of nonpayment of taxes, eroding the fairness of the system and forcing less growth-friendly policy measures, such as high tax rates. Meanwhile, the public sector has had difficulties paying its bills and tax refunds on time, driving up procurement costs and damaging corporate sector liquidity. Putting an end to these practices will require a deep restructuring of the revenue administration and the public financial management system. Of course, these are complex institutional reforms, and gains both in terms of higher revenue and lower spending can only be achieved over time with resolute efforts. Therefore, we are determined to undertake the needed reforms with urgency.

12. **We are committed to reform our revenue administration.** It is not operating at the level Greece requires, and will need to be overhauled completely. We have started this process, and made progress over the past two years, but much more remains to be done:

- **Strengthening of operations is the near-term priority:**

    - **The dispute resolution system.** As upfront actions, we will: (i) approve legislation making it compulsory for large tax cases to exhaust the administrative dispute phase before accessing judicial appeals; (ii) tighten rules for waiving the deposit to access judicial appeals (without prejudice to the independence of the judicial system); and (iii) issue secondary legislation enabling the certification of tax arbitrators, making the arbitration system established in 2011 fully operational.

    - **Making use of additional tools.** We will integrate anti-money laundering tools into our anti-tax evasion strategy. As upfront actions, we will: clarify the Bank of Greece's rules on financial institutions' obligations to detect and report to the Financial Intelligence Unit (FIU) transactions suspected of being related to the proceeds of tax evasion; and take measures to ensure that complaint reports related to confirmed unpaid tax debts arising from an audit are transmitted to the prosecution services and to the FIU as required under the system in place.

    - **Upgrading personnel.** Consistent with our operational plans, by April, we will complete the reassessment and hiring of 1,000 auditors and will gradually bring the numbers of auditors to 2,000 (consistent with public sector attrition and hiring rules). For existing employees, we will establish a formal performance review framework that will specify targets against which to evaluate manager performance. The framework will be operational by June 2012. We intend to replace managers that have underperformed their targets.

    - **Anti-corruption measures.** By end-June 2012, we will set up the internal affairs services established in Law 3943/2011 and reform the role of the financial inspection unit so as to limit its focus to the revenue administration. We also plan to improve the system to protect whistle-blowers reporting corruption in the tax administration, introduce procedures for the rotation of managers, and set targets for audits of asset declarations of tax administration officials. By end-September, we will prepare a fully-fledged anti-corruption plan.

- **Over time, we need to restructure the administration** to create an independent but accountable tax administration, with a functional organization centered in a strong headquarters. Towards this end, for 2012 our priorities include:

  - **Establishing key functional units.** The major units have been set up, including the large taxpayer unit, the debt collection unit and the audit department. Looking ahead, our priority is to build capacity in these directorates. In 2012, by end-March we will increase the staff of the debt collection directorate by 50, and by the second quarter, we will complete the doubling of the audit capacity of the large taxpayer unit.

  - **Consolidating tax administration operations**. We plan to close a total of 200 underutilized local tax offices by end-December 2012.

  - **Securing greater control over local tax offices.** By end-March 2012 the GSTC headquarters will set operational targets for local tax offices for core activities including audits, dispute resolution and filing, and performance targets for local managers against which they will be assessed. The GSTC headquarters will be given legal powers to direct how local tax office resources must be used. Additionally, collection of large debts will be placed under direct central control and consolidated in the largest 35 tax offices. Processing of all tax payments in local offices will be discontinued by end-September 2012 and replaced by mandatory bank transfers, and payments at banks.

  - **Steps towards independence**. By end-March, we will appoint as Secretary General of the revenue administration an individual with an impeccable track record of tax compliance and with significant experience in tax matters. To support independent decision-making, we will delegate from the ministerial to the administrative level, via a ministerial decision, the control over core business activities and human resource management. We will ensure that at the same time activities of the tax administration headquarters will be externally audited.

- **Collection of social security contributions will be strengthened.** We will undertake a thorough review of current collection and enforcement practices, drawing on external assistance. A fully articulated reform plan will be developed by end-September 2012, which will, among other things, lay out a timeline and set of intermediate steps to fully integrate tax and contribution collections. In the near term, to help stem recent deep problems with social security collections, by March 2012 we will expand monthly declarations to a wider range of large taxpayers, unify the collection of tax and social security contribution debts of the largest tax debtors, enact common audits of tax and social security contribution of large taxpayers, increase the number of inspections and establish targets for inspectors.

- **The government undertakes to fully enforce the tax code, and to forego any tax amnesties.** We commit not to implement any new or extend any existing amnesties or incentive schemes for the collection of taxes and social security contributions. Given the importance of making this regime change, we will amend law 4038/2012 to restrict the extension of payment terms for tax debt and overdue social security contributions and the suspension of criminal prosecution and asset freezing, in line with good international practices.

13. **We are determined to secure tighter control over all general government spending and to prevent the accumulation of arrears.** This will require improving every step of our spending process: budgeting procedures; commitment-based spending controls; and fiscal reporting and budget monitoring:

- **Budgeting**. To improve budgeting at both the medium and short term horizons, we will: (i) issue a circular during Q1 2012 regulating the calendar, deadlines, and the role of all institutions in formulating the next MTFS (covering 2012–6); and (ii) adopt legislation and regulations by October 2012 to streamline submission and approval procedures of within-year supplementary budgets.

- **Spending controls.** Once fully established, commitment-based spending controls, and the architecture accompanying them, will help us to prevent units both at the central and decentralized level from overspending their budgets. There are two near-term issues, and a set of next steps for the remainder of the program:

  - **Commitment registers.** By March 2012, we will begin to extend registers to cover the investment budget. By June 2012, we will increase the number of fully functional commitment registers reporting on the e-portal of the Ministry of Finance to 70 percent of spending units, including in local governments, social security funds, extra budgetary funds, and hospitals. We will also consistently enact sanctions (when needed) to improve data reporting from commitment registers, and expand the content of the e-portal reporting system to include the whole expenditure cycle (e.g. cumulative appropriations released, commitments made, invoices received, and payments made at the end of each month).

  - **Accounting officers.** We have appointed permanent accounting officers in all line ministries. The officers will be responsible for line ministries' financial management, including budget formulation, spending controls, and data reporting. The accounting officers will be obliged to adopt and implement new organizational plans for their directorates by end-June 2012.

  - **Revised audit procedures.** Looking forward, we will focus on the progressive devolution of financial responsibility to accounting officers and reforming the functions of financial audit offices in line ministries and the Court of Audit. This will involve a shift away from preventive audits towards ex-post quality audits, and reconfiguration of our financial information systems.

- **Fiscal reporting.** More comprehensive, timely, and accurate reports will help us better monitor budget execution and spot problems early. To this end, in 2012 we will: (i) expand our arrears data base to cover tax refunds, and establish standards for their processing and payment (by end-June 2012); (ii) make operational by end-March the inter-ministerial committee to monitor, control, and report on the implementation of the social budget; and (iii) expand the recently piloted information systems to collect more detailed revenue and spending data from general government entities (the new system will cover more than 90 percent of spending by end-June 2012).

- **Clearance of domestic arrears.** We expect to clear our existing domestic arrears in line with available program financing. The 2012 budget includes a budget appropriation, based on the end-2011 outturn, and conditions to access it will include the verification of arrears claims, compliance with basic financial management reforms (as described above), and that line ministries and general government entities requesting access demonstrate that they have not accumulated any further arrears and have reported at least three months of consistent data from commitment registers.

14. **We will further strengthen the Greek statistical agency, El.Stat**. We will revise the statistics law to reform El.Stat's governance arrangements. The law will establish the El.Stat Board as advisory, and clarify the professional authority of El.Stat's president as the institution's chief officer and coordinator of the national statistical system.

15. **We are taking prior actions to secure early gains, and to track progress during the program.** As **prior actions** for the program, we will implement various measures to strengthen tax administration operations, including meeting end-2011 performance targets, reversing a recent amnesty, tightening administrative regulations, and strengthening delegation of powers to the revenue administration (Annex III). Looking ahead, we have set and will monitor targets for quantified quarterly performance indicators for revenue administration and public financial management (see the Technical Memorandum of Understanding for a full description of the indicators; the targets for end-June 2012 and end-December 2012 are proposed as **structural benchmarks**). Beyond these indicators, an additional **structural benchmark** will focus on the completion of the strategy for strengthening social security collections (by end-September 2012).

## C. Financial Sector Policies

16. **The government is committed to provide the support needed to restore confidence in the Greek banking system.** The combination of the deepening recession and government debt restructuring will require significant government support to ensure the soundness of the banking system and to maintain depositor confidence. Well-targeted recapitalization and resolution actions will be needed, alongside legal changes to facilitate the strategy and improve the financial oversight framework. With the actions specified, the Greek authorities intend to support banking system liquidity, and create a viable and well-capitalized private banking sector that can support the economic recovery and sustainable growth. Depositors will be protected.

17. **The financial sector reform strategy comprises several key elements**:

- **An assessment of capital needs**. All banks will be required to achieve a core tier 1 capital ratio set at 9 percent by end-September 2012, reaching 10 percent in June 2013. The BoG, with the support of external consultants, will undertake an assessment of banks' capital needs (**prior action**). This assessment will be based on, inter alia, the results from the BlackRock loan diagnostic exercise, the PSI impact, and the business plans banks have submitted. In addition banks' capital needs will be determined on the basis of a requirement to maintain a 7 percent core tier 1 capital ratio under a three year adverse stress scenario (Pillar II requirements). Based on these capital needs identified by the Bank of Greece, banks will revise their business plans and submit capital raising plans by end-March 2012.

- **In parallel, a strategic assessment of the banking sector will be carried out.** In consultation with the EC/ECB/IMF, the Bank of Greece will conduct a thorough and rigorous assessment of each bank, using a set of quantitative and qualitative criteria. The criteria will include in non-exhaustive terms: shareholders' soundness and willingness to inject new capital; quality of management and risk management systems; capital, liquidity, and profitability metrics (both forward and backward looking); the Bank of Greece's assigned ratings to bank risks; and a sustainable business model. The assessment will be complete by end-March 2012 (proposed as a **structural benchmark**).

- **Agricultural Bank (ATE)**. Based on the ongoing work by the commissioned external audit firms, the Ministry of Finance will complete a study on how to address ATE (as a **prior action**). This study will illustrate the legal, operational, and financial aspects of the different solutions and lay out the associated costs.

- **Recapitalization and resolution actions.**

  - **Banks will be given time to raise capital in the market.** Based on an assessment of their viability and capital raising plans, the Bank of Greece will communicate to banks, by end-April, specific deadlines to raise capital in the market. The deadlines to raise capital will be set for each bank on a case by case basis—with a maximum duration to end-September—taking into account the regulatory framework and the requirements set by the Hellenic Capital Market Commission.

  - **Banks submitting viable capital raising plans** will be given the opportunity to apply for and receive public support in a manner that preserves private sector incentives to inject capital and thus minimizes the burden for taxpayers. Specifically, banks will be able to access capital from the Hellenic Financial Stability Fund (HFSF) through common shares and contingent convertible bonds.

  - **We will ensure that Greek banks have business autonomy both dejure and defacto**. The voting rights of the HFSF for the common shares it holds will be strictly limited to specific strategic decisions (unless the private participation in the form of common shares is less than a given minimum percentage of the bank's total capital needs). This percentage will be defined in the amended HFSF law. The shares and/or the voting rights acquired by the HFSF shall not be transferred or sold to any other state-related entity in any form. Private shareholders will be given incentives to purchase HFSF-held shares. A ministerial decision in line with EC, ECB and IMF advice shall provide the technical details of the banks' recapitalization framework, embodying these principles, by end-March 2012 (proposed as a **structural benchmark**).

  - **Banks that do not submit viable capital raising plans and do not raise the capital needed to meet the regulatory requirements within the deadline set by the Bank of Greece** will be resolved in an orderly manner and at the lowest cost to the State, in a way that ensures financial stability and which follows the overall strategic plan for resolved banking system assets. Resolution options will include the tools available under the law such as, inter alia, purchase and assumption (transfer order), interim credit institution (bridge banks), and orderly wind down.

- **Follow up**. To ensure that the system remains well-capitalized, the Bank of Greece will by end-June 2013 conduct a new stress test exercise, based on end-2012 data, using a methodology determined in consultation with the EC/ECB/IMF (proposed as a **structural benchmark**).

18. **We will enact legislation to support our strategy for bank recapitalization and resolution (prior action):**

- **Capital adequacy requirements**. The banking law (3601) will be amended to enable the Bank of Greece to set new bank capital standards through regulation, and the Bank of Greece will introduce regulations to phase in the foreseen increases in Core Tier 1 requirements.

- **Technical aspects of bank resolution.** Building on the recent changes in the bank resolution framework and the experiences gained so far, we will clarify the procedures and responsibilities for the valuation of assets and liabilities and thus for the opening balance sheet of the interim credit institutions. We will also clarify that resolution should proceed in a manner that minimizes costs to the HFSF. In this context, we will strengthen the framework to ensure that future resolutions initially use conservative asset valuations of failed banks' assets, based on fair value, and subsequently allowing for a proper due diligence and revaluation followed by complementary asset transfers within a specified time period. We will also identify the legislative impediments to a flexible management of employment contracts in the context of bank resolutions and adopt the needed legislative changes to remove them.

- **Recapitalization framework.** The HFSF law will be amended to allow the use of contingent convertible bonds and to provide for restrictions on HFSF voting rights for a 5 year period. The voting rights of the HFSF for the common shares it holds will depend on the size of the capital injection by private investors via common shares. If this injection is below a given minimum percentage of a bank's total capital needs (to be defined in the HFSF law), the HFSF will have full voting rights. The HFSF shall hold its shares for a period of two years, with the possibility to extend for an additional two years for financial and market stability reasons. If instead this private injection is larger than this percentage, the HFSF voting rights will be strictly limited to specific strategic decisions. In this case, the legal framework will be revised to allow the HFSF to hold bank shares for five years.

- **Resolution framework**. We will introduce a clear separation of the supervisory, resolution and restructuring functions. In particular, the legal framework shall vest resolution responsibilities in a separate department in the BoG and restructuring responsibilities (pertaining to management of all temporary credit institutions) in the HFSF. As regards interim credit institutions, the Bank of Greece will continue pursuing its financial stability role, notably via its supervisory authority, while the HFSF will continue aiming at safeguarding its investments.

- **Framework for managing non-performing loans.** Separate from the prior action, during Q2 2012 we will prepare changes to the legal framework for addressing non-performing loans and those at risk of becoming non-performing, with input from international experts and in line with EC/ECB/IMF advice. Any changes will be guided by several principles, including the need to: target our interventions (and in line with fiscal and financial sector capacity); preserve the payment culture and avoid strategic loan defaults; maximize asset recovery; and facilitate market distinctions between rehabilitation of viable borrowers and the efficient exit from the economy of non-viable borrowers.

19. **The government will ensure that enough financing is available to provide for recapitalization and resolution needs**. Total bank recapitalization needs and resolution costs are estimated to amount to €50 billion. The timing of transfers to the HFSF will take into account the expected timeline for bank resolution and recapitalization, and requirements for continued ECB liquidity support. Funds received via program disbursements will be deposited in the HFSF's ring-fenced account.

20. **We are committed to preserve continued access to central bank liquidity support**. The Bank of Greece, following Eurosystem procedures and rules, will stand ready to continue disbursing adequate appropriate emergency liquidity support in a timely manner. Adequate liquidity support in the near term must be consistent with plans to reduce banks reliance on exceptional central bank support in the medium term. To this end, medium-term funding plans will be updated after completion of the recapitalization and restructuring exercise to ensure that the gradual unwinding of exceptional liquidity support proceeds at a pace consistent with the program's macroeconomic, fiscal, and financial framework.

21. **The government will enact legislation to strengthen governance arrangements in financial oversight agencies (prior action)**:

- **Hellenic Financial Stability Fund**:

  - ➢ The Board of Directors will reorganize the HFSF to introduce legislation to clarify that the HFSF shall have two departments, responsible for separate functions:

    - o A department responsible for managing its ownership interest in banks on behalf of the government. In this capacity, its mandate shall be to ensure that the banks under its stewardship operate on a commercial basis and are restored to a well-functioning and profitable part of the Greek financial sector, which can eventually be returned to private ownership in an open and transparent manner.

    - o A department for management of interim credit institutions (bridge banks), established following the resolution of non-viable banks. It will undertake this role in a cost-effective manner, based on a comprehensive strategy agreed by the BoG, MoF and HFSF, and in compliance with EU state aid rules. From time-to-time, this function may require funding to accomplish its restructuring role. Such funding will be reduced, either partly or entirely, by a contribution from the HDIGF Depositor Branch to the extent of its obligations for deposit insurance.

  - ➢ We will introduce legislation to changes the HFSF's governance structure to include a General Council and an Executive Board:

    - o The General Council shall have five members: two members, including the Chair, with relevant international experience in banking, one other member, one representative from the MoF, and one member nominated by the BoG. All members shall be appointed by the Minister of Finance with the approval of the Euro Working Group (EWG); other than the representative from the MoF and the nominee from the BoG. EC and ECB observers on the Council will be maintained.

- The Executive Board shall have three members: two members—one of which shall be the CEO—with international experience in banking and bank resolution, and one member nominated by the BoG. All members shall be appointed by the Minister of Finance with the approval of the EWG. Staff and officials of the BoG shall not sit on the Board of the HFSF. EC and ECB observers will be present on the Executive Board.

➢ We, in consultation with HFSF, will adopt regulations to help the HFSF execute its mandate with full autonomy and at the same time coordinate effectively with the MoF. It will cover reporting lines and frequencies, strategic decision-making (and the involvement of the MoF therein), investment mandate and business plan, relationship with the MoF (in its role as shareholder in the HFSF), and remuneration policy.

- **Hellenic Deposit & Investment Guarantee Fund.** We will strengthen the funding of the HDIGF Depositor Branch by revising the HDIGF Law to: (i) prescribe that fees shall be increased if its funds fall below a certain level of coverage of insured deposits, which should be set taking due account of developments in the financial system; (ii) ensure adequate diversification of re-deposits of HDIGF funds and to gradually eliminate re-deposits in covered banks, as developments with the restructuring of the Greek banking sector permit; and (iii) clarify that the HDIGF's status as privileged creditor does not impinge on claims secured with financial collateral in the sense of the financial collateral directive. With a view to limiting any real or perceived conflicts of interest we will prohibit HDIGF board membership for individuals who are actively involved in credit institutions and introduce in the law strong conflict of interest rules for Board members.

22. **We will also reform governance arrangements in the Bank of Greece.** In light of the BoG's responsibility for resolution, restructuring, and supervision, we will revise the BoG Statute to provide for collegial decision-making at the level of executives (Governor and Deputy Governors) and ongoing accountability through internal oversight by nonexecutives in the General Council (also including oversight in matters other than ESCB-related tasks). We will also revise the structure and rights of BoG shareholders to eliminate possible conflicts of interest in the Bank of Greece's public policy role (e.g. prohibiting supervised institutions from shareholdings and setting a cap on the number of votes that each or related private shareholders can exercise). We propose that this become a **structural benchmark** for end-December 2012.

### D. Privatization

23. **Under the program, we aim to accomplish a fundamental shift of public assets to private sector control.** Transferring assets in key sectors of the economy (such as ports, airports, motorways, energy, and real estate) to more productive uses through privatization and concessions should help encourage FDI and other private investment, supporting the economic recovery and long-term growth. It will also help to reduce public debt, contributing to improved market sentiment over time and supporting Greece's return to bond markets. The government is

determined to overcome the challenges posed by market conditions and clean the assets from technical and legal complexities, and the program defines targets and the steps towards achieving these.

24. **The assets comprising the privatization program have been identified.** The list includes state enterprises, concessions, and real estate (Annex IV) along with any bank assets either previously owned or to be acquired during the recapitalization process. Given the assets targeted for sale, the government anticipates €50 billion in proceeds over the lifetime of the asset sale program, including at least €19 billion through 2015. Because many of these assets are encumbered, and with current poor market conditions, we expect it to take time beyond the program period to realize the full amount of proceeds. We will annually update the expected value of proceeds over the timeframe in question, and to the extent proceeds fall short of target, we will identify additional assets to be brought into the program, including stakes in public corporations not now included. In light of the need for assets to use in and backstop the privatization program, we will not transfer any public assets to the recently established pension fund SPV (and we will consult with the EC/ECB/IMF staff on a mutually agreed approach to manage this SPV). The program will monitor progress towards objectives via quarterly indicative targets.

25. **The privatization process for each asset is in general expected to comprise several stages.** This includes most prominently transferring the asset to the privatization fund and appointing the advisors. Other steps include, restructuring of the asset, filling in public policy and regulatory policy gaps, design of the tender process, EC clearances (for procurement, competition and state aid), running the tender, and obtaining all of the necessary by-law approvals.

26. **To move the privatization process forward in 2012, we will take a number of steps:**

- **Appointment of advisors.** We expect to appoint by end-March 2012 all remaining advisors for thirteen 2012/13 projects which do not currently have all their advisors.

- **Transfer of assets to the privatization fund (HRADF)**. By end-March 2012, all assets included in the MTFS will be transferred, except banking shares and loss making assets which HRADF cannot finance before their privatization (TRAINOSE, ELVO, EAS). Also the remaining balance of the shares of the two large ports (OLP and OLTH) will be transferred. Real estate assets will be transferred at HRADF's request from the Government Real Estate Company (ETAD). Shares already transferred or to be transferred to the HRADF will be provided their voting rights in full so that the HRADF will be able to make all the changes necessary for the swift privatization of each asset.

- **Preparations of state-owned enterprises.** We will work with the EU authorities to obtain clearance for state aid for the lottery, DEPA/DESFA, EAS, OPAP and ODIE, and develop the necessary regulatory frameworks with assistance from the EU Task Force for Greece. Ministries and other public bodies will expedite administrative decisions and/or special legislation to facilitate privatizations.

- **Preparation of real estate assets.** The government will correct legal and technical deficiencies, expedite zoning, and issue required permits for real estate assets. It has requested technical assistance from the Task Force to develop a comprehensive land registry, and in this context, the HRADF will register 3,000 plots by end-June.

- **Policy coordination.** The government will formulate new policies regarding the use of assets (e.g. town planning, REITS) and set up new regulatory authorities and frameworks (e.g. for water, ports, airports, motorways). The Task Force for Greece is expected to support the government through technical assistance.

- **Offer of assets for sale.** We intend to launch some landmark asset sales in the first half of 2012, such as DEPA/DESFA, HELPE, OPAP, EYDAP, EYATH, and IBC, and in the second half of the year to proceed with tenders for the ports, airports and Egnatia Odos motorway.

27. **We remain committed to a process insulated from political pressures**. The HRADF has been set up to operate under a mandate to privatize assets at prevailing market conditions as soon as technically feasible and in an open and transparent manner. Under the HRADF, assets will be overseen and directed so as to accelerate their transfer to the private sector. The HRADF will not be able to transfer assets back to the general government, and if it is determined by the Board that an asset cannot be sold in its current form, it will be sold in pieces or liquidated. The Fund is able to raise money, on market terms, but cannot grant liens over any of its assets if this might prevent or delay the relevant assets from being privatized. The Fund will return all proceeds received to the government without delay.

## E. Structural reforms

28. **As noted above, the government's most pressing priority is to restore competitiveness and economic growth.** We recognize a need to significantly accelerate the implementation of comprehensive and deep structural reforms aimed at boosting employment, output, and productivity growth by liberalizing labor, product, and service markets and removing existing barriers in the business environment. However, as these will likely require some time to fully translate into sustained growth, we will also take upfront measures to allow a reduction in nominal wages to rapidly close our competitiveness gap and lay an earlier foundation for sustained growth.

29. **The government will take actions to improve the functioning of the labor market.** Rigidities in the labor market are preventing wages from adjusting to economic conditions and are pushing labor into the informal sector. To protect employment and close Greece's competitiveness gap more rapidly, the government intends to target a reduction in unit labor costs of about 15 percent during the program period. If the ongoing social dialogue is unsuccessful in identifying concrete solutions, then to achieve this goal the government will take legislative measures in the urgent public interest to allow wage and non-wage costs to adjust as needed. The package of labor market measures that will be implemented includes:

- **Structural measures to level the playing field in collective bargaining.** The key measures we will enact into law (as a **prior action**) include:

  - ***Length of collective contracts and revisions of the 'after effects' of collective contracts.*** Changes will specify that: (i) all collective contracts should have a maximum duration of 3 years; (ii) collective contracts already in place for 24 months or more will expire not later than one year after the law is adopted; (iii) the grace period after a contract expires is reduced from six to three months; and (iv) in the event that a new collective agreement cannot be reached after three months of efforts, remuneration will revert back to the basic wage plus the following general allowances (seniority, child, education, and hazardous). This will continue to apply until replaced by terms specified in a new collective agreement or in new or individual contract.

- ***Removal of 'tenure' in all existing legacy contracts*** in all companies. The new legal provision will automatically transform contracts with definite duration (defined as those expiring upon age limit or retirement) into indefinite duration contracts for which standard layoff procedures apply.

- ***A freeze of 'maturity'*** provided by law and/or collective agreements (referring to all automatic increases in wages dependent on time) until unemployment falls below 10 percent.

- ***Elimination of unilateral recourse to arbitration***, allowing requests for arbitration only if both parties consent. At the same time, we will clarify (by law or circular) that: (i) arbitrators are prohibited to introduce any provisions on bonuses, allowances, or other benefits, and thus may rule only on the basic wage; and (ii) economic and financial considerations must be taken into account alongside legal considerations.

- **Adjustment of wage floors.** This will help ensure that as the economy adjusts, and collective bargaining agreements respond, firms and employees do not find themselves bound at a lower limit (and a limit which is very high in international comparison):

  - We will legislate: (i) an immediate realignment of the minimum wage level determined by the national general collective agreement by 22 percent at all levels based on seniority, marital status and daily/monthly wages; (ii) its freeze until the end of the program period; and (iii) a further 10 percent decline for youth, which will apply generally without any restrictive conditions (under the age of 25) (**prior action**). These measures will permit a decline in the gap in the level of the minimum wage relative to peers (Portugal, Central and Southeast Europe). We expect this measure to help address high youth unemployment, the employment of individuals on the margins of the labor market, and to help encourage a shift from the informal to the formal labor sector.

  - Together with social partners, we will prepare by end-July 2012 a clear timetable for an overhaul of the national general collective agreement. This will bring Greece's minimum wage framework into line with that of comparator countries and allow it to fulfill its basic function of ensuring a uniform safety net for all employees.

- **Adjustment to non-wage labor costs**. To help reduce non-wage costs and foster employment, we will bring the labor tax wedge in Greece broadly into line with European peers:

  - We will enact legislation to reduce IKA social security contribution rates for employers by 5 percentage points, and implement measures to ensure that this is budget neutral. Rates will be reduced only once sufficient measures are in place to cover revenue losses. The measures to finance rate reductions will be legislated in two steps. First, as a **prior action**, we will enact legislation to close small earmarked funds engaged in non-priority social expenditures (OEK, OEE), with a transition period not to exceed six months. Second by end-September 2012, we will adjust pensions (with protections for low-income pensioners), and broaden the base for contribution collections (proposed as a **structural benchmark**).

- ➢ As an additional measure, by end-September we will prepare jointly with social partners an actuarial study of first pillar occupational pension schemes in companies with excessive social security costs (relative to comparable firms or industries covered by IKA) and finalize a list of concrete proposals to eliminate this differential in a fiscally neutral manner.

- **Follow up work**. We will review on an ongoing basis the effects of these measures on the labor market and unit labor costs and, if necessary, are prepared to take additional corrective measures to facilitate collective bargaining, in order to ensure wage flexibility and higher employment. If by end-2012 effects on the labor market remain elusive, we will consider more direct interventions.

30. **The program will, like our previous program, place deep emphasis on product and service market reforms.** The slow response of inflation to the current crisis, even after adjusting for taxation and energy prices, suggests that rigidities remain in such markets. These will need to be addressed in tandem with labor market reforms to facilitate the pass-through from wages to prices. Our strategy will consist of prioritizing and phasing service sector reforms while pushing forward with product market reforms:

- **Service sector reforms.** As a **prior action**, we will abolish restrictions in 20 high value and/or highly restricted professions, from the list of professions and economic activities covered in Annex II of KEPE's "Second Report on the Impact of Liberalizing Regulated Professions." We will also publish the ministerial decision establishing the road haulage license price in line with administrative costs. Looking forward, by end-March we will prepare a detailed quarterly timetable for 2012 for the screening and cleaning of existing legislation prioritized according to economic performance, and again drawn from Annex II of the KEPE report (completion of this work by end-2012 is proposed as a **structural benchmark**). Finally, for professions where reinstatement of restrictions is required in line with the principles of necessity, proportionality, and public interest, we will pass the required legislation no later than end-June and upon consultation with the Hellenic Competition Commission and in line with EC/ECB/IMF advice.

- **Product market reforms**. To promote price flexibility, by April 2012 we plan to screen the retail, wholesale, and distribution sectors and prepare an action plan to promote competition and facilitate price flexibility in product markets.

31. **The government is committed to continue with improvements in Greece's business environment.** A number of reforms initiated in 2011—fast-tracking investments, speeding up licensing procedures and facilitating electronic business registration—will be fully implemented this year. These reforms are key to promoting investment and exports, and will boost growth once the recovery takes hold.

- By end-March, we will enact and publish legislation facilitating investment and exports:

- ➢ We will enact legislation which: (i) improves the functioning of the fast-track investment law (by making the framework available to more projects, lowering fees, and relaxing financing requirements), and (ii) eliminates the registration requirement in the Export Registry and simplifies export legislation.

- Moreover, we will publish the main secondary legislation required to implement the licensing laws covering technical professions, manufacturing activities, business parks, and environmental licensing.

- By end-March we will also establish timetables with the key steps needed to complete (by end-December) the implementation of an electronic export window, e-customs, and the new electronic environmental register, as well as to fully implement the two licensing laws.

32. **In support of efforts to improve the business climate, we will advance our medium-term reform agenda aimed at improving the efficiency of the judicial system**. Greece's judicial system is highly inefficient, with significant backlogs despite a relatively large number of courts and judges. Complex judicial procedures, cumbersome execution of court decisions, lack of transparency, and disconnect between court performance and budgeting, have negatively affected FDI, other private investment, entrepreneurship, exports, and employment. In this regard, our efforts will focus on:

- ***Addressing the case backlog in the courts.*** We are committed to meet the objectives and implement the measures specified in our January 2012 work plan for the reduction of tax cases backlog through setting semi-annual milestones, including by placing priority on high-value tax cases exceeding €1 million). Regarding the non-tax case backlog, we have commissioned a study to be completed by end-June, on the basis of which we will draw up an action plan (by end-August) with specific targets for the clearance of all backlog cases.

- ***Speeding Up Case Processing*****:** We plan to speed up civil and administrative case processing through the adoption (by end-March) of a law aimed at improving the efficiency of administrative court proceedings (including by streamlining procedures for group adjudication of similar administrative cases) and requiring submission of decisions in electronic form by administrative and civil judges.

- ***Improving the Performance and Accountability of Courts*****:** To improve the effectiveness of magistrate courts, secondary legislation will be published by end-May, merging existing courts to reduce their number. To improve transparency, at end-March the Ministry of Justice will start publishing detailed court information on its website. This quarterly exercise will initially cover data for tax cases. These actions will help set the stage for the design (by end-September) of a performance framework for all courts, including the development of a dependable data management system, and a workload measurement system.

- ***Reforming the Code of Civil Procedure*****:** By end-March, we will establish a task force to review the Code of Civil Procedure so as to bring it in line with international best practices. By end-June, the task force will issue a concept paper identifying the core issues and bottlenecks in the pre-trial, trial, and enforcement stages of civil cases and set out proposed solutions. Following its issuance, we will consult with domestic and international experts, such that, by end-December, a detailed paper can be prepared outlining the main proposals for amendments to the Code of Civil Procedure.

33. **The government will accelerate efforts to improve structural reform management and monitoring.** To this end, by March we will implement a directorate of planning, management, and monitoring of reforms. Starting with end-March, we will start publishing on a quarterly basis monitoring indicators for each reform initiative on the government's website. Our efforts to carry out our ambitious reform agenda (including for judicial reform, screening of legislation for closed professions, and using the competition toolkit to identify rigidities in product markets) will be supported by the Commission's Technical Assistance Task Force.

## F. Program Financing

34. **Greece will face sizable balance of payments financing needs during the program period.** It is expected to take time for Greece to restore sovereign market access, given the long process of reforms and adjustment ahead, and the projected government debt trajectory. Given the insufficient level of domestic savings to finance these needs (alongside private investment), we expect to face sizable balance of payments financing needs in the period ahead, which we anticipate to be covered through financial support from our European partners, the IMF, and private sector involvement (PSI) in the form of a comprehensive debt restructuring operation.

35. **We expect private sector involvement (PSI) to help Greece achieve debt sustainability and to cover a significant portion of our financing gap.** While the measures outlined above would bring about an improvement in the fiscal accounts, they would not by themselves close the financing gaps and put debt on a sustainable path. Accordingly, with the assistance of our debt advisors, and after consultations with creditors, we have launched a comprehensive debt exchange offer, covering a pool of government debt of €205.6 billion.[1] Our program assumes that the financial contribution of the private sector through the debt exchange, together with the official sector support, will deliver a debt to GDP ratio of 120 percent by 2020 (given anticipated macroeconomic and policy developments). We recognize that this financing is essential to the program and securing it is necessary to give the program financing assurances. We expect the debt exchange offer to be successfully completed prior to the meeting of the IMF Executive Board to consider our request for an Extended Arrangement under the EFF.

36. **Beyond our request to the Fund for a 4 year EFF from (in an amount of SDR 23.7853 billion, or 2,158.8 percent of quota), we have secured additional financial resources from our European partners to fill remaining needs.** Euro area partners have committed a total of €144.7 billion over 2012-14. They have also committed to support Greece for as long as it takes to restore market access, provided Greece implements and adheres to its policy program. Finally, to ensure that this financing places Greece on a sustainable debt trajectory, to deliver a debt-to-GDP ratio of about 120 percent by 2020, with continued declines thereafter, they have committed to: (i) new lending at maturities of 30 years and at close to funding costs, using the EFSF as a financing vehicle; (ii) reduce the margin of the Greek Loan Facility to a uniform 150 basis points; and (iii) for eurozone countries where central banks currently hold Greek government bonds in their investment portfolio, pass on to Greece an amount equal to any future income accruing to their national central bank stemming from this portfolio until 2020.

## G. Program modalities

37. Progress in the implementation of the policies under this program will be monitored through quarterly reviews and consultations, as well as via quarterly (and continuous)

[1] See: www.greekbonds.gr

quantitative performance criteria (PCs) and indicative targets, and structural benchmarks. These are detailed in Tables 1 and 3. The attached Technical Memorandum of Understanding (TMU) defines the quantitative performance criteria, indicative targets, and various benchmarks under the program. Quantitative targets up to end-December 2012 are PCs. Targets for 2013–15 are indicative and for 2013 will be converted into PCs at the time of the second review. It is expected that the first and second reviews under the Extended Arrangement take place by end-June and end-September 2012. A Memorandum of Understanding (MoU) on specific policy conditionality agreed with the European Commission, on behalf of the euro-area Member States, specifies additional structural policies, and sets a precise time frame for their implementation.

38. In the context of the arrangement, the Bank of Greece will undergo an updated safeguards assessment in accordance with the IMF safeguards policy. Given that Fund disbursements will be deposited into the government's single treasury account at the BoG, the existing Memorandum of Understanding between the Ministry of Finance and the BoG will be updated.

Annex I: Pending Fiscal Measures

| |
|---|
| **From the July MTFS** |
| • Government to enact a framework law to reform supplementary pensions, to generate savings of 0.4 percent of GDP by 2014 (in line with MTFS estimates)<br>• Issue MDs for the implementation of the business tax (Article 31 of Law 3986) |
| **From the end-October implementation bill** |
| • Issue the 4 pending MDs to fully implement the new wage grid (see TMU)<br>• Pass law to establish deadline for implementation of the wage grid reform in the general government and the recovery of wage overpayments since November 1, 2011<br>• Issue MD to bring down the transfer time from PPC of the property tax proceeds to 10 days after the end of each month |
| **From the November prior actions** |
| • Issue the pending MDs on the closure/merger of extra-budgetary funds<br>• Update the positive list mechanism to deliver the 2012 savings target of €250 million |

Annex II. Measures to reach the 2012 deficit target

- Pass a supplementary budget with a primary deficit target of 1 percent of GDP for 2012 that reflects all of the changes that follow.

- Reduce operational spending of the state by €200 million Adjust other spending by €280 million: election spending, subsidies for remote areas; allocations for the ministry of education, (including for service abroad; staff allowance for universities, alternate teachers in secondary schools; operational spending of high schools); allocation of the ministry of agriculture; and transfers to entities.

- Reduce pensions in OTE, DEI, ETE, ATE, ETVA, Emporiki, Ex-Olympic Airways and in all other main pension funds, above the monthly amount of €1,300, by 12 percent, effective January, 2012. Reduce supplementary pensions between €200–250 by 10 percent, between €250–300 by 15 percent, and above €300 by 20 percent, effective January 1, 2012.

- Eliminate all family allowances for families with annual incomes above €45,000, with the exception for families with 5 or more children, effective January 1, 2012.

- Cut domestic investment spending by €400 million relative to the 2012 budget.

- Implement a 1:10 hiring to attrition rule in the state-owned enterprises for 2012.

- In local governments: (i) reduce wages of all political employees by 10 percent (effective January 1, 2012); and (ii) issue a decision to reduce the number of fixed term contracts, and to limit the number of these paid from the state budget.

- Take actions (all laws, Ministerial Directives (MDs), and circulars) to limit overprescribing of pharmaceuticals and reduce generic costs:

  - Pass law and issue MDs to set maximum price of generics to 40 percent and for off-patented products to 50 percent of patented products.

  - Reduce profit margins for pharmacies to below 15 percent and wholesale margins to a maximum of 5 percent. Establish a fixed rate of €30 for all medicine above €200. Increase rebate for pharmacies with turnover above €35,000 by average 1½ percent.

  - Pass law on rebates that will yield €250 million; pass law on an additional rebate covering 2012–15 to be paid if outpatient pharmaceutical spending (including taxes), retroactive to January 1, 2012 exceed €240 million per month.

  - Make compulsory: electronic prescription for all doctors (and only reimburse pharmacies for electronic entries); prescriptions of the cheapest product by active substance; international protocols for 160 diseases, including the 10 most expensive.

  - Update negative list; issue MD to allow for intakes of new brands into the positive list only if they have been included by two-thirds of EU countries.

Annex III. Upfront Revenue Administration Reforms

| |
|---|
| ***Meeting end-2011 targets*** |
| • General Secretariat for Tax and Customs to meet end-2011 revenue administration performance indicators (full scope and VAT audits of large taxpayers). |
| ***Amnesty reversal*** |
| • Amend the recent "Omnibus bill" to repeal/modify articles 3 and 21 (to eliminate the extension of payment terms of tax debt, and eliminate the suspension of criminal prosecution and asset freezing). |
| ***Regulations*** |
| • Amend the Bank of Greece's decisions on the reporting by financial institutions, to the Financial Intelligence Unit, of suspicious transactions linked or related to tax evasion (Decisions 285/2009 and 281/2009) to enhance monitoring and detection mechanisms.<br>• Take measures to ensure that complaint reports related to confirmed unpaid tax debts arising from an audit are transmitted to the prosecution services and to the FIU, as required under the system in place.<br>• Make it compulsory for large tax cases to exhaust the administrative dispute phase before accessing judicial appeals.<br>• Tighten rules concerning suspension of payment of taxes in dispute when accessing judicial appeals (Article 202, Administrative Procedure Code). |
| ***Delegation of powers*** |
| • Minister of Finance to issue decisions to delegate from the ministerial to the administrative level the control powers over core business activities and human resource management.<br>• Place under direct control and management of GSTC headquarters the collection of large debts, and focus activities in the largest 35 tax offices. |

## Annex IV. Privatization Program

| Timing of Privatization (launch) | Project | Transferred to Fund | Advisors contracted | Intermediate steps |
|---|---|---|---|---|
| **I. State-owned enterprise/share sale** | | | | |
| 2012 Q1 | Public Gas (DEPA) | √ | √ | Call for tender launched in February 2012. |
| Q1 | Public Gas (DESFA) | √ | √ | Call for tender launched in February 2012. |
| Q1 | Football Betting (OPAP) | √ | √ | State aid clearance. |
| Q2 | Hellenic Defense Systems (EAS) | 1/ | √ | Clearance by Ministry of Defense. Adopt restructuring law by April 2012. State aid clearance. |
| Q2 | Hellenic Petroleum (HELPE) | March 2012 2/ | March 2012 | Sign MoU with Paneuropean by April 2012. |
| Q2 | Athens Water (EYDAP) | √ | March 2012 | Establish regulator and pricing policy by June 2012. Extend concession. |
| Q2 | Horse Racing (ODIE) | March 2012 2/ | √ | Adopt restructuring law and establish time-bound concession rights by March 2012. State aid clearance. |
| Q2 | Athens Water (EYDAP) | March 2012 | March 2012 | Establish regulator and pricing policy by June 2012. Extend concession. |
| Q2 | Thessaloniki Water (EYATH) | March 2012 | March 2012 | Establish regulator and pricing policy by June 2012. Extend concession. |
| Q2 | Mining and Metallurgical Company (LARCO) | March 2012 2/ | √ | Adopt restructuring law by March 2012. |
| Q2 | Hellenic Post (ELTA) | 1/ | March 2012 | Adopt law determining the public service by February 2012. |
| Q2 | Casino Mont Parnes | 1/ | March 2012 | State aid clearance. |
| Q2 | Electricity Company (PPC) | 1/ | March 2012 | Restructuring to be decided by June 2012. |
| Q3 | Hellenic Vehicle Industry (ELVO) | 1/ | March 2012 | Adopt restructuring law by June 2012. |
| Q4 | Railways (Trainose) | 1/ | August 2012 | Ongoing restructuring and last phase of state aid clearance by June 2012. |
| Q4 | Athens Airport (AIA) | March 2012 2/ | √ | Re-approach Hochtief Airports by June 2012. |
| **II. Concessions** | | | | |
| 2011 Q4 | Hellenic Motorways | √ | March 2012 | Complete negotiations. Ratify changes in concession. Establish regulatory framework by end-2012. |
| Q4 | State Lottery | √ | √ | Expected financial offer from the three bidders by April 2012. |
| 2012 Q2 | Egnatia Odos | √ | March 2012 | Unbundling into services/motorway rights. Establish regulatory framework by end 2012. |
| Q3 | Small ports and marinas | 1/ | √ | Identify policy. First lot of rights transferred by March 2012. Est. regulatory framework by Sept. 2012 |
| Q3 | Regional airports | √ | March 2012 | Identify proper policy. Establish regulatory framework by September 2012. |
| Q4 | Thessaloniki Port (OLTH) | March 2012 2/ | March 2012 | Identify policy. All share voting rights transferred by March 2012. Est. reg. framework by Sept. 2012 |
| Q4 | Piraeus Port (OLP) | March 2012 2/ | March 2012 | Identify policy. All share voting rights transferred by March 2012. Est. reg. framework by Sept. 2012 |
| Q4 | Large regional ports | 1/ | March 2012 | Identify policy. All share voting rights transferred by March 2012. Est. reg. framework by Sept. 2012 |
| Q4 | South Kavala Gas Storage | √ | March 2012 | Clear legal obstacles by September 2012. |
| To be determined | Mining rights | √ | | |
| To be determined | Digital dividend | | | |
| **III. Real Estate** | | | | |
| 2011 Q4 | Hellenikon 1 | March 2012 2/ | √ | Adopt law on land use by March 2012. |
| 2012 Q1 | Sale/repo N buildings | √ | √ | Government to sign rental contracts by May 2012. Transfer clean title to the HRADF by May 2012. |
| Q1 | Real Estate IBC | March 2012 | √ | Strategic environmental study. ESCHADA to be issued by June 2012. 3/ |
| Q1 | Real Estate/Astir Vouliagmenis | 1/ | √ | Negotiations with NBG. ESCHADA to be issued. Process led by NBG by June 2012. |
| Q1 | Real Estate/Cassiopi | March 2012 | √ | Move NATO radar. ESCHADA to be issued by June 2012. |
| Q1 | Real Estate lot 1 (Afantou) | 1/ | √ | ESCHADA to be issued by June 2012. |
| Q2 | Real Estate lot 2 | 1/ | √ | Identify assets by June 2012. |
| Q3 | Real Estate lot 3 | 1/ | √ | Identify assets by September 2012. |

Source: HRADF update on projects under development.

1/ Transfer of assets/rights at the point of privatization.
2/ Shares have already been transferred, but not yet voting rights.
3/ ESCHADA = Zoning and land planning permit.

## Table 1. Greece: Quarterly Performance Criteria (2012-15 Program)
## (billions of euros, unless otherwise indicated)

| | 2012 | | | | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|
| | Mar-12 | Jun-12 | Sep-12 | Dec-12 | Dec-13 | Dec-14 | Dec-15 |
| | Progr. 1/ | Progr. 1/ | Progr. 1/ | Progr. 1/ | Progr. 3/ 6/ | Progr. 4/ 6/ | Progr. 5/ 6/ |
| **Performance Criteria (unless otherwise indicated)** | | | | | | | |
| 1. Floor on the modified general government primary cash balance | -2.5 | -6.0 | -6.3 | -7.0 | -0.2 | 8.8 | 8.1 |
| 2. Ceiling on State Budget primary spending | 13.9 | 29.2 | 44.4 | 60.4 | 52.6 | 43.8 | 43.0 |
| 3. Ceiling on the overall stock of central government debt | 340 | 340 | 340 | 340 | .. | .. | .. |
| 4. Ceiling on the new guarantees granted by the central government | 0.0 | 0.0 | 0.0 | 0.0 | 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 7/ | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 6. Ceiling on the accumulation of new domestic arrears by Hospitals and Line Ministries 7/ | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Indicative Targets** | | | | | | | |
| 7. Ceiling on the accumulation of new domestic arrears by the general government 7/ | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 8. Floor on privatization receipts 8/ | 0.03 | 0.03 | 1.20 | 3.2 | 7.5 | 11.0 | 16.0 |

1/ Cumulatively from January 1, 2012 (unless otherwise indicated).
3/ Cumulatively from January 1, 2013 (unless otherwise indicated).
4/ Cumulatively from January 1, 2014 (unless otherwise indicated).
5/ Cumulatively from January 1, 2015 (unless otherwise indicated).
6/ Indicative targets.
7/ Applies on a continuous basis from program approval.
8/ Calculated on a cumulative basis from January 1, 2012 and applied on a continuous basis from program approval.

## Table 2. Greece: Prior Actions

| Measures | Macro critical relevance | Status |
|---|---|---|
| **Fiscal** | | |
| 1. Government to fully implement all overdue MTFS measures (Annex 1). | To help restore fiscal sustainability. | Proposed. |
| 2. Government to enact and implement measures needed to reach the fiscal deficit target in 2012 (Annex II). | To help restore fiscal sustainability. | Proposed. |
| 3. Government to implement measures to strengthen tax administration operations (Annex III). | To improve tax collection. | Proposed. |
| **Structural** | | |
| 4. Government to legislate measures to level the playing field in collective bargaining, including: (i) removal of the 'after effects' of contract expiration; (ii) removal of 'tenure' in all existing legacy contracts; (iii) a freeze of 'maturity' in all private contracts; (iv) elimination of compulsory arbitration. | To promote competitiveness and employment. | Proposed. |
| 5. Government to legislate a realignment of the minimum wage level determined by the national collective agreement by 22 percent; freeze it until the end of the program period, and a further 10 percent decline for youth, which will apply generally without any restrictive conditions. | To promote competitiveness and employment. | Proposed. |
| 6. Government to close small social security funds and reduce other non-priority social security spending to allow a fully-funded reduction in social security contribution rates. | To promote competitiveness and employment. | Proposed. |
| 7. Government to enact secondary legislation establishing license prices for road-haulage in line with administrative costs, and to screen specific service sector legislation and repeal or modify unnecessary and outdated regulations for an additional 20 high value and/or highly restricted professions to ensure full consistency with the law liberalizing restricted professions (3919). | To effectively deregulate key service sectors. | Proposed. |
| **Financial** | | |
| 8. Bank of Greece to undertake a comprehensive assessment of banks' capital needs. | Financial stability | Proposed. |
| 9. Ministry of Finance to complete a detailed study on how to address ATE, based on work by the commissioned external audit firms. | Financial stability | Proposed. |
| 10. Government to enact legislation to improve the framework for resolution and recapitalization to: (i) enable the Bank of Greece to set new bank capital standards through regulation, and to use this power to establish new Core Tier 1 requirements; (ii) remove impediments to a flexible management of employment contracts in the context of bank resolutions; (iii) ensure the use of conservative asset valuations for failed banks; (iv) allow the use of contingent convertible bonds in recapitalization; (v) introduce the possibility of restrictions on HFSF voting rights; and (vi) vest resolution responsibilities in a separate department in the BoG and systemic restructuring responsibilities in the HFSF. | To support effective recapitalization of banks | Proposed. |
| 11. Government to enact legislation to improve the financial oversight framework. In particular, covering reforms to: (i) establish two departments in the HFSF mandated, respectively, to manage the government's ownership of banks and interim credit institutions; (ii) revise the HFSF's governance structure to include a General Council and an Executive Board; and (iii) address HDIGF funding arrangements, and to eliminate possible conflicts of interest within the HDIGF. | To strengthen governance arrangements for financial oversight agencies. | Proposed. |

## Table 3. Greece: Proposed Structural Conditionality—Structural Benchmarks

| Measures | Macro critical relevance | Status |
|---|---|---|
| **End-March 2012** | | |
| 1. A ministerial decree shall be issued to provide the technical details of the banks' recapitalisation framework | To strengthen financial sector resilience | Proposed. |
| 2. Bank of Greece to complete a strategic assessment of banks' business plans. | To strengthen financial sector resilience | Proposed. |
| **End-June 2012** | | |
| 3. Government to adopt a budget-neutral tax reform package, including: (i) the repeal of the Code of Books and Records and its replacement by simpler legislation; (ii) the elimination of several tax exemptions and preferential regimes; (iii) simplification of the VAT and of the property tax rate structure; (iv) a more uniform tax treatment of individual capital income; and (v) a simplified personal and corporate income tax schedule. | To simplify the tax system, improve its efficiency, and broaden the tax base. | Proposed. |
| 4. Government to complete the reviews of social spending programs to identify 1 percent of GDP in savings, while at the same time making proposals to strengthen core safety net programs. | To help achieve medium-term fiscal targets. | Proposed. |
| 5. Government to complete the reviews of public administration to identify 1 percent of GDP in savings. | To help achieve medium-term fiscal targets. | Proposed |
| 6. Government to meet quantified quarterly performance indicators for revenue administration | To improve tax collection | Proposed. |
| 7. Government to meet quantified quarterly performance indicators public financial management. | To contain arrears | |
| **End-September 2012** | | |
| 8. Government to complete the strategy for strengthening social security collections. | To improve social security collections. | Proposed. |
| 9. Government to adjust pensions, with protections for low income pensioners, and the social security contribution base, to permit a fully-funded reduction in rates (cumulatively 5 percent from January 1, 2012) | To improve unit labor costs and competitiveness | |
| **End-December 2012** | | |
| 10. Government to meet quantified quarterly performance indicators for revenue administration | To improve tax collection | Proposed. |
| 11. Government to meet quantified quarterly performance indicators for public financial management | To contain arrears | |
| 12. 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." | To improve competitiveness | Proposed. |
| 13. Government to reform the governance of the BoG, to provide for collegial decision-making at the level of executives (Governor and Deputy Governors) and expanded internal oversight by nonexecutives of the existing 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. | To strengthen financial sector stability | Proposed. |
| **End-June 2013** | | |
| 14. Bank of Greece will complete an additional assessment of capital needs based on end-2012 data. | To align capital buffers to banks' individual risk profiles | Proposed. |

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 will be 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.

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

## 1 FISCAL CONSOLIDATION

*Budget implementation*

For **2012**, the annual general government primary deficit should not exceed EUR 2 037 million; and for **2013** and **2014** the primary surplus should be at least EUR 3 652 million and EUR 9 352 million, respectively.

Proceeds from the privatisation of financial and non-financial assets do not substitute fiscal consolidation efforts and will not be considered when assessing compliance with the annual general government deficit ceilings established in this memorandum and in the Council Decision. The bank recapitalisation-related flows will not be considered in the monitoring of annual general government deficit ceilings irrespective their recording in the ESA accounts by ELSTAT and Eurostat.

**Prior to the first disbursement of the new programme,** the Government adopts the following measures, through a supplementary budget, and other legal acts:

- Reduction in pharmaceutical expenditure by at least EUR 1 076 million, in 2012 by reducing medicine prices (generics, off-patent and branded medicines), increasing co-payments, reducing pharmacists' and wholesalers' trade margins, application of compulsory e-prescription by active substance and protocols, the update of the positive list of medicines and the implementation of a mechanism of quarterly rebates (automatic claw-back) to be paid by the pharmaceutical industry. (See below section 2.8).
- Reduction in overtime pay for doctors in hospitals by at least EUR 50 million.
- Reduction in the procurement of military material by EUR 300 million (cash and deliveries).
- Reduction by 10 percent in the remuneration of elected and related staff at local level and reduction in the number of deputy mayors and associated staff in 2013 with the aim of saving at least EUR 9 million in 2012 and 28 million in 2013 onwards.
- Reduction in the central government's operational expenditure, and election-related spending, by at least EUR 370 million (compared to the 2012 budget), of which at least EUR 100 million in military-related operational expenditure., and at least EUR 70 million in electoral spending.
- Reduction in operational expenditure by local government with the aim of saving at least EUR 50 million.
- Frontloading cuts in subsidies to residents in remote areas, and cuts in grants to several entities supervised by the several ministries, with the aim of reducing expenditure in 2012 by at least EUR 190 million.
- Reduction in the public investment budget (PIB) by EUR 400 million: this cut will be implemented through cuts in subsidies to private investments and nationally-financed investment projects. The reduction in the PIB will not have any impact on projects that are co-financed by structural funds (uncompleted project financed by the 2000-06 operational programmes, cohesion fund (2000-06) projects, 2007-13 operational programmes, and non-eligible expenditure related to the above projects, including TEN-T projects).
- Changes in in supplementary pension funds and pension funds with high average pensions or which receive high subsidies from the budget and cuts in other high

pensions, with the aim of saving at least EUR 450 million (net after taking into account the impact on taxes and social contributions).
- Cuts in family allowances for high-income households, with the aim of saving EUR 43 million.

**Prior to the disbursement**, the Government also adopts the following pending acts:

- Ministerial Decisions for the implementation of the business tax (minimum levy on self-employed) provided for Article 31 of Law 3986/2011;
- Ministerial Decisions to complete the full implementation of the new wage grid in all the pertinent entities, and legislation on the modalities for the recovery of wages paid in excess from November 2011 afterwards.

By **end-June 2012**, the Government will legislate an average reduction by 12 percent in the so-called 'special wages' of the public sector, to which the new wage grid does not apply. This will apply from 1 July 2012 on and deliver savings of at least EUR 205 million (net after taking into account the impact on taxes and social contributions).

In order to prepare the measures that will be adopted with the 2013 and 2014 budgets and contribute to meet the fiscal targets, the Government initiates, before **end-February 2012**, a review of public spending programmes. This review should be completed by **June 2012**. The review will draw on external technical assistance and will focus on pensions and social transfers (in a manner that will preserve basic social protection); defence spending without prejudice to the defence capability of the country; and restructuring of central and local administrations. By the same date (**June 2012**), a further rationalization of pharmaceutical spending and operational spending of hospitals, and of welfare cash benefits will also be specified.

Preliminary results from the spending review will be included in the update of the medium-term fiscal strategy (MTFS), which will be tabled in Parliament by **May 2012**.

The Ministry of Finance ensures a tight supervision of expenditure commitments by the government departments, including extra-budgetary funds, public investment budget, social security funds and hospitals, local governments and state-owned enterprises, and an effective tax collection, in order to secure the programme quantitative criteria.

The Government stands ready to define and enact additional measures, if needed, in order to respect the budgetary targets.

# 2 STRUCTURAL FISCAL REFORMS

## *2.1 Asset management and privatisation*

The Government implements the privatisation programme with the aim of collecting EUR 50 billion in the medium term.

Cumulative privatisation receipts since June 2011 should be at least EUR 5 200 million by **end-2012**, EUR 9 200 million by **end-2013** and, EUR 14 000 million by **end-2014.**

The Government stands ready to offer for sale its remaining stakes in state-owned enterprises, if necessary in order to reach the privatisation objectives. Public control will be limited only to cases of critical network infrastructure.

To ensure that the plan objectives are achieved, the Government will continuously transfer assets to the Hellenic Republic Asset Development Fund (HRADF). In particular, the Government will transfer to the HRADF all the assets that are expected in 2012 and 2013 at the request of the HRADF.

All legal, technical and financial advisors for the privatisations planned for 2012 and 2013 will be appointed by end **Q1-2012**.

Privatisation is conducted in a transparent manner and will clearly set out post-privatisation property rights and obligations. For a number of assets, successful privatisation requires a proper regulatory framework ensuring that entry in a competitive market is possible after privatisation, consumers are adequately protected, and privatised assets are deployed in competitive markets. The conditions for sales or concessions shall avoid the creation of unregulated private monopolies, prevent any form of discrimination, facilitate open access, and impose full transparency of accounts.

Intermediate steps for privatisation are specified, including clearing all legal titles, securing state-aid approval, unbundling assets, respecting public procurement rules, having a more comprehensive inventory of real estate assets; reallocating land uses; seeking the council of experts' and audit court's approvals.

The Government will neither propose nor implement measures which may infringe the rules on the free movement of capital. Neither the State nor other public bodies will conclude shareholder agreements with the intention or effect of hindering the free movement of capital or influence the management or control of companies. The Government will neither initiate nor introduce any voting or acquisition caps, and it will not establish any disproportionate and non-justifiable veto rights or any other form of special rights in privatised companies. No further special rights will be introduced in the course of future privatisation projects.

To ensure compliance with the EU Treaty, the Government repeals or appropriately amends the existing special rights granted to the State in the process of privatisation. In particular, the Law on Strategic Companies (Law 3631/2008, Art 11) is repealed or appropriately amended. **[Q2-2012]**

In order to ensure a timely clearance of state-aid issues that could constitute a hurdle for privatisation:

- the Government appoints an interlocutor formally designated for ensuring compliance of privatisation with State aid rules by **end-Q1 2012**.
- the Government,in cooperation with the HRADF, submits by **end-Q2 2012**, to the Commission information on the financial situation of each asset that will be privatised in the course of 2012, whether the privatisation needs to be preceded by restructuring and respective modalities; liabilities to the state which might hinder the privatisation process or the final price; legislation which grants an advantage to the firm (or concessionaire), such as tax discrimination or monopoly status, etc.; conditions that may be imposed on interested buyers, as well as conditions on buyers' eligibility; and the method of privatisation planned (public tender, negotiation with existing shareholders, IPO, etc.). A similar report will be submitted in **Q4-2012** for each asset that is expected to be launched for privatisation in 2013.

The Government continues compiling and publishing a comprehensive inventory of state-owned assets, including stakes in listed and non-listed enterprises and commercially viable real estate and land. The inventory will be published in successive stages by **mid-2012** and **end-2012** on the Ministry of Finance's website.

The Government accelerates state land ownership registration. For this purpose, the Government (i) prepares a comprehensive asset-inventory (ii) prepares a special law for the land development of the Hellinikon Area (iii) clarifies land-use status for the single assets and/or portfolios of assets that will be assessed and selected for exploitation within 2012. **[Q2-2012]**

### *2.2 Reducing waste in public enterprises and other public entities*

Tariffs in OASA, OSE Group and Trainose increase by at least 25 percent, while their business plans are appropriately updated. **[Q1-2013]**

### *2.3 Tax policy*

The Government will prepare a tax reform that aims at simplifying the tax system, eliminating exemptions and preferential regimes, including and broadening bases, thus allowing a gradual reduction in tax rates as revenue performance improves. This reform relates to the personal income tax, corporate income tax and VAT, property taxes, as well as social contributions, and will maintain the relative tax burden from indirect taxes. The reform will be adopted by **June 2012**. In **March 2012**, the Government will announce the full schedule of intermediate steps until the reform is tabled. These intermediate steps will include public consultation and appropriate review by the European Commission, ECB and IMF staff.

By **June 2012**, the Government will revise the legal values of real estate to better align them with market prices.

### *2.4 Revenue administration reforms*

Articles 3 and 21 of Law 4038/2012 are amended **prior to the disbursement.** The suspension of criminal prosecution and asset freezing is eliminated; the conditions to extend the instalment plans for overdue taxes and social contributions are revised so that the instalment plans will only apply to existing overdue amounts below EUR 10 000 for individuals and EUR 75 000 for corporations. Tax payers applying for an extended instalment plan should disclose all their financial statements to the tax authorities.

Moreover, during the years covered by the economic adjustment programme, the Government commits not to adopt new tax amnesties, or extend existing amnesties for the collection of taxes and social contributions.

The Government will define 'tax refunds in arrears,' set standards for their processing **[Q1-2012]** and publish on the web **[Q2-2012]** monthly data on these arrears with a lag of 20 days after the end of each month.

In line with the anti-tax evasion action plan, the Government will step up audits of large-scale tax payers, high-wealth individuals and self-employed. It will also accelerate the resolution of tax arrears, and better integrate anti-money laundering tools into the strategy. Progress will be monitored by quantitative indicators according to targets set under the anti-tax evasion plan (key performance indicators). These indicators concern completion of full scope and temporary audits of large taxpayers, of risk-based audits of self-employed and high wealth individuals and of non-filers. They also involve collection of assessed taxes and penalties from new audits of large taxpayers, of the existing stock of tax debt, and increase in the number of registered VAT taxpayers filing returns.

The achievement of the completion of 75 full-scope audits and 225 VAT audits of large taxpayers, as targets set in the memorandum of 31 October 2011 for end-December 2011, are **prior to the disbursement**.

To advance the reforms of revenue administration, the Government:

- increases the staff of the large-taxpayers unit by 40 auditors to step up the fulfilment of audits in progress [**end-March 2012**]
- steps up the hiring procedure in order to complete the first wave of auditor reassessment and hiring (1 000 staff), **[end-April 2012]** with the objective to achieve the target of 2 000 tax auditors fully operational by **end-2012** within the overall limits for public hiring;
- removes barriers to effective tax administration [**June 2012**], including a formal performance review and replacing managers who do not meet performance targets;
- continues to centralise and merge tax offices; 200 local tax offices, identified as inefficient, will be closed, by **end-2012**;
- centralises the management of tax files related to the taxpayers in the list of big debtors; [**Q1-2012**]
- revises the procedures to write-off tax debts, so that the administrative efforts may focus on effectively collective debts, **by end-2012**;

- discontinue payments in cash and cheque in tax offices which should be replaced by bank transfers, so that staff time is freed-up to focus on more value added work (audit, collection enforcement and taxpayer advice); **[Q2-2012]**
- starts to publish on the web key performance indicators for the tax department; **[Q2-2012]**
- puts in place a new IT system that interconnects all tax offices.

The preparation of the new IT system involves the following main steps in relation to the new data centre, web-facing and back-office applications:

- the new data centre hardware is in place and running by **end-March 2012**;
- 20 more new electronic services and enhancements by **end-June 2012**. These concern mainly taxes withheld at source;
- database and application design and implementation, by **end-October 2012**;
- 8 remaining new electronic services and enhancements by **end-December 2012**. These concern forms filed late with a fine, real-estate tax, and VAT administration;
- system and user tests, user training, and migration of all tax offices to the centralized database: by **end-December 2012**;
- operational use of the new IT infrastructure by all tax offices: **1 January 2013**.

To strengthen the anti-corruption framework for the tax administration, the Government will:

- reform the financial inspections' unit, which should focus only on auditing tax collectors and revenue administration issues **[June 2012]**;
- activate an Internal Affairs Directorate **[June 2012]**;
- require the Financial Intelligence Unit to audit annually at least 200 asset statements of tax officials **[June 2012]**;
- establish procedures for the rotation of managers on a periodic basis **[June 2012]**;
- improve the system to protect whistle-blowers who report corruption **[June 2012]**;
- prepare a fully-fledged anti-corruption plan **[September 2012]**.

Moreover, the Government will define powers to be delegated from the political level to the tax administration. These powers will include control over core business activities and management of human resources. The Government will also tighten the control of local tax offices by central offices, and fill the position of Secretary General of Revenue Administration with an external appointee with appropriate professional experience. [**March 2012**]

The Government adopts secondary legislation to make arbitration operational and certifies arbitrators by **end-March 2012**. By the same date, legislation will make it compulsory to exhaust administrative dispute phase for large tax cases, before entering the judicial appeals.

The Code of Books and Records is repealed in its entirety and replaced by simpler legislation. **[not later than June 2012]**

### *2.5 Public financial management reforms*

A plan for the clearance of arrears owed to suppliers by public entities is published by **June 2012** and the Government ensures that the stock of arrears steadily declines. Clearance of arrears of government entities by the state budget will be contingent on progress in relation to the commitment registry, and no additional accumulation of arrears by each public entity. Data on arrears are published **monthly** with a lag of not more than 20 days after the end of each month.

To strengthen expenditure control, the Government:

- continues the process of establishing commitment registries, which should fully cover the central government by **March 2012**, and the investment budget and at least 70 percent of general government units [**June 2012**]) and extended to other general government entities;
- enforces the obligation of accounting officers to report commitments, including by enacting sanctions to entities not submitting the data and disciplinary action for accounting officers; [**June 2012**]
- adopts legislation streamlining the procedure for submission and approval of supplementary budgets, [**October 2012**] and establishes an administrative calendar for the update of the medium-term fiscal strategy. [**Q1-2012**]

### *2.6 To modernise the public administration*

*At the central level*

By December 2012, and in accordance with the roadmap established, the Government has to: i) set up a high-level transformation steering group, chaired by the PM, that will supervise, monitor and ensure the implementation of administrative reforms; **[February 2012]** ii) establish a stable structure for Inter-Ministerial Coordination; **[May 2012]** iii) create basic horizontal structures in each Ministry, implementing the relevant procedures with Budget/Finance **[February 2012]**, Audit, Internal Control, Human Resource Management, acting under common rules. A framework legislation, to be drafted in line with the roadmap agreed and adopted, will provide the legal reference for implementing such a reform.

*At the decentralized/regional/local level*

A specific roadmap is created, translating all principles of coherence and efficiency at the central level into the decentralized regional/local level. **[March 2012]**

*Social programmes*

The ongoing functional review on social programmes is finalised by **end-March 2012**. The review report will include recommendations to the Government on the objectives, design and implementation of social policies, as well as on the need to keep a balance between achieving savings and protecting the most vulnerable.

*Public sector wages and human resource management*

The Government publishes and updates **on a quarterly basis** its medium-term staffing plans per department**,** for the period up to 2015, in line with the rule of 1 recruitment for 5 exits. The recruitment/exit rule applies to the general government as a whole. The staffing plans should be consistent with the target of reducing public employment by 150 thousand in end-2010–end-2015. If necessary, the Government will enact temporary hiring freezes.

Staff transferred to the Government from either state-owned enterprises or other entities under restructuring are considered as new recruitments. The same applies to staff in the labour reserve that is transferred to other government entities, after screening of professional qualifications by ASEP under its regular evaluation criteria. The overall intake in the professional schools (e.g. military and police academies) is reduced to a level consistent with hiring plans. .

The staffing plans per Ministry and each group of public entities will include tighter rules for temporary staff, cancellation of vacant job post and reallocation of qualified staff to priority areas and takes into account the extension of working hours in the public sector. The staffing plans and monthly data on staff movements (entries, exits, transfers among entities) of the several government departments are published on the web. **[monthly starting March 2012]**

15 000 redundant staff will be transferred to the labour reserve in the course of **2012**, in connection with the identification of entities or units that are closed or downsized. Staff in the labour reserve will be paid at 60 percent of their basic wage (excluding overtime and other extra payments) for not more than 12 months, after which they will be dismissed. This period of 12 months may be extended up to 24 months for staff close to retirement. Payments to staff while in the labour reserve are considered part of their severance payments.

The Government commissions an expert assessment of the new wage grid. **[Q1-2012]** This assessment will focus on the wage drift that is embedded in the new promotion mechanism. If the assessment reveals any excessive wage drift, the promotion rules are adjusted before **end-2012**. No promotion takes place before the assessment and adjustment to the promotion rules.

The Government sets up an electronic automated system linking the census data base with the Single Payment Authority (SPA)'s, which will allow for a more effective coverage, assessment and payment of employees. This system will be coordinated with other ministries. **[Q2-2012]**

*Public procurement*

Single Public Procurement Authority (SPPA)

The Government issues decisions:

- to appoint the members of the SPPA. **[February 2012]**
- to provide for the institution and establishment of positions for the SPPA's personnel, as well as for the organization of human resources and services of the Authority in accordance with the provisions of the law on the SPPA. **[March 2012]**
- to provide for the Implementing Regulation of the SPPA. **[April 2012]**

The SPPA starts its operations to fulfil its mandate, objectives, competences and powers as defined in the law on the SPPA and the Action Plan agreed with the European Commission in November 2010. **[April 2012]**

E-procurement

The Government presents a detailed plan for the development of the e-procurement platform, including its phased roll-out, communication and training programmes, its target usage levels, and planned revision of the current legislation (if needed). **[Q1-2012]**

The Government presents a pilot version of the e-procurement system. **[Q2-2012]**

The e-procurement platform is fully operational and ready for use and a common portal is created for the publication of all procurement procedures and outcomes. The e-procurement framework is placed under the responsibility of the SPPA, which supervises its operations. **[Q1-2013]**

The whole public sector uses the e-procurement platform **[Q4-2013]** and the government presents results of the monitoring activities covering year 2013 against the target usage levels. **[Q1-2014]**

Efficiency of procedures

The Government will move towards more centralised procurement, especially in the field of health procurement, services and supplies:

The Government identifies a number of potential sectoral Central Purchasing Bodies (CPB) at central government level. The first CPBs are fully operational and coordinated by the SPPA. **[Q2-2012]**

The Government establishes centralised purchasing/framework contracts for frequently purchased supplies or services at central government level with the obligation for ministries and central government bodies to source via these contracts and optional use for regional entities. **[Q3-2012]**

The Government proposes an Action Plan to establish CPB at regional/local level, at least one per administrative region. **[Q3-2012]** Regional/local CPBs are fully operational and coordinated by the SPPA.

The Government undertakes a reform of the public procurement system including works, supplies and services with a view to (a) simplifying, streamlining and consolidating the body of public procurement legislation, and (b) rationalising the administrative structures and processes in public procurement to desired procurement results in terms of efficiency and efficacy. The review starts from an analysis of the state of play (flowcharts, procedural phases, actors involved, timelines, statistics). A first Action Plan for the reform is developed in agreement with the European Commission. **[Q2-2012]**

Government presents drafts of the necessary legislative and organisational measures to implement the above-mentioned Action Plan to the European Commission. **[Q4-2012]**

The Government undertakes a thorough review of the system of redress against award procedures with the objective of (1) reducing the significant and frequent delays triggered by excessive use and lengthy processing of redress in public procurement procedures and of (2) assessing the role to confer to the SPPA in this area. The Government proposes an Action Plan in agreement with the European Commission. **[Q2-2012]**

*Quality of statistics*

The ongoing strengthening of the European Statistical System includes the introduction of Commitments of Confidence in Statistics, to be signed by all Member States. The Government will sign such a Commitment, which will be endorsed by Parliament, **prior to the disbursement**. This Commitment includes the revision of the Statistical Law to reform the ELSTAT governance arrangements and establish the ELSTAT Board as an advisory body, and to clarify further the professional authority of the ELSTAT President as chief officer and coordinator of the national statistical system.

### 2.7 To complete the pension reform

**Prior to the disbursement**, the Government proceeds, through a framework law, with an in-depth revision of the functioning of secondary/supplementary public pension funds.

The aim of the revision is to stabilise pension expenditure, guarantee the budgetary neutrality of these schemes, and ensure medium- and long-term sustainability of the system. The revision achieves:

- the elimination of imbalances in those funds with deficits;
- the unification of all existing funds;
- reduction of overall operational and payroll costs including an adequate reduction in staff headcount (by at least 30 percent) in the new single fund;
- the long-term sustainability of secondary schemes through a strict link between contributions and benefits.

The reform of the secondary/supplementary schemes is designed in consultation with the European Commission, ECB and IMF staff, and its estimated impact on long-term sustainability is validated by the EU Economic Policy Committee. The parameters of the new secondary notional defined-contribution system ensure long-term actuarial balance, as assessed by the National Actuarial Authority. **[Q1-2012]**

The individual pension benefit will be calculated on the basis of (i) a notional rate of return linked to the rate of growth of the wage bill of insured workers; (ii) a sustainability factor that adjust benefits to promptly eliminate any future imbalances should they occur. **[Q1-2012]**

The Government will reduce nominal supplementary pension benefits starting from January 2012 to eliminate deficits. The new single fund sets up in a cost effective way a computerised system of individual pension accounts. **[Q1-2012]**

The Government identifies the schemes for which lump sums paid on retirement are out of line with contributions paid, and adjusts the payments. **[Q1-2012]**

The Health Committee set up by Law 3863/2010 will produce a first quarterly report of its activities aimed at revising the disability status and reduce the disability pensions to not more than 10 percent of the overall number of pensions. **[Q1-2012]**

The Bank of Greece commits not to grant pension privileges to its staff and to revise the main parameters of its pension scheme, so that they remain aligned to those of IKA.

The Government will ensure that social security's assets, including the liquidity that results from the ongoing debt exchange is invested in government bills, deposits in Treasury, or any other instrument that consolidates in government debt.

### *2.8 To modernise the health care system*

The Government continues to implement the comprehensive reform of the health care system started in 2010 with the objective of keeping 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 Government continues the efforts undertaken in 2010-11 and intensifies measures to reach savings in the purchasing (accruals basis) of outpatient medicines of close to EUR 1 billion in **2012** compared to the 2011. This will contribute to the goal of bringing average public spending on outpatient pharmaceuticals to about 1  percent of GDP (in line with the EU average) by **end-2014**.

More specifically, the following measures are implemented:

*Governance*

To strengthen health system governance, improve health policy coherence, reduce fragmentation in the purchasing of health services and reduce administrative costs, the Government further concentrates all health-related decision making procedures and responsibilities (including payroll expenditures) under the Ministry of Health by at the latest **June 2012**. In order to do this, the Government prepares a plan and the necessary legislative changes by **end-February 2012**. As part of this concentration process, all health insurance funds are merged into EOPYY and come under the responsibility of the Ministry of Health. EOPYY buys services in a cost effective way from NHS facilities and private providers through contracts. All other welfare / social assistance schemes under the Ministry of Health are moved to the Ministry of Labour by at the latest **June 2012**.

From **January 2013** EOPYY will purchase hospital services on the basis of prospective budgets following the development of costing of procedures by treatment/ pathology categories (full absorption cost DRGs).

As a result of the concentration process, EOPYY rationalises the number of contracts with private doctors so as to bring down the doctor-to-patients ratio close to the much lower EU average. **[Q2-2012]**

Contributions paid by OGA members are progressively equalised to those of other members of EOPYY, as envisaged in the medium-term fiscal strategy. The process of equalisation of contributions will be completed in **2013**.

*Controlling pharmaceutical spending*

In order to achieve EUR 1 billion of reduction in outpatient pharmaceutical spending in 2012, the Government will simultaneously implement a set of consistent policies comprising changes in pricing, prescribing and reimbursement of medicines that enhance the use of less expensive medicines, control prescription and consumption and prosecute misbehaviour and fraud. The Government defines a consistent 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.

The Government will revise the co-payment system in order to exempt from co-payment only a restricted number of medicines related to specific therapeutic treatments. **[Q1-2012]**

*Pricing of medicines*

The Government continues to update, on a quarterly basis, the complete price list for the medicines in the market, using the new pricing mechanism based on the three EU countries with the lowest prices. **[Q1-2012]**

The Government introduces an automatic claw-back mechanism (quarterly rebate) on the turnover of pharmaceutical producers which guarantees that the outpatient pharmaceutical expenditure does not exceed budget limits. **[Q1-2012]**

Starting from **Q1-2012**, the pharmacies' profit margins are readjusted and a regressive margin is introduced - *i.e.* a decreasing percentage combined with flat fee of EUR 30 on the most expensive medicines (above EUR 200) - with the aim of reducing the overall profit margin to below 15 percent.

Government produces an implementation report on the impact of the new profit margins by **Q1-2013**. If it is shown that this new model to calculate profit margins does not achieve the expected result, the regressive margin will be further revised.

Starting from **Q1-2012**, the wholesalers' profit margins are reduced to converge to 5 percent upper limit.

*Prescribing and monitoring*

The Government

- takes further measures to extend in a cost-effective way the current e-prescribing to all doctors, health centres and hospitals. E-prescribing is made compulsory and must include at least 90 percent of all medical acts covered by public funds (medicines, referrals, diagnostics, surgery) in both NHS facilities and providers contracted by EOPYY and the social security funds. [**Q1-2012**]
- introduces a temporary and cost-effective mechanism (until all doctors are able to use the e-prescription system) which allows for the immediate and continuous monitoring and tracking of all prescriptions not covered by e-prescription. This mechanism will make use of the web-based e-prescription application established by IDIKA, which allows the pharmacies to electronically register manual prescriptions from a specific doctor to a specific patient. For medicines to be reimbursed by EOPYY (and other funds), pharmacies must register in the web-based application all manual prescriptions. For this service, doctors who prescribe manually will be charged a monthly administrative fee by EOPYY to compensate the pharmacies. The introduction of this temporary mechanism would ensure that all prescriptions are electronically recorded, allowing for the full and continuous monitoring of doctors' prescription behaviour, their compliance with prescription guidelines. **[February 2012]**
- continues publishing prescription guidelines/protocols for physicians. Starting with the guidelines for the most expensive and/or mostly used medicines the government makes it compulsory for physicians to follow prescription guidelines. Prescription guidelines/protocols are defined by EOF on the basis of international prescription guidelines to ensure a cost-effective use of medicines and are made effectively binding. **[Q1-2012]**
- enforces the application of prescription guidelines also through the e-prescription system, therefore discouraging unjustified prescriptions of most expensive medicines and diagnostic procedures. **[Q1-2012]**
- produces (Ministry of Health and EOPYY together with the other social security funds until they merge) detailed monthly auditing reports on the use of e-prescription in NHS facilities and by providers contracted by EOPYY and other social security funds (until they merge). These reports are shared with the European Commission, ECB and IMF staff teams. **[Q1-2012]**
- implements (Ministry of Health and EOPYY together with the other social security funds until they merge) an effective monitoring system of prescription behaviour. They establish a process to regularly assess the information obtained through the e-prescribing system. **[Q2-2012]**
- produces regular reports, at least on a quarterly basis, 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. **[Q1-2012]**

- provides feedback and warning on prescription behaviour to each physician when they prescribe above the average of comparable physicians (both in NHS facilities and contracted by EOPYY and other social security funds until they merge) and 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. **[Q2-2012]**
- enforces 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 or repeated non-compliance with the prescription rules will lead to the termination of the contract between the doctor and the EOPYY and the doctor's permanent loss of his/her capability/right to prescribe pharmaceuticals which are reimbursed by the government/EOPYY in the future. **[Q1-2012]**
- continuously updates the positive list of reimbursed medicines using the reference price system developed by EOF. **[Q1-2012]**
- selects a number of the most expensive medicines currently sold in pharmacies, to be sold in hospitals or EOPYY pharmacies, so as to reduce expenditure by eliminating the costs with outpatient distribution margins, and by allowing for a strict control of the patients who are being administered the medicines. **[Q1-2012]**

If the monthly monitoring of expenditure shows that the reduction in pharmaceutical spending is not producing expected results, additional measures will be promptly taken in order to keep pharmaceutical consumption under control. These include a prescription budget for each doctor and a target on the average cost of prescription per patient and, if necessary, across-the-board further cuts in prices and profit margins and increases of co-payments. **[Q2-2012]**

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*). **[Q1-2012]**

*Increasing use of generic medicines*

A comprehensive set of measures is adopted simultaneously to promote the use of generic and less expensive medicines. The aim of these measures is to gradually and substantially increase the share of the generic medicines to reach 35 percent of the overall volume of medicines sold by pharmacies by **end-2012**, and 60 percent by **end-2013**. This will be achieved by:

- reducing 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 expired. This is set as a maximum price; producers can offer lower prices, thus allowing an increased competition in the market. **[Q1-2012]**
- automatically reducing the prices of originator medicines when their patent expires (off-patent branded medicines) to a maximum of 50 percent

of its price at the time of the patent expiry. Producers can offer lower prices, thus allowing an increased competition in the market. **[Q1-2012]**

- creating dynamic competition in the market for generic medicines through price reductions of at least 10 percent of the maximum price of each generic follower. **[Q4-2012]**
- associating a lower cost-sharing rate to generic medicines that have a significantly lower price than the reference price for reimbursement (lower than 40 percent of the reference price) on the basis of the experience of other EU countries, while increasing substantially the co-payment of more expensive medicines in the reference category and of new molecules. **[Q1-2012]**
- deciding about the reimbursement of newly patented medicines (i.e. new molecules) on the basis of objective 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. **[Q1-2012]**
- excluding from the list of reimbursed medicines those which are not effective or cost-effective, also on the basis of the experience of other countries. **[Q1-2012]**
- making it compulsory for physicians to prescribe by international non-proprietary name for an active substance, rather than the brand name. **[Q1-2012]**
- mandating the substitution of prescribed medicines by the lowest–priced product of the same active substance in the reference category by pharmacies (compulsory "generic substitution"). **[Q1-2012]**

The Government takes further measures to ensure that at least 40 percent of the volume of medicines used by public hospitals is made up of generics with a price below that of similar branded products and off-patent medicines. This should be achieved, in particular by making compulsory that all public hospitals procure pharmaceutical products by active substance, by using the centralised tenders procedures developed by EPY and by enforcing compliance with therapeutic protocols and prescription guidelines. **[Q2-2012]**

The Government, pharmaceutical companies and physicians adopt a code of good conduct (ethical rules and standards) regarding the interactions between pharmaceutical industry, doctors, patients, pharmacies and other stakeholders. This code will impose guidelines and restrictions on promotional activities of pharmaceutical industry representatives and forbids any direct (monetary and non-monetary) sponsorship of specific physicians (sponsorship should be attributed through a common and transparent allocation method), based on international best practice. **[Q1-2012]**

The Government simplifies administrative and legal procedures, in line with EU legal frameworks, to speed up the entry of cheaper generic medicines in the positive list. **[Q2-2012]**

*Pricing and use of diagnostic services*

Fees for diagnostic services contracted to private providers are reviewed with the aim of reducing related costs by EUR 45 million in 2012. **[Q1-2012]**

The government starts publishing a quarterly report on the prescription and expenditure of diagnostic tests. **[Q1-2012]**

*NHS (ESY) service provision*

The plan for the reorganisation and restructuring is implemented for the short and medium term with a view to reducing existing inefficiencies, utilising economies of scale and scope, and improving quality of care for patients. The aim is to reduce further hospital operating costs by 8 percent in **2012**. This is to be achieved through:

- increasing the mobility of healthcare staff (including doctors) within and across health facilities and health regions.
- adjusting public hospital provision within and between hospitals within the same district and health region.
- revising the activity of small hospitals towards specialisation in areas such as rehabilitation, cancer treatment or terminal care where relevant.
- revising emergency and on-call structures.
- optimise and balance the resource allocation of heavy medical equipment (e.g. scanners, radiotherapy facilities, etc.) on the basis of need.

A first annual report comparing hospitals performance on the basis of the defined set of benchmarking indicators will be published by **end-March 2012**.

*Wages and human resource management in the health care sector*

The Government updates the existing report on human resources conducted by the Ministry of Health to present the staff structure according to specialty. This report will be updated annually and will be used as a human resource planning instrument. The 2012 report will also present plans for the allocation and re-qualification of human resources for the period up to 2013. It will also provide guidance for the education and training system and it will specify a plan to reallocate qualified and support staff within the NHS with a focus in particular on training and retention of primary care healthcare professionals and hospital nurses. **[Q3-2012]**

The revised payment system used by EOPYY for contracting with physicians, and the efficiency gains in the use of staff (including reduction in overtime costs) will lead to savings of at least EUR 100 million in the overall social security costs associated with wages and fees of physicians in 2012. **[Q4-2012]**

*Accounting and control*

Internal controllers are assigned to all hospitals and all hospitals adopt commitment registers. **[Q1-2012]**

By **end-March 2012**, the Government publishes the monthly report with analysis and description of detailed data on healthcare expenditure by all social security funds with a lag of three weeks after the end of the respective month. This report will make it possible a detailed monitoring of the budget execution, by including both expenditure commitments/purchases (accruals basis) and actual payments (cash basis). The report will also (1) describe performance of entities on execution of budget and accumulation of arrears, (2) highlight any defaulters, and (3) recommend remedial actions to be taken. **[Q1-2012]**

EOPYY and other social security funds (until they merge) start publishing an annual report on medicine prescription. The annual report and the individual prescription reports examine prescription behaviour with particular reference to the most costly and most used medicines. **[Q1-2012]**

*Hospital computerisation and monitoring system*

The necessary tendering procedures are carried out by HDIKA to develop the full and integrated system of hospitals' IT systems. **[Q1-2012]**

Throughout 2012, further measures are taken to improve the accounting, book-keeping of medical supplies and billing systems, through:

- the introduction of analytical cost accounting systems and the regular annual publication of balance sheets in all hospitals. **[Q2-2012]**
- the calculation of stocks and flows of medical supplies in all the hospitals using the uniform coding system for medical supplies developed by the Health Procurement Commission (EPY) and the National Centre for Medical Technology (EKEVYL) for the purpose of procuring medical supplies. **[Q1-2012]**
- 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. **[Q2-2012]**
- enforcing the collection of co-payments and implementing mechanisms that fight corruption and eliminate informal payments in hospitals. **[Q2-2012]**

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). **[Q1-2012]**

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. **[Q1-2012]** The programme of hospital computerisation will continue the development of a system of patient electronic medical records. [**Q3-2012**]

In all NHS hospitals, the Government pilots a set of DRGs, with a view to developing a modern hospital costing system for contracting (on the basis of prospective block contracts between EOPYY and NHS). To support the development of DRGs, the government develops clinical guidelines and assesses existing international examples of DRG-base schemes, in particular considering observations on DRG costing and proportionality of DRG-based tariffs. DRGs include a detailed item on costs of personnel. **[Q3-2012]**

An analysis will be made of how hospital accounting schemes integrate DRGs at hospital level in view of future activity-based cost reporting and prospective budgets payment for hospitals **[Q3-2012]**

*Centralised procurement*

Government continues centralised procurement through EPY and regional procurement through the Regional Health Authorities, with the aim of increasing substantially the number of expenditure items and therefore the share of expenditure covered by centralised tender procedures. **[Q4-2012]**

EPY will undertake a major effort to utilise tender procedures for framework contracts for the most expensive medicines used in the outpatient context so as to substantially reduce the price paid by EOPYY. **[Q4-2012]**

Government puts in place the procurement monitoring mechanism. **[Q1-2012]**

*Independent task force of health policy experts*

The Independent Task Force of Health Policy Experts, established as an advisory group, produces an annual report on the implementation of reforms. **[Q4-2012]**

## 3 FINANCIAL SECTOR REGULATION AND SUPERVISION

*Assessment of capital needs*

All banks will be required to achieve a core tier 1 capital ratio set at 9 percent by **Q3-2012**, reaching 10 percent in **Q2-2013**. The Bank of Greece, with the support of external consultants, will undertake a comprehensive assessment of banks' capital needs **prior to disbursement**. This assessment will be based on, *inter alia*, the results from the BlackRock loan diagnostic exercise, the PSI impact, and the business plans banks have submitted. In addition, banks' capital needs will be determined on the basis of a requirement to maintain a 7 percent core tier 1 capital ratio under a three-year adverse stress scenario (pillar II requirements), Based on these capital needs identified by the Bank of Greece, banks will revise their business plans and submit capital raising plans by **Q1-2012**.

A strategic assessment of the banking sector will be carried out. In consultation with the Commission, ECB and IMF staff, the Bank of Greece will conduct a thorough and rigorous assessment of each bank, using a set of quantitative and qualitative criteria. The criteria will include in non-exhaustive terms: shareholders' soundness and willingness to inject new capital; quality of management and risk management systems; capital, liquidity, and profitability metrics (both forward and backward looking); quality of Bank of Greece's assigned ratings to bank risks; and a sustainable business model. The assessment will be completed by **Q1-2012**.

Based on the ongoing work by the commissioned external audit firm, a study will be completed **prior to disbursement** on how to address ATE. The study will illustrate the legal, operational and financial aspects of the different solutions and lay out associated costs.

*Recapitalization and resolution actions.*

Banks will be given time to raise capital in the market. Based on an assessment of their viability and capital raising plans, by **end-April 2012**, the Bank of Greece will communicate to banks specific deadlines to raise capital in the market. The deadlines to raise capital will be set for each bank on a case by case basis, with a maximum duration by to **Q3-2012**, taking into account the regulatory framework and the requirements set by the Hellenic Capital Market Commission.

Banks submitting viable capital raising plans will be given the opportunity to apply for and receive public support in a manner that preserves private sector incentives to inject capital and thus minimizes the burden for taxpayers. Specifically, banks will be able to access capital from the Hellenic Financial Stability Fund (HFSF) through common shares and contingent convertible bonds.

The Government will ensure that Greek banks have business autonomy both *de jure* and *de facto*. The voting rights of the HFSF for the common shares it holds will be strictly limited to specific strategic decisions (unless the private participation in the form of common shares is less than a given minimum percentage of the bank's total capital needs). This percentage will be defined in the amended HFSF law. The shares and/or the voting rights acquired by the HFSF shall not be transferred or sold to any other state-related entity in any form. Private shareholders will be given incentives to purchase HFSF-held shares. A ministerial decree agreed in consultation with the European Commission, ECB and IMF staff shall provide the technical details of the banks' recapitalisation framework, embodying these principles, by **Q1-2012**.

Banks that do not submit viable capital raising plans and do not raise the capital needed to meet the regulatory requirements within the deadline set by the Bank of Greece will be resolved in an orderly manner and at the lowest cost to the State, in a way that ensures financial stability and which follows the overall strategic plan for resolved banking system assets. Resolution options will include the tools available under the law such as, inter alia, purchase and assumption (transfer order), interim credit institution (bridge banks), and orderly wind down.

To ensure that the system remains well-capitalized, by **Q2-2013**, the Bank of Greece will conduct a new stress-test exercise, based on end-2012 data, using a methodology determined in consultation with the Commission, ECB and IMF staff.

Legislation will be enacted **prior to disbursement** to support the strategy for bank recapitalisation and resolution:

- *Capital adequacy requirements*. The banking law (3601) will be amended to enable the Bank of Greece to set new bank capital standards through regulation, and the Bank of Greece will introduce regulation to phase in the foreseen increases in Core Tier 1 requirements.
- *Technical aspects of bank resolution*. Building on the recent changes in the bank resolution framework and the experiences gained so far, the authorities will clarify the procedures and responsibilities for the valuation of assets and liabilities and thus for the opening balance sheet of the interim credit institutions. The authorities will also strengthen the framework to ensure that future resolutions initially use conservative asset valuations of failed banks' assets, based on fair value, and subsequently allowing for a proper due diligence and revaluation followed by complementary asset transfers within a specified time period. The authorities will also identify the legislative impediments to a flexible management of employment contracts in the context of bank resolutions and adopt the needed legislative changes to remove them.
- *Recapitalisation framework*. The HFSF law will be amended to allow the use of contingent convertible bonds and to provide for restrictions on HFSF voting rights for a 5-year period. The voting rights of the HFSF for the common shares it holds will depend on the size of the capital injection by private investors via common shares. If this injection is below a given minimum percentage of a bank's total capital needs (to be defined in the HFSF law), the HFSF will have full voting rights. The HFSF shall hold its shares for a period of two years, with the possibility to extend for an additional two years for financial and market stability reasons. If instead this private injection is larger than this percentage, the HFSF voting rights will be strictly limited to specific strategic decisions. In this case, the legal framework will be revised to allow the HFSF to hold bank shares for 5 years.

- *Resolution framework.* The Government and the Bank of Greece will introduce a clear separation of the supervisory, resolution and restructuring functions. In particular, the legal framework shall vest resolution responsibilities in a separate department in the Bank of Greece and restructuring responsibilities (pertaining to management of all temporary credit institutions) in the HFSF. As regards interim credit institutions, the Bank of Greece will continue pursuing its financial stability role, notably via its supervisory authority, while the HFSF will continue aiming at safeguarding its investments.

The Government will ensure that enough financing is available to provide for recapitalization and resolution needs. Total bank recapitalization needs and resolution costs are estimated to amount to EUR xx billion. The phasing will be determined taking into account the expected timeline for bank resolution and recapitalization, and requirements for continued ECB liquidity support.

The Bank of Greece is committed to preserve continued access to central bank liquidity support. The Bank of Greece, as a member of the Eurosystem, stands ready to disburse adequate liquidity support in a timely manner. Adequate liquidity support in the near term must be consistent with plans to reduce banks reliance on exceptional central bank support in the medium term. To this end, medium-term funding plans will be updated after completion of the recapitalization and restructuring exercise to ensure that the gradual unwinding of exceptional liquidity support proceeds at a pace consistent with the program's macroeconomic, fiscal, and financial framework.

**Prior to the disbursement**, the Government will enact legislation to strengthen governance arrangements in financial oversight agencies:

- *Hellenic Financial Stability Fund:*

  The Government will revise the legal framework to clarify that the HFSF shall have two departments, responsible for separate functions:

  - A department responsible for managing its ownership interest in banks on behalf of the Government. In this capacity, its mandate shall be to ensure that the banks under its stewardship operate on a commercial basis and are restored to a well-functioning and profitable part of the Greek financial sector, which can eventually be returned to private ownership in an open and transparent manner.

  - A department for management of interim credit institutions (*bridge banks*), established following the resolution of non-viable banks. It will undertake this role in a cost-effective manner, based on a comprehensive strategy agreed by the Bank of Greece, Ministry of Finance and HFSF, and in compliance with EU state aid rules. From time-to-time, this function may require funding to accomplish its restructuring role. Such funding will be reduced, either partly or entirely, by a contribution from the HDIGF Depositor Branch to the extent of its obligations for deposit insurance.

The Government will revise the HFSF's governance structure to include a General Council and an Executive Board:

- The General Council shall have five members: two members, including the Chair, with relevant international experience in banking, one other member, one representative from the Ministry of Finance, and one member nominated by the Bank of Greece. All members shall be appointed by the Minister of Finance with the approval of the Euro Working Group (EWG); other than the representative from the Ministry of Finance and the nominee from the Bank of Greece. European Commission and ECB observers on the Council will be maintained.

- The Executive Board shall have three members: two members—one of which shall be the CEO—with international experience in banking and bank resolution, and one member nominated by the Bank of Greece. All members shall be appointed by the Minister of Finance with the approval of the EWG. Staff and officials of the Bank of Greece shall not sit on the Board of the HFSF.

The Government, in consultation with the HFSF, will adopt regulations to help the HFSF execute its mandate with full autonomy and at the same time coordinate effectively with the Ministry of Finance. It will cover reporting lines and frequencies, strategic decision-making (and the involvement of the Ministry of Finance therein), investment mandate and business plan, relationship with the Ministry of Finance (in its role as shareholder in the HFSF), and remuneration policy.

- *Hellenic Deposit and Investment Guarantee Fund.*

  The Government will strengthen the funding of the HDIGF Depositor Branch by revising the HDIGF Law to: (i) prescribe that fees shall be increased if its funds fall below a certain level of coverage of insured deposits, which should be set taking due account of developments in the financial system; (ii) ensure adequate diversification of re-deposits of HDIGF funds and to gradually eliminate re-deposits in covered banks, as developments with the restructuring of the Greek banking sector permit; and (iii) clarify that the HDIGF's status as privileged creditor does not impinge on claims secured with financial collateral in the sense of the financial collateral directive and follows best practice with respect to secured creditors in general. With a view to limiting any real or perceived conflicts of interest, HDIGF board membership will be prohibited for individuals who are actively involved in credit institutions and introduce in the law strong conflict of interest rules for Board members.

The Bank of Greece will carry out a new insurance sector analysis to evaluate insurers' solvency under Solvency I and Solvency II  risks of defaults based on the **Q3-2012** results. Clear obligations will be established in law concerning the governance, role and tasks of the Greek Motor Auxiliary Insurance guarantee funds in Greece to ensure that they it can comply with their its obligations related to compensation of car accidents' victims, by **Q2-2012** .

The Bank of Greece will evaluate, by **Q1-2013**, the capacity of the insurance sector to assume social security/pension schemes. taking into consideration the under development Solvency II regime for institutions for occupational pensions (IORP Directive). In this regard, the Bank of Greece will establish a list of additional changes in legislation/structure of Greek insurance industry and the relevant legislation will be adopted by **Q2-2014**.

## 4 GROWTH-ENHANCING STRUCTURAL REFORMS

### *4.1 To ensure a rapid adjustment of the labour market and strengthen labour market institutions*

Given that the outcome of the social dialogue to promote employment and competitiveness fell short of expectations, the Government will take measures to foster a rapid adjustment of labour costs, fight unemployment and restore cost-competitiveness, ensure the effectiveness of recent labour market reforms, align labour conditions in former state-owned enterprises to those in the rest of the private sector and make working hours arrangements more flexible. This strategy should aim at reducing nominal unit labour costs in the business economy by 15 percent in 2012-14. At the same time, the Government will promote smooth wage bargaining at the various levels and fight undeclared work.

*Exceptional legislative measures on wage setting*

**Prior to the disbursement**, the following measures are adopted:

- The minimum wages established by the national general collective agreement (NGCA) will be reduced by 22 percent compared to the level of 1 January 2012; for youth (for ages below 25), the wages established by the national collective agreement will be reduced by 32 percent without restrictive conditions.
- Clauses in the law and in collective agreements which provide for automatic wage increases, including those based on seniority, are suspended.

*Reforms in the wage-setting system*

The Government will engage with social partners in a reform of the wage-setting system at national level. A timetable for an overhaul of the national general collective agreement will be prepared by **end-July 2012**. The proposal shall aim at replacing the wage rates set in the NGCA with a statutory minimum wage rate legislated by the government in consultation with social partners.

*Measures to foster the re-negotiation of collective contracts*

**Prior to the disbursement**, legislation on collective agreements is amended with a view to promoting the adaptation of collectively bargained wage and non-wage conditions to changing economic conditions on a regular and frequent basis. Law 1876/1990 will be amended as follows:

- Collective agreements regarding wage and non-wage conditions can only be concluded for a maximum duration of 3 years. Agreements that have been already in place for 24 months or more shall have a residual duration of 1 year.
- Collective agreements which have expired will remain in force for a period of maximum 3 months. If a new agreement is not reached, after this period, remuneration will revert to the base wage and allowances for seniority, child, education, and hazardous professions will continue to apply, until replaced by those in a new collective agreement or in new or amended individual contracts.

*Raising the potential of recent labour market reforms*

- **Prior to the next disbursement**, legislation is revised so that arbitration takes place when agreed by both employees and employers. The government will clarify that arbitration only applies to the base wage and not on other remuneration, and that economic and financial considerations are taken into account alongside legal considerations.

- Moreover, by **October 2012**, an independent assessment of the working of arbitration and mediation shall be prepared, with a view to improve the arbitration and mediation services in order to guarantee that arbitration awards adequately reflect the needs of wage adjustment.

*Legacy issues and special labour conditions*

- **Prior to the disbursement**, clauses on tenure (contracts with definite duration defined as expiring upon age limit or retirement) contained in law or in labour contracts are abolished.
- The Government carries out an actuarial study 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. Based on this study, the Government reduces social contributions for these companies in a fiscally-neutral manner **[Q3-2012].**

*Non-wage labour costs, fighting undeclared work and social contribution evasion*

The Government will enact legislation to reduce social contributions to IKA by 5 percentage points and implement measures to ensure that this is budget neutral. Rates will be reduced only once sufficient measures are in place to cover revenue losses. The measures to finance rate reductions will be legislated in two steps. First, as a **prior action**, legislation will be enacted to close small earmarked funds engaged in non-priority social expenditures (OEK, OEE), with a transition period not to exceed 6 months. Second, by **end-September 2012**, the government will adjust pensions (with protections for low-income pensioners), and adjust the base for contribution collections.

An independent assessment on the effectiveness of the Labour Inspectorate structure and activities will be carried out. Corrective actions to tackle the ineffectiveness found in that assessment will be presented. These may include changes in the organisation and work of the Labour Inspectorate, reinforced anti-fraud and anti-corruption mechanisms and reinforced monetary and legal penalties for infringement of law and labour regulations and for social contribution evasion. Quantitative targets on the number of controls of undeclared work to be executed will be set for the Labour Inspectorate **[Q2-2012]**.

A fully articulated plan for the collection of social contribution will be developed by **end-September 2012**. Already by **end-March 2012**, the collection of taxes and social contributions of the largest tax debtors is unified, and there will be common audits of tax and social contributions for large payers.

The Labour Card is progressively introduced as of **March 2012** and every firm in specific sectors will be obliged to use it by end-2012. For those firms using the labour card, the simultaneous payment by electronic means of wages, withheld payroll taxes and social contributions will be made compulsory. **[Q2-2012]**

### *4.2 To improve the business environment and enhance competition in open markets*

*Regulated professions*

Implementation of Chapter A of Law 3919/2011

**Prior to the disbursement**, the Government screens and makes the necessary changes to ensure that the regulatory framework (e.g., laws, presidential decrees, ministerial decisions, circulars) of the following professions and economic activities is fully in line with chapter A of law 3919/2011:

- private providers of primary care services *i.e.*, i) private providers of primary health care (private doctors and dentists' practices; private group doctors' and dentists' practices; private diagnostic centres; private centres for physical medicine and rehabilitation); ii) chronic dialysis units other than in hospitals and clinics; iii) dental laboratories; iv) shops for optical use and contact lenses; v) physiotherapy centres; vi) beauty salons; vii) slimming/dietary businesses;
- stevedores (loaders for land operations at central markets);
- sworn-in valuators;
- accountants and tax consultants;
- actuaries;
- temporary employment companies;
- private labour consultancy offices;
- tourist guides;
- real-estate brokers.

The Government publishes on its website a report [**Q1-2012]** on the implementation of Law 3919/2011, including:

- the list of all professions/economic activities falling under the scope of that law.
- a timetable to screen and eliminate inconsistencies between Chapter A of Law 3919/2011 and the regulations (i.e., laws, presidential decrees, ministerial decisions and circulars) of professions and economic activities falling under that chapter. The timetable specifies the list of professions and economic activities prioritised by economic importance that will be assessed every quarter with a view to finalizing this exercise by **end-2012**.

For professions where reinstatement of restrictions is required in line with the principles of necessity, proportionality and public interest, the Government will pass the required legislation no later than **end-June 2012** upon consultation with the HCC and the Commission, IMF and ECB staff teams.

<u>Measures for regulated professions falling under chapter B of law 3919/2011</u>

The Government also adopts legislation **[Q2-2012]** to:

- reinforce transparency in the functioning of professional bodies by publishing on the webpage of each professional association the following information:
  - o the annual accounts of the professional association.
  - o the remuneration of the members of the Governing Board broken down by function.
  - o the amounts of the applicable fees broken down by type and type of service provided by the professional association as well as the rules for their calculation and application.
  - o statistical and aggregate data relating to sanctions imposed, always in accordance with the legislation on personal data protection.
  - o statistical and aggregate data relating to claims or complaints submitted by consumers or organisations and the reasons for accepting or rejecting the claim or the complaint, always in accordance with the legislation on personal data protection.
  - o any change in the professional codes of conduct, if available.
  - o the rules regarding incompatibility and any situation characterised by a conflict of interests involving the members of the Governing Boards.

Additional measures on regulated professions

On fixed fees applied by the main regulated professions:

- The Government amends Art. 10 of Presidential Decree 100/2010 on the authorization process and applicable fees for energy inspectors, to repeal the minimum fees for energy inspection services provided for thereof and to replace the fixed fees per square meter by maximum fees. **[Q2-2012]**
- For the legal profession, the Government issues a Presidential Decree, which sets prepaid amounts for each procedural act or court appearances (i.e., it sets a system of prepaid fixed/contract sums for each procedural act or appearance by a lawyer which is not linked to a specific 'reference amount'). **[Q1-2012]**
- The Government carries out an assessment regarding the extent to which the contributions of lawyers and architects to cover the operating costs of their professional associations are reasonable, proportionate and justified. **[Q1-2012]**
- The Government identifies ways of decoupling taxation, social contributions, distribute funds (if applicable) and payments to the professional associations from legal fees. **[April 2012**]
- The Government defines contributions of lawyers and engineers to their professional associations that reflect the operating costs of the services provided by those associations. These contributions are paid periodically and are not linked to prices charged by professions. [**Q3-2012**]

Revision of the areas of reserve of activities of regulated professions:

- The Government presents the results of screening of the regulations of the professions to assess the justification and the proportionality of the requirements reserving certain activities to providers with specific professional qualifications. **[Q2-2012]**
- The Government modifies the unjustified or disproportionate requirements reserving certain activities to providers with specific professional qualifications, starting from the main regulated professions. **[Q3-2012**]

Reform of the Code of Lawyers

In the context of the Government's initiative to revise the Code of Lawyers, the Government amends the terms of entry and re-entry as well as the conditions for the exercise of the profession. Draft legislation is presented to the European Commission by **end-February 2012** and is adopted by **end-June 2012**.

**Before end-June 2012**, legislation is adopted to:

- amend or repeal provisions on pricing and on access to, and exercise of, professional or economic activities that are against Law 3919/2011, EU law and competition principles. In particular, legislation:
  - repeals Art. 42.1 of Legislative Decree 3026/1954, regarding the mandatory presence of a lawyer for the drawing up of documents before a notary for a series of legal transactions;
  - repeals Arts. 92.2 and 92A of Legislative Decree 3026/1954 providing for the minimum amounts and for the scale of minimum monthly amounts that are due to lawyers that are only remunerated for services rendered with a fixed periodic fee. This is without prejudice to having fee regulations for trainee lawyers.

*Recognition of professional qualifications*

All the necessary measures are taken to ensure the effective implementation of EU rules on the recognition of professional qualifications, including compliance with ECJ rulings (*inter alia*, related to franchised diplomas).

In particular, the Government:

- keeps updating the information on the number of pending applications for the recognition of professional qualifications, and sends it to the European Commission.

- presents draft legislation by **end-March 2012**, to be adopted by **Q2-2012**, in order to remove the prohibition to recognise the professional qualifications derived from franchised degrees. Holders of franchised degrees from other Member States should have the right to work in Greece under the same conditions as holders of Greek degrees.

*Services Directive*

The Government completes the adoption of changes to existing sectoral legislation in key services sectors such as retail (e.g. open air markets and outdoor trade), agriculture (e.g. slaughter houses), employment (employment agencies), real estate services and technical services (c*fr*. the section on business environment). The Government also adopts changes to the remaining sectoral regulation, ensuring full compliance with the directive.

Regulations should:

- facilitate the establishment by:
  - abolishing or amending requirements which are prohibited by the Services Directive;
  - abolishing or amending unjustified and disproportionate requirements, including those relating to quantitative and territorial restrictions, legal form requirements, shareholding requirements, fixed minimum and/or maximum tariffs and restrictions to multidisciplinary activities.
- facilitate the provision of cross-border services, so that providers of cross-border services are required to comply with specific requirements of the Greek legislation only in exceptional cases (when admitted by Articles 16 or 17 of the Services Directive).
- provide legal certainty for providers of cross-border services by setting out in the respective (sectoral) legislation which requirements can, and which requirements cannot, be applied to cross-border services.

In particular, the following pending regulations are adopted by **Q1-2012**:

- Law providing for the possibility of having secondary establishment for private employment agencies, eliminating fixed maximum rates, abolishing the requirement of having a minimum number of employees and allowing for the cross border provision of services of private employment agencies.
- Law on real estate agents.
- Presidential Decree abolishing the economic test for the opening of slaughter houses.

The Government carries out a proportionality analysis of the restrictions applied on outdoor / ambulant trade for social policy criteria. **[Q1-2012]**

The Government also ensures:

- that the Point of Single Contact (PSC) is fully operational in all sectors covered by the Services Directive;
- that the PSC distinguishes between procedures applicable to service providers established in Greece and those applicable to cross-border providers (in particular for the regulated professions);

- that there is adequate connection between the PSC and other relevant authorities (including one-stop shops, professional associations and the recognition of professional qualifications). **[Q1-2012]**

*Studies on price flexibility*

The Government screens the main service sectors (including retail and wholesale distribution) and prepares an action plan to promote competition and facilitate price flexibility in product markets. **[April 2012]**

*Business environment*

<u>Package of reform measures to improve the business environment</u>

The Government adopts a package of measures to improve the business environment to:

- review and codify the legislative framework of exports (i.e., Law 936/79 and Law Order 3999/59), abolish the obligation of registration with the exporters' registry of the Chamber of Commerce and set the framework for the introduction of a single electronic export window. [**Q1-2012]**
- amend Arts. 26.2, 43B, 49.1, 49.5, 69.3 and 70.1 of Law 2190/1920, the corresponding articles in Law 3190/1955 and any other legal provisions to lift the requirement to publish company information in any kind of newspapers for companies with a website. This is without prejudice to the publication of company information in the Official Gazette / GEMI. [**Q1-2012]**
- repeal Art. 24 of Law 2941/2001, prohibiting the sale of merchandise at prices below the cost of purchase. This is without prejudice to Art. 2 of Law 3959/2001 on abuse of dominance in the form of predatory pricing and to Law 149/14 on unfair competition. [**Q1-2012]**
- lift constraints for retailers to sell restricted product categories such as baby food provided for in Law 3526/2007 and its implementing legislation. [**Q1-2012]**
- repeal Art. 9 and 12 of Ministerial Decision A2-3391 concerning the submission of wholesale price lists, cost elements and contracts to the Ministry of Development, Competitiveness and Shipping. [**Q1-2012]**
- amend Art. 22 law 3054/2002 regulating the market of oil products and other clauses as well as its implementing ministerial decision to fully liberalize petrol station opening hours, with parallel application of the current system of compulsory night opening, on a rotating basis, on a certain number of petrol stations per prefecture outside the normal opening hours. [**Q1-2012]**
- amend Art. 11(1) of law 3897/2010 to i) reduce the minimum distance provided for thereof between a petrol station and a place where more than 50 people may gather; ii) repeal the requirement to have an independent traffic connection for petrol stations within the area of a hypermarket provided for in Article 11(1) of Law 3897/2010 and iii) amend Art. 11(6) of the same law to allow EEA citizens to open a petrol station in Greece. [**Q2-2012]**
- repeal Art. 12.2 of Law 3853/2010, providing that draft model company statues will be first proposed by the chambers of notaries and lawyers before the Ministry of Development, Competitiveness and Shipping can issue the relevant common ministerial decision provided thereof. [**Q1-2012]**
- cease to earmark the 0.15 percent surcharge (provided for in the Joint Ministerial Decision 25323/1960 and in Art. 64 of law 1249/1982) levied on the CIF value of imported goods from non-EU countries in favour of the Assistance Account

of Foreign Trade. Government allocates the aforementioned amounts to the 2013 State budget. [**Q2-2012]**

- cease to earmark the 0.5 percent charge provided for in the Emergency Statute 788/48 and in Law 3883/1958 on the value of all imported merchandise in favour of the National Technical University of Athens, the University of Thessaloniki, the Athens Academy and for the promotion of exports. Government allocates the aforementioned amounts to the 2013 State budget. [**Q2-2012]**
- cease to earmark the non-reciprocating charge paid via the power public corporation bill in favour of the executive work provided for in No. T. 4363/1236. Government allocates the aforementioned amounts to the 2013 State budget. [**Q2-2012]**
- cease to earmark the non-reciprocating charge calculated on the fuel price in favour of Mutual Distribution Fund of the Oil-Pump Operators of Liquid Fuel. Government allocates the aforementioned amounts to the 2013 State budget. [**Q2-2012]**

Implementation of law 3982/2011 on the fast track licensing procedure for technical professions, manufacturing activities and business parks and other provisions

The Government:

- Issues the Joint Ministerial Decision of degrees of nuisance provided for in Art. 20.9 of 3982/2011. **[March 2012]**
- Issues the Joint Ministerial Decision on standardised environmental terms for industrial activities provided for in Art. 36.1 of Law 3982/2011. **[March 2012]**
- Issues the Presidential Decrees on preconditions for obtaining a licence for industry technicians, plumbers, liquid and gaseous fuel technicians, cooling technicians and machine operators in constructions provided for in Art. 4.4 of Law 3982/2011. **[March 2012]**
- Issues the Presidential Decrees on preconditions for obtaining a licence for electricians provided for in Art. 4.4 of Law 3982/2011. **[May 2012]**
- Issues the Presidential Decree on Certified Inspectors provided for in Art. 27.4 of law 3982/2011. **[Q2-2012]**
- Issues the Joint Ministerial Decision on the process of licencing business parks provided for in Art. 46.6 of law 3982/2011. [**March 2012**]

Implementation of Law 4014/2011 on environmental licensing of projects and activities

The Government:

- Issues the Ministerial Decision provided for in Art. 2.7 of Law 4014/2011 on environmental licensing of projects and activities, laying down requirements for the content of the decision approving the environmental conditions according to the type of project or activity. **[Q2-2012]**
- Issues the Ministerial Decisions provided for i) in Art. 8.3 of Law 4014/2011 on environmental licensing of projects and activities (other than industrial activities), laying down the standard environmental commitments of projects and activities in category B; and ii) in Art. 2.13 of Law 4014/2011 to further specify the procedure and specific criteria for environmental licencing. [**Q2-2012**]

Business-Friendly Greece

The Government publishes on its website a plan for a Business-Friendly Greece, tackling remaining restrictions to business activities, investment and innovation not covered elsewhere in this memorandum. **[end-February 2012]**

The Government implements the Business-Friendly Greece Action plan. **[Q1-2012]** The plan includes measures, among others, in order to:

- complete the setting-up of the General Commercial Registry (GEMI) by promptly taking measures for the completion of the GEMI database, the further development of web services and use of electronic signatures, the interconnection of GEMI to the Chamber's information systems and to the PSC, in order to ensure access to online completion of procedures both for company formation and for any administrative procedures necessary for the exercise of their activities. By **July 2012**, all companies established in Greece should be able to publish all relevant company data through GEMI.
- simplify environmental, building and operating permits.
- develop a "single electronic window" centralizing standardized trade-related information and simplifying the number of documents needed to export.
- address restrictions in the transport sector, including the transport of empty containers and of non-hazardous waste.

Land registry and spatial planning

The Government accelerates the completion of the land registry, with a view to:

- tendering out all remaining rights (ca. 15 million) and awarding cadastral projects for 7 million rights. **[Q4-2012]**
- digitalising the operations of all mortgage and notaries' offices and conveying all newly registered deeds to the cadastre by 2015.
- exclusively-operating cadastral offices for large urban centres by 2015.
- establishing a complete cadastral register and exclusively operating cadastral offices nationwide by 2020.

The Government completes the revision of the 12 regional spatial plans to make them compatible with the sectoral plans on industry, tourism, aquaculture and renewable energy. **[Q4-2012]**

The Government adopts legislation to (i) simplify and reduce time needed for town planning processes; (ii) update and codify legislation on forests, forest lands and parks. **[Q3-2012]** It also adopts legislative measures for the management of industrial hazardous waste [**Q2-2012**] and licenses at least two disposal sites for hazardous waste by [**Q4-2012**].

Other measures to improve the business environment

- *Quasi fiscal charges*: the list of non-reciprocating charges in favour of third parties presented to the Commission services in November 2011 is further refined by i) identifying beneficiaries, ii) specifying the legal base of each contribution and by iii) quantifying contributions paid by consumers in favour of those beneficiaries, with a view to rationalize these contributions and/or channel those through the State budget. **[Q2-2012]**

- *Market regulations*: the revision of Ministerial Decision A2-3391/2009 on market regulations, as well as any other related legislation, is completed **[March 2012]**. This exercise is carried out in cooperation with the Hellenic Competition Commission, with a view to identifying administrative burdens and unnecessary barriers to competition and developing alternative, less restrictive, policies to achieve government objectives. The revised Ministerial Decision on market regulations is adopted in **April 2012**.

- *Screening of business restricting regulations*: The Government completes a structured analysis of how regulation in areas such as permits and licences, health and safety rules, urban planning and zoning, can unnecessarily restrict business and competition in important sectors such as food processing, retail trade, building materials, manufacturing or tourism. Similarly, the government seeks to simplify business regulations in areas such as new business registration and regulation of accounting. **[Q3-2012]** Within 6 months of the completion of the analysis, the Government will take the necessary legislative or other actions to remove disproportionate regulatory burdens.
- *Planning reform*: The Government reviews and amends general planning and land-use legislation ensuring more flexibility in land development for private investment and the simplification and acceleration of land-use plans. [**Q3-2012**]
- *Development of an integrated and simplified process for export and customs formalities*. By **end-March 2012**, the e-customs system supports the electronic submission of export declarations. By **end-December 2012**, (i) the e-customs system supports the electronic submission of import declarations; (ii) pre-customs procedures (i.e., certificates, licenses as well as steps and actors involved in the processes) are streamlined according to EU regulations and best practices; (iii) legislation is aligned with EU regulations and the common rules for customs procedures at export and import, including the local clearance procedure; (iv) the level (number) of customs' controls (both physical and documentary) are also aligned with best practices; (v) the electronic single-window of exports is launched after the simplification of the pre-customs procedures and it is interlinked with e-customs to provide a single entry point for the exporters.
- *Security stocks of crude oil and petroleum products:* The Government transposes Directive 2009/119 imposing an obligation on Member States to maintain minimum stocks of crude oil and /or petroleum products. **[Q4-2012]**
- An *ex post* impact assessment is presented in order to evaluate Law 3853/2010 on the simplification of procedures for the establishment of companies in terms of savings in time and cost to set up a business, as well as to verify that all secondary legislation is in force. **[Q3-2012]**

*Transport*

<u>Road</u>

A report is submitted on the functioning of the regular passenger transport services (KTEL), presenting options for liberalisation. **[Q1-2012]**

The transitional period established in Law 3887/2010 for the reduction in costs for issuing new road transport operator licences has been brought to an end in January 2012. **Prior to the disbursement**, the necessary secondary legislation as foreseen in that law (Article 14(11)) is published, specifying the cost for issuing new road transport operator licences. This cost is transparent, objectively calculated in relation to the number of vehicles of the road transport operator and does not exceed the relevant administrative cost.

In line with the policy objectives of Law 3919/2011 on regulated professions, the Government removes entry barriers to the taxis market (in particular, restrictions on the number of licences and price of new licences), in line with international best practice. **[Q1-2012]**

Ports

The Government defines a strategy to integrate ports into the overall logistics and transport system, specifying the objectives, scope, priorities and financial allocation of resources. The strategy will ensure the implementation of the TEN-T priorities and the establishment of the foreseen corridors. It will also ensure the efficient use of the assigned Structural and Cohesion Funds **[Q2-2012]**

Aviation

The Government submits a policy paper, indicating how regional airports will be merged into groups ensuring that regional airports become economically viable in compliance with State aid rules, including realistic projections identified by the appointed financial advisors. **[Q2-2012]** After ensuring that regional airports are economically viable, the Government launches an effective transaction strategy leading to their privatisation. **[Q4-2012]**

Railways

The rail regulatory authority establishes the procedures for issuing licenses and decisions affecting non-discriminatory access of EU railway undertakings to Greek rail infrastructure. It identifies the benchmarking data on the cost effectiveness of the infrastructure manager. The authority conducts on its own initiative procedures and respects the legal time lines for such decisions set out in the EU railway Directives, including cases on international traffic. All operators are awarded licenses and safety certificates. [**Q2-2012**]

The Government establishes independent award authorities for passenger services by rail that can organise competitive tenders. Contracts concluded in 2014 or later will generally by awarded by means of competitive tender. The rolling stock that is not used/needed by Trainose should be transferred to a body which leases it on market conditions, including to winners of such tenders. The documentation for calls for a first bundle of services is ready, general rules on the ticket prices are established and a decision on the provision of rolling stock is taken. [**Q4-2012**]

*Energy*

Unbundling of network activities

The Government ensures that network activities are effectively unbundled from supply activities.

In particular, for electricity:

- all the necessary transfers of staff and assets of the transmission system operator (TSO) are completed; the TSO management, its supervisory body and the compliance officer are appointed in accordance with the Electricity Directive 2009/72/EC. **[February 2012]**
- all necessary transfers of staff and assets to the legally unbundled distribution system operator (DSO) are completed. **[Q1-2012]**
- the unbundled TSO is certified by the Greek energy regulator. **[Q2-2012]**

For gas:

- unbundling is implemented as provided for in Art. 9 of Directive 2009/73/EC on common rules for the internal market in natural gas. **[Q1-2012]**
- the unbundled TSO is certified by the Greek energy regulator. **[Q3-2012]**

The Government commits to launch the privatisation of PPC and DEPA following the unbundling of the TSOs in line with the commitments of this memorandum and monitors the process to ensure competition in the market.

The Government undertakes that whichever the outcome of the privatisation process the gas industry structure will be fully compliant with Directive 2009/73/EC.

<u>Measures to increase competition on the generation of electricity</u>

The Government finalises the remedies to ensure the access of third-parties to lignite-fired electricity generation. **[Q1-2012]**

The Government starts implementing the measures ensuring the access by third parties to lignite-fired electricity generation. **[Q3-2012]**

The implementation of the measures to ensure access by competitors of PPC to lignite-fired electricity generation is completed. Third parties can effectively use lignite-fired generation in the Greek market. **[November 2013]**

In the context of the privatization of PPC, the Government takes the necessary steps to be able to sell hydro capacity and other generation assets to investors. That sale is separate from the divestiture of lignite capacity provided for in the Commission's decision on the Greek lignite case. Nevertheless, investors may be given the possibility to buy hydro capacity / other generation assets jointly with the lignite capacity provided for in that decision. The sale of hydro capacity will i) not delay the sale of lignite assets beyond the time frame provided for in the relevant Commission Decision and ii) not prevent the sale of lignite assets without a minimum price.

<u>Regulated tariffs</u>

Further measures are adopted to ensure that the energy component of regulated tariffs for households and small enterprises reflects, at the latest by June 2013, wholesale market prices, except for vulnerable consumers. **[Q2-2012]**

The Government removes regulated tariffs for all but vulnerable consumers **[Q2-2013]**

<u>Renewables</u>

The Government completes the transposition and the implementation of the renewable energy Directive (2009/28/EC) and submits the progress report required by the Directive. **[Q1-2012]**

The Government prepares a plan for the reform of the renewable energy support schemes such that they are more compatible with market developments and reduce pressures on public finances. The plan should contain:

- a timetable scheduling meetings and stakeholder discussions on the reform of the support scheme.

- options for reform of the support scheme, including a feed in premium model, and specifying in each option the method of tariff calculation and the means of avoiding possible over compensation.
- current and expected trends in costs for all relevant technologies.
- consideration of the option of automatic tariff digression.
- measures for the development of wind and solar energy resources. **[Q1-2012**]

The Government pursues implementation of the renewable energy project 'Helios,' through legislation [**Q1-2012**], facilitation of licencing process [**Q2-2012**] and cooperation with other EU countries for the export of solar energy.

<u>Other measures</u>

The Government ensures that its regulatory framework for the energy sector fully complies with the provisions in the Electricity and Gas Regulation, in particular concerning transparency, congestion management and non-discriminatory and efficient allocation of capacity on gas and electricity networks. In particular, the Government commits to resolve all open issues regarding the infringement case 2009/2168 for non-compliance with the Electricity Regulation. This resolution will include the adoption by the Independent Regulatory Authority (RAE) of a modified electricity market code and establishing cross-border electricity trading procedures for the interconnectors with Bulgaria in line with the provisions of Regulation (EC) 714/2009 and its annexes. **[Q1 2012]**

The Government undertakes to:

- Establish a One-Stop Shop for the licensing and permitting of the following classes of infrastructure projects **[Q4-2012]**: LNG installations, natural gas storage and transmission pipeline projects and electricity transmission lines.
- Establish an LNG code, approved by RAE, which ensures transparency and non-discriminatory access to the Revithoussa LNG plant and the efficient allocation of unused capacities. **[Q3 2012]**

*Electronic communications*

The Government adopts the Common Ministerial Decision on "Base stations and antennae constructions that are exempted from authorisation" provided for in Art. 31.8 of Law 3431/2006 and in Art. 29.9 of the draft law on the Regulation of the functioning of the postal market, matters of electronic communications and other provisions. **[end-February 2012]**

The Government adopts the provisions instituting EETT as a One-Stop Shop for the licensing of antennae and base stations. **[end-February 2012]**

The Law transposing the 2009 Reform Package (*i.e.*, Directive 2009/140/EC and Directive 2009/136) is adopted by Parliament. **[Q1-2012]**

Regarding the Digital Dividend, the Government (and/or EETT):

- defines a legal framework in primary law that envisages a mandatory date for switch-off of analogue broadcasting for 30/06/2013 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). **[Q1-2012]**
- completes the studies on the evaluation of the value of the Digital Dividend and on the strategy for the granting of the Digital Dividend (800 MHz band). **[Q1-2012]**.
- resolves cross-border coordination issues with neighbouring countries. 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. **[Q2-2012]**

- launches the consultation for the amendment of the frequency and broadcasting plans. **[Q2-2012]**
- amends the frequency and the broadcasting plans, depending on the outcome/actual state of play of international coordination. **[Q3-2012]**
- adopts necessary secondary legislation for the assignment of licenses for broadcasting and for the establishment of licensing procedures, antennae specifications, etc. **[Q3-2012]**
- launch the public consultation on the tender procedure for the assignment of the digital dividend to broadband. **[Q4-2012]**
- proceed to the tender for the assignment of definitive rights of use for broadcasting transmission. **[Q1-2013]**
- 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. **[Q2-2013]**

*R&D and innovation*

The Government pursues an up-to-date and in-depth evaluation of all R&D and on-going innovation actions, including in various operational programmes and existing tax/subsidy incentives with their costs and benefits. It presents a strategic action plan for policies aimed at enhancing the quality and the synergies between public and private R&D and innovation, as well as tertiary education. This action plan identifies a clear timetable for relevant measures to be taken, taking the budgetary impact into account and harmonising these actions with other relevant initiatives in these areas, in particular the investment law. **[Q1-2012]**

*Better regulation*

Legislation is adopted to improve regulatory governance **[Q1-2012]**, covering in particular:

- the principles of better regulation.
- the obligations of the regulator for the fulfilment of those principles.
- the tools of better regulation, including the codification, recast, consolidation, repeal of obsolete legislation, simplification of legislation, screening of the entire body of existing regulation, *ex-ante* and *ex-post* impact assessments and public consultation processes.
- the transposition and implementation of EU law and exclusion of *gold plating*;
- the setting-up of better regulation structures in each ministry as well as the creation of a Central Better Regulation unit.
- the requirement that draft laws and the most important draft legislative acts (Presidential Decrees and Ministerial Decisions) are accompanied by an implementation timetable.
- electronic access to a directory of existing legislation and an annual progress report on Better Regulation.
- the requirement that the government produces an annual plan with measurable targets for administrative burden reduction, deregulation and other policies for the simplification of legislation.

On impact assessments, legislation provides that:

- implementing legislation with potentially large significant impact is also subject to the requirement to produce an impact assessment.
- impact assessments address the competitiveness and other economic effects of legislation by making use of the Commission Impact Assessment guidelines and the OECD Competition Assessment toolkit.
- the Central Better Regulation Unit can seek the opinion of other ministerial departments and independent authorities for regulations that fall under their respective competences so as to improve the quality of impact assessments.
- an independent authority and the Central Better Regulation Unit carry out quality checks of impact assessments; the independent authority also gives an opinion on progress made on the governments' better regulation agenda.
- the Central Better Regulation Unit delivers its opinion on the quality of impact assessments before draft legislation is sent to the Cabinet.
- the Central Better Regulation Unit consults the Hellenic Competition Commission when formulating and drafting the guidelines to be implemented by the ministries' better regulation units.
- impact assessments are published.

Under no circumstances will this law impede the passing of urgent legislation during the duration of the programme.

The Government will set a deadline for the completion of measurements in each of the priority areas, for the identification of proposals to reduce burdens and for the amendment of the regulations. This policy initiative should reduce administrative burdens by 25 percent (compared with the baseline year 2008) in the 13 priority areas. **[February 2012]**

### *4.3 To raise the absorption rates of structural and cohesion funds*

The Government meets targets for payment claims and major projects 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.

In meeting absorption rate targets, recourse to non-targeted state aid measures is gradually reduced. The Government provides data on expenditure for targeted and non-targeted *de minimis* state aid measures co-financed by the structural funds in 2010 and in 2011. **[Q1-2012]**

**Table 1**: **Targets for payment claims in the absorption of Structural and Cohesion Funds (programming period 2007-2013) to be submitted through 2013**
(EUR million)

| | **2012** | **2013** |
|---|---|---|
| European Regional Development Fund (ERDF) and Cohesion Fund | 2,850 | 3,000 |
| European Social Fund (ESF) | 880 | 890 |
| Target of first half of the year | 1,231 *(*)* | 1,284 |
| **Total annual target** | 3,730 *(**)* | 3,890 |

(*) of which, 5 major project applications
(**) of which, 15major projects applications

Legislation is adopted, and immediately implemented, to shorten deadlines and simplify procedures on contract award and land expropriations, including the deadlines needed for the relevant legal proceedings. **[Q1 2012]**

The Government earmarks amounts to:

- complete unfinished projects included in the 2000-06 operational programme closure documentation (ca. EUR 260 million). **[Q2 2012**]
- complete the implementation and closure of the 2000-06 cohesion-fund projects. **[Q2 2012]**
- cover the required national contribution, including non-eligible expenditure (i.e. land acquisitions) in the framework of the 2007-13 operational programmes. **[Q2 2012]**

The Government identifies the necessary amounts from ERDF within the 2007-13 operational programmes for the first allocation to the guarantee mechanism for small and medium-sized enterprises. **[Q1 2012]**

The Government ensures that the web-based monitoring tool of procedures for the approval of project proposals and for the implementation of public projects is available to the public by **February-2012**.

Based on the assessment of the measures adopted since May 2010 to accelerate the absorption of structural and cohesion funds, the Government takes measures to speed up absorption and to simplify project implementation by i) mapping responsibilities and removing unnecessary steps; ii) consolidating management capacities where appropriate (e.g. waste treatment) in accordance with existing management and control systems. **[Q2-2012]**

To accelerate the absorption of EU financing and following the increase in the EU co-financing rates, Government will, by **Q1-2012**:

- establish appropriate monitoring tools for priority projects. These projects should be operational by 2015 at the latest.
- report to the Commission the final results of the activation or elimination of sleeping projects (i.e. projects already approved in the operational programmes but not yet contracted within the timeframes defined at the national level). For retained projects, the Government indicates the conditions that must be met to keep the co-financing.
- create a central database monitoring compensation and the time elapsed for the completion of expropriations incurred in the framework of the implementation of projects co-financed by the ERDF and the Cohesion Fund.

### *4.4 To upgrade the education system*

The Government implements the Action Plan for the improvement of the effectiveness and efficiency of the education system and regularly reports (twice a year) on the progress of its implementation, including an indicative planning of self-evaluations and external evaluations of Higher Education institutions in compliance with the new Law 4009/2011 on Higher Education. [**Q2-2012**]

### *4.5 To reform the judicial system*

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, Government:

(a) ensures effective and timely enforcement of contracts, competition rules and judicial decisions;

(b) increases efficiency by adopting organisational changes to courts;

(c) speeds up the administration of justice by eliminating backlog of court cases and by facilitating out-of-court settlement mechanisms.

Specifically, the Government submits the draft law addressing issues of fair trial and denial of justice to the Greek Parliament, which *i.a.* encompasses an amendment of Law 1756/1988 on the organisation of courts and the situation of court officials, and dissuasive measures against non-cooperative debtors in enforcement cases, with a view to having it adopted during the current parliamentary term. **[Q1-2012]**

The Government establishes a task force, which is broadly representative of the legal community, including but not limited to academia, practising lawyers, in-house lawyers, and lawyers from other EU Member States established or offering their services in Greece. This taskforce reviews the Code of Civil Procedure to bring it in line with international best practice on, *inter alia*, i) judicial case management, including the possibility of removing dormant cases from court registers; ii) relieving judges from non-adjudicatory work, such as pre-mortgaging of immovable property, formation and dissolution of incorporated entities and consensual/non-litigious family law applications, iii) the enforcement of decisions and of orders to pay, in particular small claims cases with a view to reducing the role of the judge in these procedures, and iv) enforcing statutory deadlines for court processes, in particular for injunction procedures and debt enforcement and insolvency cases. For the purposes of this Memorandum, judicial case management means the possibility of judges to be involved early in identifying the principal factual and legal issues in dispute between the parties, require lawyers and litigants to attend pre-hearing conferences and manage the conduct of proceedings and the progression of the case to achieve the earliest and most cost-effective resolution of the dispute. **[Q1-2012]**

In order to facilitate the work of the existing task force mandated to design a performance and accountability framework for courts, the Government will compile and publish the information indicated in Annex 2.

The Government presents a qualitative study on recovery rates in enforcement proceedings, evaluating the success rates and the efficiency of the various modes of enforcement. **[Q2-2012]**

The Government decides on the date by when it will open the access to the regulated profession of mediator to non-lawyers in line with the conditionality on regulated professions and presents an action plan ensuring that non-lawyers may offer mediation services starting from that date. **[Q1-2012]**

Following on the submission of the work plan for the reduction of the backlog of tax cases in all administrative tribunals and administrative courts of appeal in January 2012, which provides for intermediate targets for reducing the backlog by at least 50 per cent by end-June 2012, by at least 80 per cent by end-December 2012 and for the full clearance of the backlog by end-July 2013, the Government presents by **end-May 2012** and thereafter once a quarter, updated and further refined work plans (ensuring that priority is placed on high value tax cases –i.e., exceeding €1 million-) and takes remedial action in case of anticipated or actual deviations.

The task force mandated to review the Code of Civil Procedure to bring it in line with international best practice will prepare a concise concept paper which will identify the core issues and bottlenecks at the pre-trial, trial and enforcement stages of civil cases, examples of which are outlined above, and set out proposed solutions in general terms. **[Q2 2012]**

As publicly announced, the Government adopts a Presidential Decree providing for the rationalisation and reorganisation of the magistrates' courts and the allocation of appropriate human resources and infrastructure for the new structure of magistrates' courts resulting from this reform. **[Q2 2012]**

The Government prepares a strategy on the active promotion of pre-trial conciliation, mediation, and arbitration, with a view to ensuring that a significant amount of citizens and businesses make use of these modes of alternative dispute resolution. **[Q2-2012]**

Starting from **end-June 2012**, Government updates and further refines every quarter the e-justice work plan of December 2011 for the use of e-registration and e-tracking of the status of individual cases in all courts of the country and for e-filing. The updates will contain deadlines for the evaluation and completion of pilot projects and information regarding the extension of e-registration and e-tracking to all courts by **end-2013**.

By **end-August 2012**, Government presents, based on the study of the backlog of non-tax cases in courts conducted jointly with an external body of experts and to be presented by end-June 2012, an action plan with specific measures for a reduction of such backlog of at least 50 per cent by **end-July 2013** and starts implementing the action plan.

The Government holds a series of workshops to discuss the findings and recommendations in the concept paper prepared by the task force on the review of the Code of Civil Procedure. These workshops will allow for broad consultation of domestic stakeholders and participation from recognised international experts in the field of civil procedure. **[Q3-2012]**

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 had set out to do, and presents data and analysis concerning costs, time and success rates associated with the enforcement of agreements arising from alternative dispute resolution as compared with the enforcement of judicial decisions. **[Q4-2012]**

The task force on the review of the Code of Civil Procedure prepares a detailed paper outlining the main proposals for amendments to the Code of Civil Procedure. **[Q4-2012]**

The Government implements the Presidential Decree on the reform of the magistrates' court by creating their new structure, filling vacant positions with graduates from the National School of Judges and redeploying judges and administrative staff on the basis of existing resources available within Greece's judiciary and public administration. **[Q4-2012]**

The Government launches, jointly with an external body of experts, a study on the costs of civil litigation, its recent increase and its effects on workload of civil courts, with recommendations due by end-December 2013. **[Q2-2013]**

## 5 MONITORING AND TECHNICAL ASSISTANCE

The Ministry of Finance's directorate of planning, management and monitoring becomes operational with the aim of improving reform management and oversight. By **end-March 2012**, it starts publishing quarterly monitoring indicators for each of the key structural reform initiatives**.**

The Government will request technical assistance to be provided by the EU Member States, the European Commission the IMF or other organisations in priority areas. These technical assistance actions will be coordinated by the Commission's Task Force for Greece according to its mandate. The Greek administration will ensure continuity of technical assistance launched.

In line with the conclusions of the euro-area summit of 26 October 2011, and the Eurogroup Conclusions of 21 February 2012, 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 Government will **promptly** put in place a mechanism that allows better tracing and monitoring of the official borrowing and internally-generated funds destined to service Greece's debt, by paying an amount corresponding to the coming quarter's debt service directly to a segregated account of Greece's paying agent. By **end-April 2012**, the Government will introduce in the Greek legal framework a provision ensuring that priority is granted to debt servicing payments. This provision will be introduced in the Greek Constitution **as soon as possible**.

**Annex 1: 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).<br><br>(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.<br><br>*(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).<br><br>*(Data compiled by the Ministries of Interior and Finance)* | Monthly, 30 days after the end of each month (starting in June 2010). |
| Preliminary monthly cash data on general government entities other than the state.<br><br>*(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 labour reserve, per entity.<br><br>*(Data compiled by the Ministries of Interior and Finance)* | Monthly, 30 days after the end of each month. |
| Weekly information on the Government's cash position with indication of sources and uses as well of number of days covered.<br><br>*(Data compiled by the Ministry of Finance)* | Weekly on Friday, reporting on the previous Thursday. |
| Data on below-the-line financing for the general government.<br><br>*(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.<br><br>*(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, escrow 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.<br><br>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).<br><br>Data on planned monthly interest outflows.<br><br>*(Data compiled by the Ministry of Finance)* | Monthly, within one month. |

| | |
|---|---|
| Data on assets privatised and proceeds collected.<br><br>*(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)<br><br>*(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.<br><br>*(Data compiled by the Ministries of Finance and Education)* | Monthly, at the end of each month. |
| Monthly statement of the operations on the special accounts.<br><br>*(Data compiled by the Ministry of Finance)* | Monthly, at the end of each month. |
| Report on progress with fulfilment of policy conditionality.<br><br>*(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.<br><br>*(Data compiled by the Ministries of Labour and Health)* | Monthly, within three weeks of the end of each month. Starting with data for January 2011 for EOPPY, and from April 2011 on for the other funds |

**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 Financial Stability Fund with indication and explanation of changes in the accounts. | Weekly, next working day. |

**Annex 2: Statistics to be published by the Ministry of Justice or Ministry of Finance**

(a) *by end-March 2012*, for each administrative tribunal, court of appeal and the supreme administrative court:

(i) the number of judges and administrative staff, with a breakdown for judges working in tax chambers or dealing primarily with tax cases;

(ii) the number of all cases;

(iii) the number of cases carried over from 2011;

(iv) the number of cases filed in the first quarter of 2012;

(v) the number of tax cases, with a breakdown according to case value (up to EUR 10 000, EUR 10 001 to EUR 50 000, EUR 50 001 to EUR 100 000, EUR 100 001 to EUR 500,000, and above EUR 500 000);

(v) the number of tax cases carried over from 2011;

(vi) the number of tax cases filed in the first quarter of 2012;

(vii) the recovery rate for all tax cases, which for the purposes of the MoU, shall mean the ratio of the amount collected by the creditor in enforcement proceedings – following the issuance of an enforceable title – to the amount adjudicated by the court.

(b) *by end-June 2012*, in addition to the information in (a) above, updated as necessary, for each civil court, court of appeal and the supreme civil court:

(i) the number of judges and administrative staff;

(ii) the number of all cases;

(iii) the number of cases carried over from 2011;

(iv) the number of cases filed in the first two quarters of 2012;

(v) the number of dormant cases, i.e. cases pending before the civil courts in which the relevant court's file records that they have been postponed or never received a hearing date and no party activity for receiving a hearing date has taken place for at least 18 months.

(c) *by end-September 2012*, in addition to the information in (a) and (b) above, updated as necessary, at the first instance and the appeal level:

(i) the number of corporate insolvency cases;

(ii) the average duration of corporate insolvency cases;

(iii) the average cost of corporate insolvency cases;

(d) *by end-December 2012*, quarterly updates of the information in (a) to (c) above.

### Abbreviations

| | |
|---|---|
| ASEP | Supreme Council for Staff Selection |
| CPB | Central Purchasing Bodies |
| DEPA | Public Gas Corporation |
| DRG | Diagnostic-Related Group |
| DSO | Distribution System Operator |
| ECB | European Central Bank |
| EEA | European Economic Area |
| EETT | Hellenic Telecommunications and Post Commission |
| EFSF | European Financial Stability Facility |
| EKEVYL | National Centre for Medical Technology |
| 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 |
| ESA | European System of Accounts |
| ESF | European Social Fund |
| ESY | National Health System |
| EU | European Union |
| GDP | Gross Domestic Product |
| GEMI | General Commercial Registry |
| HRADF | Hellenic Republic Asset Development Fund |
| IDIKA | E-governance of social insurance |
| IMF | International Monetary Fund |
| KTEL | Joint Fund for Bus Receipts |
| LNG | Liquefied Natural Gas |
| LTV | Loan-to-value |
| MEFP | Memorandum of Economic and Financial Policies |
| MTFS | Medium-Term Fiscal Strategy |
| NHS | National Health System |
| OASA | Athens Urban Transport Organisation |
| OECD | Organisation for Economic Cooperation and Development |
| OGA | Agricultural Insurance Organisation |
| OSE | Railway Organisation of Greece |
| OTE | Hellenic Telecommunication Company |
| PPC | Public Power Corporation |
| PSC | Point of Single Contact |
| RAE | Regulatory Authority for Energy |
| RSPP | Radio Spectrum Policy Programme |
| SPA | Single Payment Authority |
| SPPA | Single Public Procurement Authority |
| TAP | trans-Adriatic pipeline |
| TEN-T | Trans European Transport network |
| TSO | Transmission System Operator |
| WHO | World Health Organisation |

# TECHNICAL MEMORANDUM OF UNDERSTANDING

March 9, 2012

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 consult with the Fund before modifying measures contained in this letter, or adopting new measures that would deviate from the goals of the program, and provide the European Commission, ECB and the Fund with the necessary information for program monitoring. We will also consult and provide information to the European Commission and the ECB in the same manner.

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, €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 ETERPS and the National Wealth Fund.
  - The following state enterprises and organizations included by the National Statistical Service (ELSTAT) under the definition of central government (ATTIKO METRO, ETHEL, HLPAP, ELGA, HELLENIC DEFENCE SYSTEMS S.A., OSE, TRAINOSE, ERT, ELECTROMECHANICA KYMI LTD, OPEKEPE, KEELPNO, EOT, INFORMATION SOCIETY IN GREECE, Unit for the Organization and Management of Development Projects S.A.). References to individual companies are understood to include all of their subsidiaries which are to be consolidated under IFRS requirements.
- 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 Social Security, will provide monthly data on revenues and expenditures in main social security funds (including IKA, OGA, OAEE, OAED). The Bank of Greece will provide detailed monthly data on assets and liabilities of local authorities, social security funds, ETERPS (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.

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

### A. 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 ETERPS, the change in net financial assets of reclassified public enterprises (RPEs) minus guarantees called to entities within the general government and the spending by the National Wealth Fund. 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) ordinary budget revenues (recurrent revenue plus non-recurrent revenue, including NATO revenues, but excluding tax refunds and **all transfers related to the Eurogroup decision of February 21, 2012 (in regard to income of euro zone national central banks, including the BoG, stemming from their investment portfolio holdings of Greek government bonds)**); minus (ii) ordinary budget expenditures (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, and transfers made from the special budget allocation for clearance of arrears to any general government entity) of the ordinary 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 ordinary state budget.

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

  - Financial assets include

    - Deposits of ETERPS in the Bank of Greece and deposits of ETERPS 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 ETERPS, 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 ETERPS, 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, ETHEL, TRAINOSE, HLPAP, ELECTROMECHANICA KYMI LTD, INFORMATION SOCIETY IN GREECE, Unit for the Organization and Management of Development Projects S.A., 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).

- **The expenditures of the National Wealth Fund** are defined from below the line as the change in deposits of the NWF net of deposit changes due to borrowing for securitization purposes that are remitted to the central government as privatization receipts. Changes in net deposits of the NWF and borrowing are to be measured from the monetary survey data for data on borrowing and on deposits held in commercial banks. For deposits held at the central bank, net deposits are measured directly from the Bank of Greece. Remittance of privatization proceeds to the state will be measured from the inflows into the Treasury Single Account.

5. **Other provisions**.

  - For the purpose of the program, the primary expenditure of the central government that is monitored excludes payments related to bank support, when carried out under the program's banking sector support and restructuring strategy. 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. However, 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.

- 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.

6. **Adjustor:** The floor on the modified general government primary cash balance will be adjusted upward by the difference between transfers to any general government entity made for the purpose of clearance of arrears from the special budget allocation and the arrears actual paid out of transfers from the special budget allocation. Timetable for the clearance of arrears from the special budget allocation included under the ceiling is reflected in Schedule A.

Schedule A: Payments made from the special budget allocation for clearance of arrears.
(in billions of Euro)

| | 2012 | | | | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|
| | Mar-12 Progr. 1/ | Jun-12 Progr. 1/ | Sep-12 Progr. 1/ | Dec-12 Progr. 1/ | Dec-13 Progr. 2/ | Dec-14 Progr. 3/ | Dec-15 Progr. 4/ |
| Payments made from the special budget allocation for clearance of arrears | 0 | 0 | 1.3 | 4.0 | 0.0 | 0.0 | 0.0 |

1/ Cumulatively from January 1, 2012.
2/ Cumulatively from January 1, 2013.
3/ Cumulatively from January 1, 2014.
4/ Cumulatively from January 1, 2015.

**7. 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 ETERPS, 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.

- Data on the amount of arrears cleared from the special budget allocation will be provided by the General Accounting Office in the Ministry of Finance within three weeks after the end of each month.

**B. Ceiling of State Budget Primary Spending (Performance Criterion)**

8. **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, in line with the definitions provided above. 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.

9. **Adjustor:** The Ceiling of State Budget Primary Spending will be adjusted downward by the difference between transfers to any general government entity made for the purpose of clearance of arrears from the special budget allocation and the arrears actual paid out of transfers from the special budget allocation.

10. **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. The Ministry of Finance will further provide monthly data on the stock of arrears of line ministries.

## C. Non-Accumulation of Domestic Arrears by Line Ministries and Hospitals (Performance Criterion)

11. **Definition.** For the purpose of the program, domestic arrears of Line Ministries and Hospitals are defined as the unpaid invoices that have past the due date by 90 days. 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. Data will be provided within four weeks after the end of each month. The non-accumulation of domestic arrears is defined as no increase in the stock of all general government arrears (including ordinary investment budget) outstanding at the end of every month, measured on cumulative basis, irrespective of the time period in which the unpaid commitments were entered into plus transfers to any General government entity made out of special budget allocation for clearance of arrears. This does not include the arrears which are being accumulated by the Civil Servants' Welfare Fund.

12. **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 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 for more than 30 and 60 days for the central government (line ministries and Decentralized Prefectures). Data on accounts payable overdue for more than 30 and 60 days will be based on the commitment registers. The stock of arrears will reflect all arrears outstanding, irrespective of the time period in which the unpaid commitments were entered into, but will exclude the 5.34 billion hospital arrears to pharmaceutical companies which were incurred by end-2009 to the extent these are still outstanding.

## D. Non-Accumulation of Domestic Arrears by the General Government (Indicative Target)

13. **Definition.** For the purpose of the program, domestic arrears are defined as the unpaid invoices that have past the due date by 90 days. 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. Data will be provided within four weeks after the end of each month. The continuous non-accumulation of domestic arrears is defined as no increase in the stock of all general government arrears outstanding at the end of every month during which quarter the indicative target is being monitored, irrespective of the time period in which the unpaid commitments were entered into. This does not include the arrears which are being accumulated by the Civil Servants' Welfare Fund. It will

also exclude €5.34 billion hospital arrears to pharmaceutical companies which were incurred by end-2009 to the extent these are still outstanding.

**Supporting material.** The Ministry of Finance will provide consistent data on monthly expenditure 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 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 for more than 30 and 60 days for the central government (line ministries and Decentralized Prefectures). Data on accounts payable overdue for more than 30 and 60 days will be based on the commitment registers.

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

14. **Definition.** The overall stock of central government debt will refer to ESA95 central government debt, which includes the state debt, debts of extrabudgetary funds and public enterprises that are consolidated into the central government, and other ESA 95 adjustments. 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 rate 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.

15. **Adjusters.** For 2011, 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 2011 ESA95 central government debt of €378.2 billion. The ceiling shall also exclude the borrowing for collateral for a private sector involvement operation under the program to the extent that such borrowing would be recognized in the gross debt definition.

16. **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.

### F. Ceiling on New Central Government Guarantees (Performance Criterion)

17. **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 paragraphs 13 and 14. The ceiling shall exclude guarantees to support banks and exclude guarantees related to EIB financed loans. The ceiling shall also exclude guarantees granted by ETEAN up to an amount of €50 million provided these are fully backed by an equivalent amount of bank deposits. New guarantees are guarantees extended during the current fiscal year. The latter shall include also guarantees for which

the maturity is being extended beyond the initial contractual provisions above a total cumulative amount of €500 million per calendar year. Modification of existing guarantees (without changing the maturity, amount of guarantees, and beneficiaries of the loan) will not be treated as new guarantees. The ceiling shall also exclude 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.

18. **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.

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

19. **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.

20. **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.

### H. Floor on Privatization Proceeds (Indicative Target)

21. **Definition.** Privatization proceeds will be defined as the cash receipts from the asset sales to be carried out by the privatization agency (HRADF) and prior to its establishment directly by the government. 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 National Wealth Fund. Proceeds will be measured as the inflows of cash received by the National Wealth Fund, and prior to its establishment directly by the government, as deposited in the Special Privatization Account at the Bank of Greece on the day the transaction is settled.

22. **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 National Wealth Fund, no later than two weeks after the end of each quarter. The Ministry of Finance will also provide a quarterly progress report on the Sovereign Wealth Fund activity, including a description of its operations, information on any borrowing (amounts, terms, and collateral), updates on the key steps in the operational plan, and latest estimates of the expected proceeds and timeline for completion of the transactions. In addition, quarterly reports on the National Wealth Fund's activities, along with an audited report of its finances will be published on the website of the Ministry of Finance.

23. **Other.** For QPC monitoring, receipts from privatization are excluded (in line with paragraph 5 of the TMU) from cash revenue receipts. However, for 2012 and 2013 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 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.

## I. ESA "Program" Deficit and Overall Monitoring and Reporting Requirements

24. **ESA Program Deficit.** For the purposes of the program, the ESA deficit (EDP B.9) will exclude the sale of non-financial assets such as land, buildings, and other concessions or licenses, unless these have been agreed in the context of the May 2010 SBA program (including subsequent reviews). The ESA deficit will also exclude **all transfers related to the Eurogroup decision of February 21, 2012 per schedule B (in regard to income of euro zone national central banks, including the BoG, stemming from their investment portfolio holdings of Greek government bonds).**

Schedule B: Amounts to be Transferred to the Greek Government by Eurosystem National Central Banks.
(in millions of Euro)

| | 2012 | 2013 | 2014 | **2012-14** | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | **2015-20** | **Total** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Total | 729.0 | 600.6 | 470.4 | **1,800.0** | 612.7 | 521.4 | 420.6 | 324.5 | 260.7 | 160.1 | **2,300.0** | **4,100.0** |
| o/w: from the BoG | 305.3 | 275.8 | 236.2 | **817.3** | 331.5 | 312.7 | 289.3 | 271.3 | 234.7 | 150.7 | **1,590.2** | **2,407.5** |

Source: ECB

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

26. **Overall Monitoring and Reporting Requirements.** Performance under the program will be monitored from data supplied to the EC, ECB, and IMF by 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.

## II. Monitoring of Structural Benchmarks

27. **Benchmark on progress in revenue administration, 2012.** Progress in revenue administration in 2012 will be defined as reaching the targets set in table 1.

**28. Definition.** 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 has settled or appealed the assessment, or the audit report states that no underpayment has occurred. Risk-based audits for large taxpayers are defined as audits selected on a risk basis using the ELENXIS audit management system.

**29. 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, and collection of assessed taxes and penalties, and collection of tax debt will be made available by the Minister of Finance, in collaboration with the steering committee on revenue administration, no later than two weeks after the end of each month. Data submission will include data back to 2010. Information will continue to be provided after December 2012.

**30. Benchmark on progress in public financial management, 2012.** Progress in implementing public financial management reforms in 2012 will be defined as reaching the targets set in table 2.0

31. **Definition.** The reporting institutional units (State and general government entities) include any unit under the general government as defined by Elstat as of end-February 2012, excluding additions of new entities under the control of sub-national governments. Any entity coming into the above definition after December 2011 could run commitment registers on a pilot base. Summary data reported on the e-portal from the commitment registers include all 11 fields now available under the e-portal. From end-June, entries under the e-portal will include an expanded set of fields, including cumulative appropriations released, commitments made, invoices received, and payments made.

**32. 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 December 2012 unless discrepancies between survey and e-portal data are eliminated.

Table 1. Structural Benchmark in Revenue Administration

| Area | Indicator | 2012 targets 1/ | |
|---|---|---|---|
| | | end-June | end-December |
| **Debt collection** | | | |
| | a. Collection of tax debt as of end-December 2011 (million of euros) | 1,000 | 2,000 |
| | b. Collection of new debt accumulated in 2012 (percent of new debt) | 20% | 20% |
| **Tax audits and collection of large taxpayers** | | | |
| | a. Number of completed risk-based full-scope audits | 150 | 300 |
| | b. Number of completed risk-based temporary audits (VAT, Withholding, refunds, exemptions etc.) | 150 | 325 |
| | *Of which field audits* | *25* | *100* |
| | c. Collection of assessed tax and penalties from all risk-based full scope and temporary audits (percent of assessed tax and penalties) | 50% | 50% |
| **Audits and collection for high wealth individuals** | | | |
| | a. Number of completed new risk-based audits of high wealth individuals, as identified by the task force in 2011 2/ | 600 | 1,300 |
| | b. Collection of assessed tax and penalties from all risk-based audits, as identified by the task force in 2011 (percent of assessed tax and penalties) | 50% | 50% |
| **Audits and collection for VAT non filers** | | | |
| | a. Number of completed risk-based VAT audits of VAT non-filers | 5,000 | 10,000 |
| | b. Collection of all assessed tax and penalties (percent of assessed tax and penalties) | 20% | 20% |

1/ Cumulative target from January 1, 2012. Targets are defined net of the audits completed in the first two months of 2012 counted against meeting the end-2011 targets (prior action).
2/ The audits completed since January 2011 will amount to at least 1,700 audits as identified by the task force in 2011.

Table 2. Structural Benchmark in Public Financial Management

| Area | Indicator | 2012 targets 1/ | |
|---|---|---|---|
| | | end-June | end-December |
| **Expenditure Controls** | | | |
| | 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. | 70% | 90% |
| | 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 the commitment registers and the total arrears reported through monthly surveys (% of arrears) | 25% | 1% |

1/ Cumulative target from January 1, 2012.