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The Second Economic Adjustment Programme for Greece
First Review- December 2012





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The Second Economic Adjustment Programme for Greece – First Review

December 2012

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EXECUTIVE SUMMARY

This report provides an assessment of the progress made by Greece with respect to its Second Economic Adjustment Programme, based on the findings of a four-part joint Commission/ECB/IMF mission to Athens between 3 July and 17 October 2012. The mission assessed compliance with the terms and conditions of the Second Economic Adjustment Programme agreed in February 2012 and discussed a detailed policy programme up to 2016, so as to bring the programme back on track and to ensure an effective implementation of the programme.

After the February 2012 agreement on a Second Economic Adjustment Programme and the large-scale debt restructuring operation in March 2012, a period of extreme uncertainty surrounded the implementation of the programme. The heated electoral campaign and the indecisive legislative vote of 7 May led to extreme tensions both in Greece and on international markets. Significant doubts emerged on the capacity and willingness of the country to implement the structural reforms and the fiscal consolidation needed to regain the lost competitiveness and secure the sustainability of public finances. The readiness of Greece to continue with the adjustment programme was openly questioned in creditor countries, where public opinion support started fading, given signs of a lack of commitment by the Greek government, administration and population, while large amounts of financial assistance were being provided to the country. By mid-June, most observers wondered whether Greece would be able to avoid a default or an ejection from the euro area, or would even decide to quit it itself at obviously significant costs. The widespread discussion on "Grexit" in the market and even among creditors has been very damaging for Greece.

With Greece facing a very stark choice, a three-party coalition emerged from the 17 June elections with the mandate to secure Greece's future in the euro area, and hence to implement the economic adjustment programme resolutely. The new government and the administration quickly took up the challenge of identifying and taking the measures needed for catching up on the implementation of the programme, and have been working very intensely through the summer to deliver.

However, given the substantial delays accumulated after the double electoral cycle, the overall implementation of the second programme remained partial for a long period. At the inception of the new government, not only the implementation of the commitments had been poor, but concerns persisted among observers that several key reforms adopted early in the year, as a precondition for the Second Adjustment Programme, could actually be undone. Notably in the area of labour market reforms, but also in many other crucial fields, such as the privatisation process, political signals and statements during two election campaigns and immediately after the elections had been conflicting and detrimental to confidence and economic developments. The difficulty to fulfil the conditionality in the immediate aftermath of the elections significantly delayed the disbursement of the next tranches of the loans from international lenders and, while justified, this has taken a heavy toll from the economy.

Nonetheless, there has been a significant catching-up over the past few months. The government soon took a clear stance confirming the objectives of the programme and the key measures already adopted with a view to bringing the programme back on track. With its action it managed to perceptibly improve the overall compliance with the conditionality throughout the summer.

With the recent crucial decisions and the extent of the commitments under the new Memorandum of Understanding (MoU), Greece has revamped its reform effort and fulfilled important conditions. A very large number of measures which were due by the summer, but also new ones which became relevant during the review were taken in November, notably with the implementation of the Omnibus Law, the new Medium Term Fiscal Strategy (MTFS) 2013-16 and of the 2013 budget on 7 and 11 November, respectively. These steps, which have tested the strength and cohesiveness of the coalition supporting the government, leaving also some scars therein, significantly improve the overall compliance.

The reform effort must continue, after this review, in order to address the challenges Greece faces.

For a number of key measures included in the MoU for the second programme delays have been too large to be delivered within the time horizon covered by this review. While for most of them are nevertheless expected to be completed before end-2012, and progress made so far suggests that this is feasible, provided determined efforts are pursued, a significant number of measures identified in March still needs to be delivered. For the achievement of the adjustment programme it is indispensable that the Greek authorities resolutely implement a wide range of reforms, reforms that will create the basis for sustainable growth in employment and real incomes. In this context, setting the right incentive structure requires that only the full implementation of reforms and the respect of commitments will be rewarded. This is a crucial condition for the success of the programme.

The extreme uncertainty about the Greek developments impacted the economy, even beyond Greece, and this still affects the programme looking forward.

The Greek economy is expected to decline for a fifth successive year in 2012 with output falling by some 6.0%, but also in 2013, when output is expected to contract by a further 4.2%. The turning point of the recession is not expected until late 2013, leading to moderate GDP growth of 0.6% in 2014, followed by a stronger growth of 2.9% and 3.7% respectively in 2015 and 2016. The recovery is dependent upon the return of business confidence and investment, boosted by the implementation of reforms under the economic adjustment programme and progress with major projects co-financed by EU funds.

The programme strategy remains valid, but its focus on structural reforms to unlock growth and employment has been strengthened.

The extensive labour market reforms, implemented as a prior action for the second programme, have already led to a substantial improvement in competitiveness in terms of unit labour cost, and to a slowdown in inflation. In this context, it is welcome that core inflation eventually reached negative territory. But much more needs to be done to create the basis for renewed growth, which will have to rely more than in the past on private investment and exports. An acceleration of product and service market reforms is crucial to bring about investment, innovation and competition. A stronger focus on microeconomic reforms is, therefore, imperative to ensure sustained productivity growth and a reduction in prices to increase disposable income, while reducing profit margins when excessive and rents. This will need to include the liberalisation of the energy sector and the transport system and improvements in the business environment. On the positive side, Greece has enhanced its ranking in the 2013 World Bank Doing Business Indicators by eleven places, but the position remains still very low.

Since early-2010, Greece has achieved a very substantial fiscal adjustment. The primary deficit is expected to be reduced by 9.0 pp. of GDP by 2012 (compared to 2009), but—taking into account that this was accomplished during a pronounced economic recession—the underlying fiscal effort is significantly larger. The progress has been facilitated by the introduction of budgetary controls, the improvement of the fiscal framework with the introduction of the medium-term budgeting and important structural reforms in the healthcare sector. Nevertheless, Greece is expected to miss, though by a limited extent, the original 2012 programme target for the primary deficit of 1.0% of GDP, largely on account of worse-than-expected macroeconomic developments, but also the delayed implementation of agreed measures.

The performance in implementing structural fiscal reforms has been mixed. While significant progress has been made regarding budgetary controls, tax administration reforms came to a virtual standstill until the autumn. The new wage grid adopted in late-2011 was extended to all the ordinary wage regimes in the central and local governments, though the reform of the special wage regimes was only adopted in November. The planned spending reviews on social programmes and on the public administration were delayed. Reductions in health spending started to bear fruit, but some components have faced strong resistance from vested interests.

The fiscal targets for 2013-16 had to be revised to take into account the deeper and longer-than-expected recession. The size of required annual fiscal adjustment to achieve the nominal targets turned

out to be much higher than assumed at the inception of the second programme, due to the worse-than-forecast macroeconomic environment and the ex post statistical revisions to GDP and the delays in programme implementation outlined above. Maintaining the original two-year adjustment period would have implied an unrealistically high annual consolidation effort and compounded the recession in the short-term. Against this background, the fiscal adjustment path has been extended by two years involving a reduction of the primary surplus target for 2014 from 4.5% of GDP to 1.5% of GDP and an even annual adjustment of 1.5% of GDP until a primary surplus of 4.5% of GDP is achieved in 2016. The revised path implies that the general government budget deficit would fall below 3% of GDP in 2016. The debt-reducing measures agreed by the Eurogroup on 26/27 November 2012 will reduce interest payments by around 1 % of GDP, making it possible to bring the budget deficit below 3 % of GDP already in 2015

The revised adjustment path and updated macroeconomic outlook have implications for the amount and phasing of measures. Required consolidation measures during 2013-14 amount to around EUR 13.5 billion (7.3% of GDP). Beyond, the projections underlying the programme point to a need for a further fiscal adjustment of up to EUR 4 billion in 2015-16. During this period a few existing measures are expected to expire and the EU structural funds are going to decline in the transition to the new programming period. However, the projections for the outer years are inherently uncertain and depend to a large extent on the strength of the recovery as well as yields from the programme measures implemented in preceding years, with some upside risks existing to the fiscal outcomes in outer years.

To achieve the revised medium-term fiscal targets, the MTFS 2013-2016 sets out a very large, mostly expenditure-based and front-loaded fiscal consolidation. The 2013 fiscal gap has been closed by identifying more than EUR 9.2 billion of viable measures, around 5% of GDP. The adjustment in 2013 represents 2/3 of the overall fiscal adjustment for 2013-2014. In terms of quality, the majority of the adjustment consists in expenditure measures that will be undertaken early in the 4-year period covered by the MTFS. It is crucial for the credibility of the programme that the principal measures such as reductions in pension expenditure and in the public wage bill will occur immediately, as they address areas where excessive increases happened in the past. The revenue measures will occur principally in the context of a major tax reform package that will be legislated by end-2012.

The 2013-16 MTFS includes important fiscal reforms to rationalise and reduce expenditures. The government embarked on major expenditure reforms covering the whole range of government activities, while pursuing a fair distribution of the burden across the population through stronger targeting and by protecting lower incomes. These reforms include significant reductions in pensions, other social programmes, defence and operational spending. The reform of the healthcare sector will be strengthened by additional measures on pharmaceutical spending and hospital costs. The sustainability of the pensions system will be reinforced through the increase in the retirement age from 65 to 67 years and by moving forward some of the elements of the 2010 reform. The reductions in public sector wage bill will also play a central role: on wages, the rationalisation and reductions of public sector wages will be extended to those sectors not covered by the 2011 reform. On employment, tight controls on hiring and stronger powers to reallocate staff will be complemented by the reliance on the revamped mobility scheme, where some 27,000 staff will be gradually transferred in the course of 2013, with those unable to find another job being dismissed after a year in the scheme.

A long-overdue tax policy reform aimed at enlarging the tax base and simplifying the tax system is being finalised. The reform is designed to be revenue-positive and produce net revenues of close to EUR 1 billion over two years. The tax reform aims at broadening the tax base by reducing tax allowances and tax credits and by strengthening the taxation regime of self-employed and rental income. The efficiency of the system will be improved by a thorough simplification of the personal income tax system and by a re-modulation of the corporate income tax. The reform is designed to maintain the progressivity of the system and to avoid increases in the effective taxation of low and middle income households. The reform is accompanied by the simplification of the tax accounting system, centred on the repealing of the

Code of Books and Records. The MTFS includes also other important measures aimed at harmonizing the taxation of fuel and the regulations of social security contributions across all categories of workers.

On fiscal structural reforms, the government has revamped its efforts through a comprehensive reform programme. On budgetary controls, the reporting system will be extended to all the phases of the budgetary cycle and monitoring will be strengthened by additional financial and human resources and by stronger enforcement through tighter controls and inspections. On revenue administration, political interference on the tax auditing activities will be limited by granting more autonomy to the tax administration and to its chief. Specialised units responsible for large taxpayers will be made operational, and the efficiency of the administration will be improved by the introduction and implementation of a performance-based assessment for auditors and managers. The timely appointment of a well-qualified Secretary General of Public Revenues of high ethical standards is essential, and is expected before the year-end.

Significant action has already been taken to reform the Greek labour market, and further efforts are being made. The perceptible downward pressure on wages reflects a long-overdue reaction to high unemployment, which in turn resulted from rigid wages often being substantially out of line with the productivity of workers, and to the severity of the recession. This correction was eventually possible thanks to the extensive labour market reforms taken earlier in 2012, comprising notably more opportunities for firm-level agreements, a limitation of the 'after-effects' on pay after the expiration of collective agreements, and reductions in minimum wages. The Omnibus Law adopted on November 7 contains further reforms. Collective agreements on remuneration will be binding only to signatories while the minimum wage as a general lower floor for wages and salaries throughout the economy will in the future be defined by the government. The severance payment schemes in Greece have been reduced, whilst ensuring protection for already acquired rights. The adaptability of working hours has been increased to facilitate efficiency and productivity gains, where more freedom will be given to adjust the working time to sector and firm specific needs. However, additional ways to foster compliance with labour law and contracts and to fighting undeclared work and informality need to be identified. Further action is also needed to limit long-term unemployment through active labour market policies.

Privatisation proceeds have been disappointing so far, but the privatisation process has regained some momentum since September 2012. Since the first sales in 2011, only EUR 1.6 billion have been accumulated. However, by December 2012, an additional EUR 100 million should be collected, while several assets are expected to be ready for sale in the first half of 2013. The government has recently taken the welcome step of abolishing its golden share (25%) in the State-Owned Enterprises to be privatised in the coming years. Cumulative privatisation receipts by the end of 2013 are expected to be around EUR 2.6 billion, rising to EUR 8.5 billion by the end of 2016. Doubts on the effectiveness of the governance of the privatisation process however continue to persist, which calls for setting better incentives in delivering higher proceeds, while contributing to better industry practices, more investment and net job creation.

While significant progress has been made in a number of respects, the banking sector situation remains fragile. Core banks received, from the Hellenic Financial Stability Fund in May 2012, a capital advance that shored up their capital base until the recapitalisation process could be launched. Following delays caused by the elections, the recapitalisation is now due to be completed by April 2013 - possibly partly financed by the private sector. The sector also undergoes a restructuring phase, with a number of mergers and resolutions. An exercise carried out by the Bank of Greece has confirmed that the envelope of EUR 50 billion is still in line with forthcoming recapitalisation and resolution needs. The governance of the Hellenic Financial Stability Fund is being improved to ensure the independent oversight of individual banks post-recapitalisation. Against these developments, the banking sector faces a challenging macroeconomic environment and a hampered repayment culture.

The outlook for the sustainability of Greek government debt worsened compared to March 2012 when the second programme was concluded, mainly on account of a deteriorated macro-economic situation and delays in programme implementation. The necessary revision in the fiscal targets and the implied postponement of a primary surplus target of 4.5% of GDP from 2014 to 2016 call for a broader concept of debt sustainability encompassing lower debt levels in the medium term, smoothing of the current financing hump after 2020 and easing of its financing. Greece has carried out a successful public debt buy-back tender process, which is expected to reduce debt by 9½% of GDP by 2020. Against this background and after having been reassured of the authorities' resolve to carry the fiscal and structural reform momentum forward and given the positive outcome of the debt buy-back operation financed from the existing financing envelope, the financial support initiatives considered by the euro area Member States to strengthen debt sustainability would accrue to Greece in a phased manner and conditional upon a strong implementation by the country of the agreed reform measures in the programme period as well as in the post-programme surveillance period.

The international assistance loans disbursed so far to Greece amount to EUR 148.6 billion. Of this amount, EUR 73.0 billion were disbursed within the first programme (EUR 52.9 billion have been paid by the euro-area Member States and EUR 20.1 billion by the IMF). Within the second programme, the EFSF and the IMF have already disbursed EUR 75.6 billion as a part of the first disbursement of the second programme (including EUR 25 billion for bank recapitalisation). The adjustment programme has been supported through financing by euro-area Member States and the IMF. The financing by the euro-area Member States takes place through the EFSF, whilst the IMF financing will come through the Extended-Fund Facility (EFF).

Implementation risks to the programme remain very large. A prudent approach has been taken in the macroeconomic scenario that envisages only a slow recovery in business and consumer confidence and in the estimates made of the budgetary yields of individual expenditure and revenue measures. The key risks concern the overall policy implementation, given that the coalition supporting the government appears fragile and some components of the programme face political resistance, despite the determination of the government. Moreover, the impact on the weakened economy of the pronounced fiscal consolidation in 2013 may be stronger than currently foreseen, even though it could also be mitigated by the liquidity injection from clearance of government arrears. Important budgetary measures are likely to be challenged in courts, which could lead to the need to fill a fiscal gap emerging as a consequence. Should product and services market reforms not accelerate as foreseen under the programme, positive economic growth could not return in 2014 as foreseen. A return to sustained growth can only be achieved when the structural reform agenda is fully and swiftly implemented. This will require breaking the resistance of vested interests and the prevailing rent-seeking mentality of powerful pressure groups. However, upside risks also exist, which can materialise in particular if uncertainty about policy implementation is lifted, and are linked to a stronger return of confidence, supporting a stronger recovery of investment also benefitting from the full absorption of available EU funds, and a more supportive role of the banking sector for the economy after the recapitalisation which could also benefit from a return of foreign capital as the risk of an exit from the euro area fades.

The Commission services recommended disbursement of EFSF funds, broadly corresponding to the planned second, third and fourth tranches of the second programme, conditional on continued implementation of the commitments undertaken by the Greek authorities as specified in the revised MEFP and MoU. Estimated financing needs for the remainder of the year and the coming quarter to be covered by the EU equal to EUR 49.1 billion, which will go towards funding the second step of the bank recapitalisation (EUR 23.2 billion) and the cash needs of the government (EUR 14.6 billion), including for the payment of arrears to the private sector, and the debt-buy back (EUR 11.3 billion). The disbursement will be made in several tranches, with the first one amounting to EUR 34.3 billion paid in

December 2012. The disbursement of the remaining amount will be made in three sub-tranches during the first quarter of 2013, linked to the implementation of the milestones included in the MoU (see Chapter 4).

1. INTRODUCTION

1. **This report provides an assessment of the progress made by Greece in respect of its Second Economic Adjustment Programme.** It examines current macroeconomic, financial and fiscal developments, assesses compliance with the previously agreed programme and makes a detailed assessment of the policy programme up to 2016 agreed between the Greek Authorities and the European Commission, ECB, and IMF staff teams. The agreed economic adjustment programme is set out in a Memorandum of Understanding and a Memorandum of Economic and Financial Policies (see Box 1 and Annex 3). The assessments and agreements are based upon the findings of a four-part joint Commission/ECB/IMF mission to Athens between 3 July and 17 October 2012 and the continued interaction with the authorities building also on a reinforced presence of the Commission staff in Athens.
2. **Whilst considerable further efforts are still needed, as shown in the remainder of this report, it is useful to highlight that Greece has already made substantial progress under the economic adjustment programme** (see Box 2). The general government deficit has been reduced from 15.6% in 2009 to 9.4% in 2011, however the underlying fiscal effort is much larger when account is taken of the severe recession. Major reductions have been made in several public expenditure categories where the major increases had been recorded in previous years, notably public sector wages, health care and pensions. Labour market reforms combined with the pressure exerted by the domestic recession have resulted in a substantial improvement in competitiveness in unit labour cost terms. Unfortunately, productivity growth has been wanting and product and services market reforms have proceeded with a significantly lower speed. Only limited progress has been made in this area since the approval of the second programme on account of the heightened political uncertainty surrounding the two elections.
3. **The Adjustment Programme is supported through financing by euro-area Member States and the IMF.** The financing by the euro-area Member States takes place through the EFSF, whilst the IMF financing comes through the Extended-Fund Facility (EFF). The international assistance loans disbursed so far to Greece amount to EUR 148.6 billion. Of this amount, EUR 73.0 billion were disbursed within the first programme (EUR 52.9 billion have been paid by the euro area Member States and EUR 20.1 billion by the IMF). Within the second programme, the EFSF and the IMF have already disbursed EUR 75.6 billion as a part of the first disbursement of the second programme (including EUR 25 billion for bank recapitalisation).
4. **The outline of the report is as follows.** The second section provides a detailed examination of macroeconomic and financial developments in the Greek economy, including a detailed macroeconomic scenario up to 2016. Section three then provides the analysis of programme compliance and outlines the policy commitments to 2016 that have been agreed between the Greek Authorities and the Commission, ECB, and IMF staff teams. Comprehensive compliance tables, the macroeconomic forecast, and key programme documents are attached in Annex.

Box 1. The documents for a comprehensive adjustment strategy

The Economic Adjustment Programme is spelled out in a series of key documents: (1) the Council decision; (2) the 'Memorandum of Understanding' (hereafter MoU), and (3) the 'Memorandum of Economic and Financial Policies' (hereafter MEFP), see Annex 3. These documents outline the economic and financial policies that Greece commits to implement during the period of the programme (with a special focus on the remainder of the year and the two following years, in alignment with the annual budget and the agreed fiscal measures).

The EU Council decision, lastly amended on 4 December 2012, adopted upon a recommendation of the European Commission, sets the steps and deadlines to be respected to correct the situation of excessive deficit. The MoU and MEFP are drafted jointly by the Troika institutions (EC/ECB/IMF) and the Greek authorities. They are subsequently transformed into a cogent law through a vote in Parliament. While the MEFP is shorter and descriptive of broader policies, the MoU comprehensively identifies the specific measures to be taken, going into a high degree of detail. The programme documents are living documents and are modified at every quarterly review mission, based on implementation of previous commitments and identification of new ones. The first programme documents were established in May 2010. The set of documents included in this publication constitutes the seventh version since then.

Box 2. The economic adjustment programme for Greece: some success stories

Media reports usually focus on the controversial issues or negative effects of the programme, giving a somewhat biased view that hides notable achievements. However there are a number of reforms that are clearly working and constitute fundamental changes of Greece's debt and/or competitiveness parameters. Whilst progress has fallen short in other areas, there are some success stories delivered by the programme up to now.

Since the start of the program, Greece has done a tremendous **fiscal consolidation effort**, one of the biggest fiscal consolidation that any EU country has done over the past 30 years (resulting already in an improvement in the headline budget balance of around 6 percentage points of GDP since May 2010), in the context of a substantial contraction in GDP and very difficult economic and political conditions. Greece has also made significant improvements to its monitoring and budgetary control procedures.

According to the Bank of Greece projections, the MoU target of **reducing nominal unit labour costs** in the business economy by 15% in 2012-14 will likely be achieved. Figures suggest that by the end of 2012, all of the 2001-2009 competitiveness loss will have been recouped. By the end of 2013, all of the loss will have been recouped and competitiveness levels will have improved.

Due to a set of measures aimed at reducing the volume (through controlling the over-prescription and fraud) and prices, public expenditure in the **health care sector** has gone down by almost 1 billion (or 25%) in 2012 and is expected to go down further (by more than 800 millions) over the next 2 years. The accounting system of hospitals has improved substantially and now all hospitals produce balance sheets on accrual basis (which was not the case in 2010). A web-based application allows for real-time registration and control of all main activities and financing flows of all hospitals. Greece has now in place a system of electronic prescription of medicines, which is one of the most advanced in Europe. The system allows for a real-time, full control of prescription behaviour of all doctors and pharmacies (quantity of drugs by patient and pharmaceutical companies, medical condition of patient), making it possible to devise appropriate measures to control expenditure, to prosecute mis-behaviour, and to devise safer health policies. The system already permitted savings of about EUR 30 million a month since early 2012.

The comprehensive reform of the main **pension system** in 2010, which reduced the replacement rate, introduced a basic pension, increased the statutory retirement age to 65 years for all, and introduced a link between retirement age and longevity gains, has now been followed by legislation reforming the supplementary pension system and a further increase in the retirement age to 67. This recent reform entails the unification of all funds, individual pension accounts, a strict link between contributions and benefits and a sustainability factor that revises benefits in line with contributions to avoid any future deficit in the system. These reforms will guarantee the sustainability of the pension system over the medium and long –term, as certified by pension projections carried out by the independent National Actuarial Authority, and endorsed by the Economic Policy Committee of the EU.

Although progress in **structural reforms** has been slow, competition is being enhanced and the losses of key public entities have been limited. Thanks to the opening of the occasional passenger transport (trucks), licenses are now sold for a minimal fee (they used to cost around EUR 100 000). Following successful restructuring, State-Owned Enterprises like Trainose (railways operator) and OSE (railways infrastructure manager) broke even in early 2012. The powers of the Hellenic Competition Commission (HCC) and the Energy Regulator (RAE) have been strengthened and the government has put in place a watchdog to increase the transparency and compliance with legal requirements of public procurement contracts. Unnecessary restrictions on access to and the exercise of regulated professions have been lifted. Road haulage, car rental and occasional passenger transport have been liberalised.

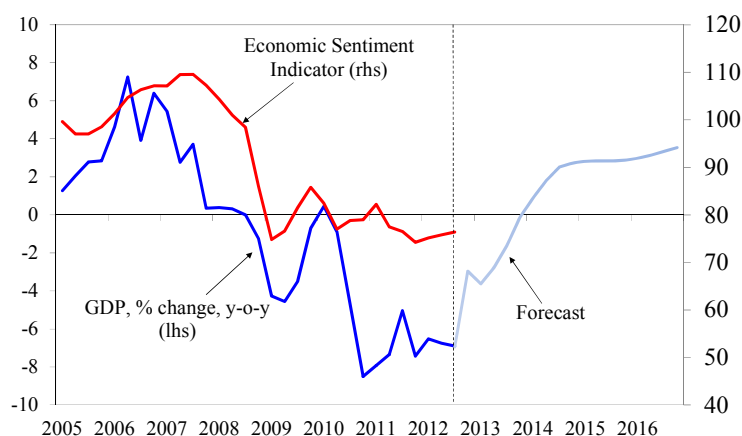
During the course of the programme, the stability of the **financial sector** has been maintained while undergoing a process of consolidation. The financial sector has faced and coped with a very challenging environment: PSI, very high non-performing loans coupled with deposit outflows due to the economic and political risks. With the support of programme financing, the solvency and liquidity of the sector has remained sound; capital of viable banks has been restored and liquidity has been provided. Deposits have significantly recovered after the dual-electoral period, showing increased trust in the banks.

2. MACROECONOMIC AND FINANCIAL DEVELOPMENTS

2.1 MACROECONOMIC DEVELOPMENTS

5. **The Greek economy is in its fifth consecutive year of recession.** The economic adjustment which the country is undergoing to address the fiscal and external imbalances accumulated over the previous decade requires a significant shift of resources across sectors. As Greece only recently started to remove the major rigidities which were hampering such adjustment, the economy accumulated significant slack and massive unemployment. The strong contraction in domestic demand, compounded by the fiscal measures necessary to return the Greek budget onto a sustainable trajectory, and a weak contribution from net exports have moved an overheating economy into deep recession, and a significant fall in GDP per capita. Doubts about the capacity and willingness of the country to remain in the Eurozone, strongly reinforced by the inconclusive elections in May 2012, have weighed on confidence and prevented the resurgence of investment and exports.

Graph 1. Real GDP growth and Economic Sentiment Indicator
(outcome and forecast)



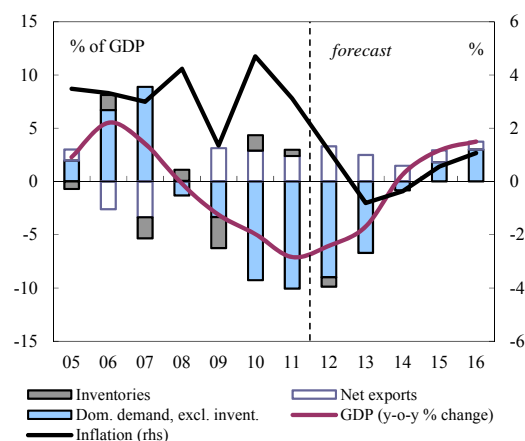
Source: EL-STAT and Commission services.

6. **The current forecast projects a further decline in output by 6.0% in 2012.** Relative to the forecast at the inception of the second programme, this represents a significantly larger and more persistent contraction in economic activity. This revision is in line with the December provisional data release on third quarter GDP, reporting a year-on-year fall by 6.9% relative to a fall of 6.3% in the second quarter¹. Several underlying factors explain these developments. First, confidence has been undermined by strong uncertainty on the political ownership of the programme during the double parliamentary elections in spring, which resulted in delays in the programme implementation and exacerbated speculation about Greece's future in the Eurozone. Second, a weakening world economy has weighed on the export of goods and services. Third, the combined effect of the delays in the implementation of the programme and the related disbursement, as well as tightened credit conditions after a considerable outflow of money from the banking sector, aggravated the contraction in real investment that has declined cumulatively by around 40% since 2009.
7. **The current forecast also assumes a delay in the recovery, compared to the March review.** Positive quarterly growth is expected to materialise only after mid-2013. This results in an overall further contraction of 4.2% in 2013 and moderate annual growth of 0.6% in 2014. This assumes that markets

¹ In October 2012, the Greek Statistical Authority (El.Stat) has revised downwards real and nominal GDP growth rates back to 2006. This technical change also affected the revision of the forecast by changing the 2011 growth base.

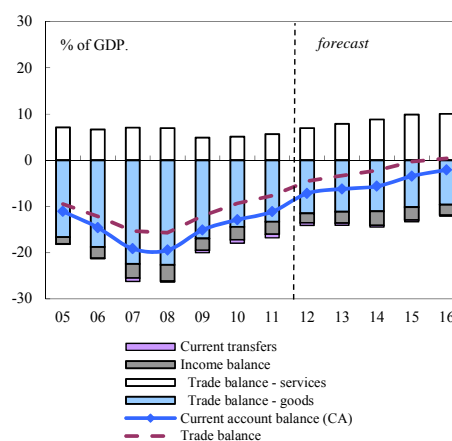
will regain confidence as the adjustment programme is successfully implemented, and government arrears are gradually cleared following the second disbursement, thereby helping to reverse the liquidity squeeze. The forecast is also based on the assumption that falling wages and prices on account of structural reforms will progressively raise competitiveness and make Greece a more attractive place for investment. Furthermore, bank recapitalization is expected to facilitate the renewed flow of credit to Greek businesses. Moreover, in 2014 the adverse fiscal impulse on growth is likely to be moderate, relative to previous years.

Graph 2. Real GDP growth and contributions, inflation



Sources : European Commission

Graph 3. Trade and current account balance



Sources : European Commission

Table 1. Macroeconomic scenario, main features (2010-2016)

	2011	2012	2013	2014	2015	2016
Real GDP (growth rate)	-7.1	-6.0	-4.2	0.6	2.9	3.7
Final domestic demand contribution*	-10.1	-9.0	-6.7	-0.8	1.8	3.0
Net trade contribution	2.4	3.3	2.5	1.5	1.1	0.7
Employment (growth rate)	-5.6	-7.9	-2.1	1.4	2.0	3.0
Unemployment rate (% of civilian labour force)	17.7	23.6	24.0	22.2	20.6	18.9
Compensation of employees, private sector per head	0.4	-4.0	-9.7	-10.6	1.9	2.2
Unit labour cost (growth rate)	-2.4	-8.7	-5.0	-0.4	-1.0	1.0
HICP inflation	3.1	1.1	-0.8	-0.4	0.6	1.1
HICP inflation at constant taxes	1.2	0.2	-1.3	-0.6	0.5	1.1
Current account balance (% of GDP)	-11.7	-8.2	-5.8	-4.6	-2.9	-1.6
Net borrowing vis-à-vis RoW (% of GDP)	-9.8	-6.0	-3.4	-2.2	-0.4	0.7
Net external liabilities (% of GDP)	-113.8	-77.8	-84.5	-87.1	-86.6	-84.4
General Government deficit (% of GDP)	-9.4	-6.6	-4.6	-3.5	-2.2	-0.6
General Government primary surplus (% of GDP)	-2.3	-1.5	0.0	1.5	3.0	4.5
General Government debt (% of GDP)	170.6	160.1	173.7	173.5	168.6	159.8

* Excluding change in inventories and net acquisition of valuables

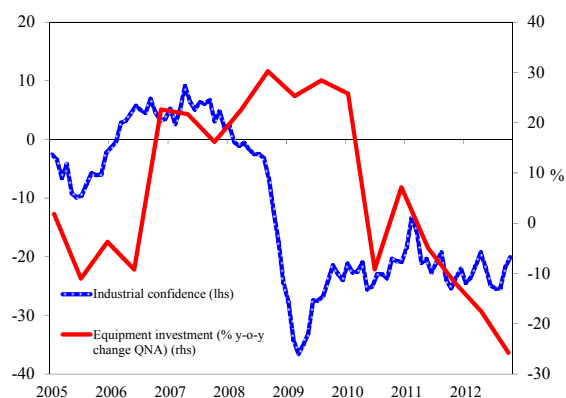
Source: European Commission

- 8. The continued contraction of economic activity in 2012-2013 reflects subdued developments in all the main components of domestic demand.** The sharp decline in wages, rising unemployment and reductions in social benefits severely drag down disposable income. Against this background, private consumption is projected to fall by 7.7% in 2012 and 6.9% in 2013, and imports are expected to decline by 10% in 2012 and 6% in 2013. Government consumption is also set to decline significantly (by 6.2%

in 2012 and 7.2% in 2013) reflecting the projected reduction in the public sector wage bill. Pervasive and sometimes very high economic uncertainty and tight financing conditions are curtailing investment and consumption of durable goods (see Box 3). In the medium term, investment and exports are forecast to be important drivers of the recovery.

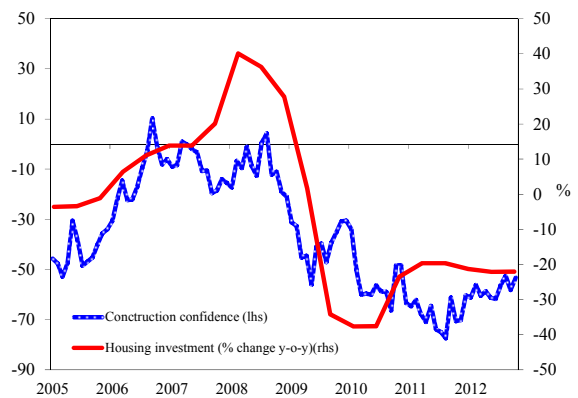
9. **Investment remains subdued, but is expected to accelerate, supported by improved opportunities and regained competitiveness.** In the first half of 2012 investment continued to fall in all asset categories at an overall pace of 20.3%. The biggest contraction took place in equipment (35.1%) and housing investment (30.5%), while machinery and non-residential construction took a more moderate loss (16.2% and 8.4% respectively). One of the strong incentives for disinvestment was capacity utilisation falling to 64.9% in second quarter of 2012. The investment rebound is expected to start in late 2013, triggered by a turnaround in economic sentiment and an improving business environment that opens up new opportunities in Greece. There is also an assumed acceleration of the absorption of EU structural funds once existing legal and financial hurdles for key infrastructure projects have been removed. The cost competitiveness gains from wage reductions over past years are also likely to support the export sector, which can modernise and broaden its productive capacity to expand its market share in international trade.

Graph 4. Equipment investment



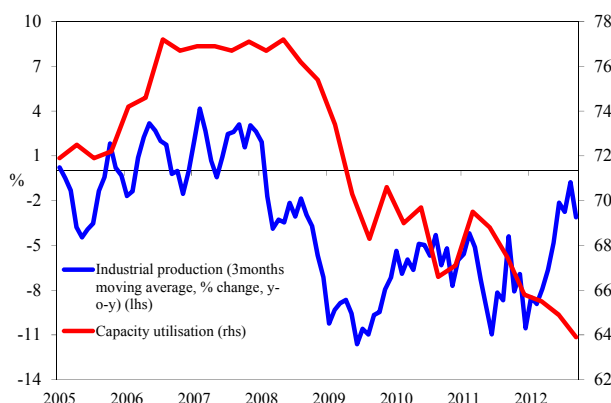
Sources : EL.STAT and European Commission

Graph 5. Housing investment



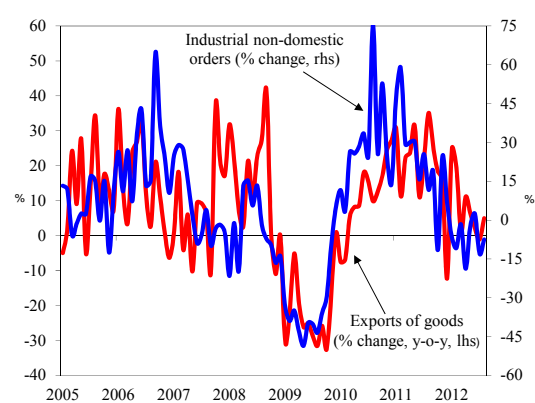
Sources : Bank of Greece and Eurostat.

Graph 6. Industrial production and capacity utilisation



Sources: EL.STAT and Bank of Greece.

Graph 7. Exports and non-domestic industrial orders



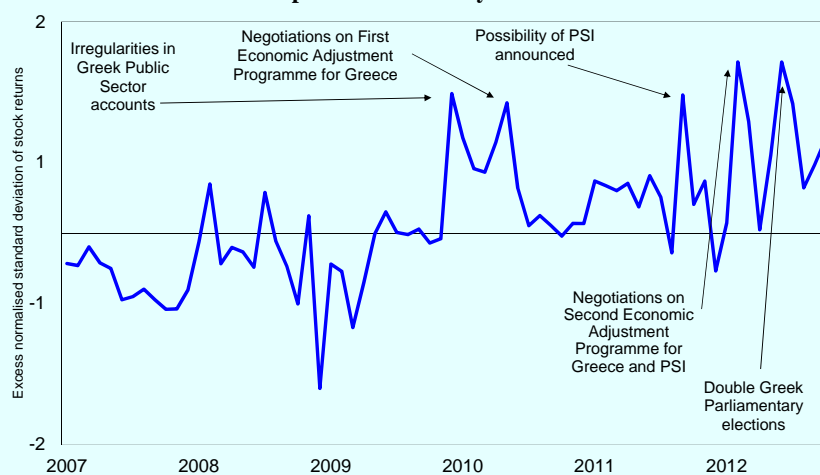
Sources: EL.STAT and European Commission

Box 3. Uncertainty shocks and effects on Greek economic activity

Reducing uncertainty through determined implementation of stabilising policies is a key objective of the economic adjustment programme. Uncertainty shocks can have strong negative effects on the real economy. Consumers may pull back spending, in particular on durable goods, and engage in precautionary savings. Firms may delay investments until they gain a better understanding of the economic situation they will face tomorrow. FDI and portfolio investment flows may be diverted or quickly reversed when speculation about future exchange rates heats up. Lending by the banking system may be severely restricted until the macroeconomic environment is clarified. Empirical research by IMF (2012), Bloom (2009) and Bloom et al. (2012) offers support for the view that such channels are at work in the US and euro area economies.

Since the onset of the crisis, the Greek economy has been hit by a series of uncertainty shocks. To identify uncertainty shocks specific to Greece, we turn to stock market volatility. An overall Greek uncertainty indicator is constructed by computing a rolling-window 30-day standard deviation of the Athex stock index returns. To isolate Greek-specific shocks, we regress the monthly average of this Greek uncertainty index on its US counterpart (taken as a proxy for global uncertainty) and we label the residual as a Greece-specific uncertainty index. The pattern of monthly observations of these indicators (see Graph 3.1) reveals that the Greek economy has seen a general increase in economic uncertainty since 2009. This climate of uncertainty is heightened into sharp Greek-specific uncertainty shocks around the dates of major political turbulences.

Graph 3.1. Uncertainty Index for Greece



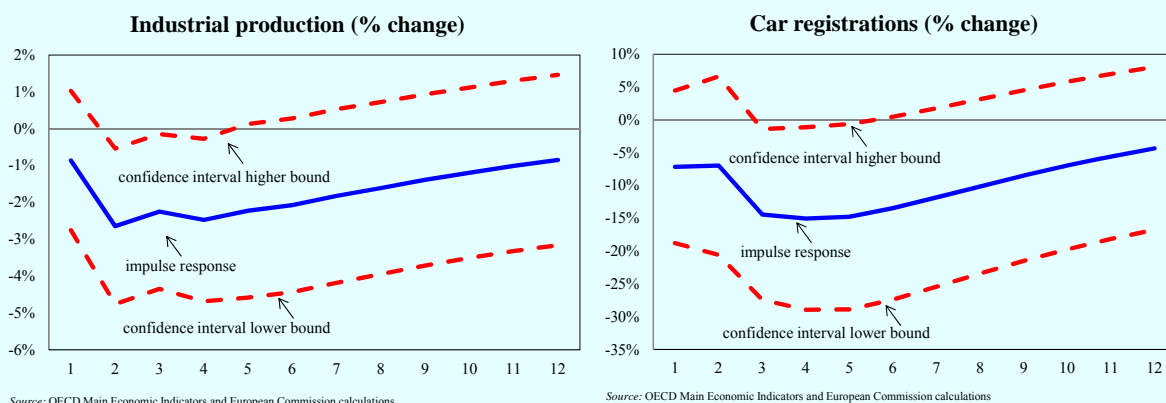
Source: Athens Stock Exchange and European Commission calculations

Note: The uncertainty index is computed as daily 30-day rolling -window standard deviation of Greek stock market returns (normalized by average value 2000-2010)

Greek economic activity has been negatively affected by the heightened uncertainty about its economic and political developments. To gauge the effect of uncertainty on Greek aggregate activity we construct a vector-autoregressive model (VAR) comprising Greek stock market prices, the uncertainty index, European interest rates, the Greek CPI and alternatively the Greek industrial production or Greek car registrations. We use monthly data covering the period January 1990–July 2012. We include both the stock market prices and the uncertainty index in order to disentangle the effect of changing expectations from the uncertainty per se. We take into account linear trends in the variables. Graph 2 shows the responses of two aggregate activity variables (with standard error bands) to an uncertainty shock equal to twice the variable's long-term average. The responses are statistically and economically significant, leading to a fall of about 2.5% in industrial production and a 15% fall in car registrations over four months.

The prominence of uncertainty shocks during the Greek sovereign debt crisis offers at least two lessons. First, the macroeconomic impact of the fiscal consolidation programme cannot be directly inferred from the depth of the current Greek recession. The relative contributions of fiscal shocks, uncertainty shocks, and perhaps financial shocks, would need to be disentangled before drawing conclusions on the size of the fiscal multiplier. Second, if uncertainty shocks have played a large role in the dynamics of the Greek crisis to date, dragging the country in a deeper and longer recession than originally expected, then the timing of the economic rebound in 2013 depends crucially on whether the Greek policy outlook can stabilise. The adjustment programme provides a clear framework that aims at reducing policy uncertainty and its determined and consistent implementation should contribute to minimising uncertainty, and its negative drag on the economy, in the coming months.

Graph 3.2. The impact of uncertainty



References

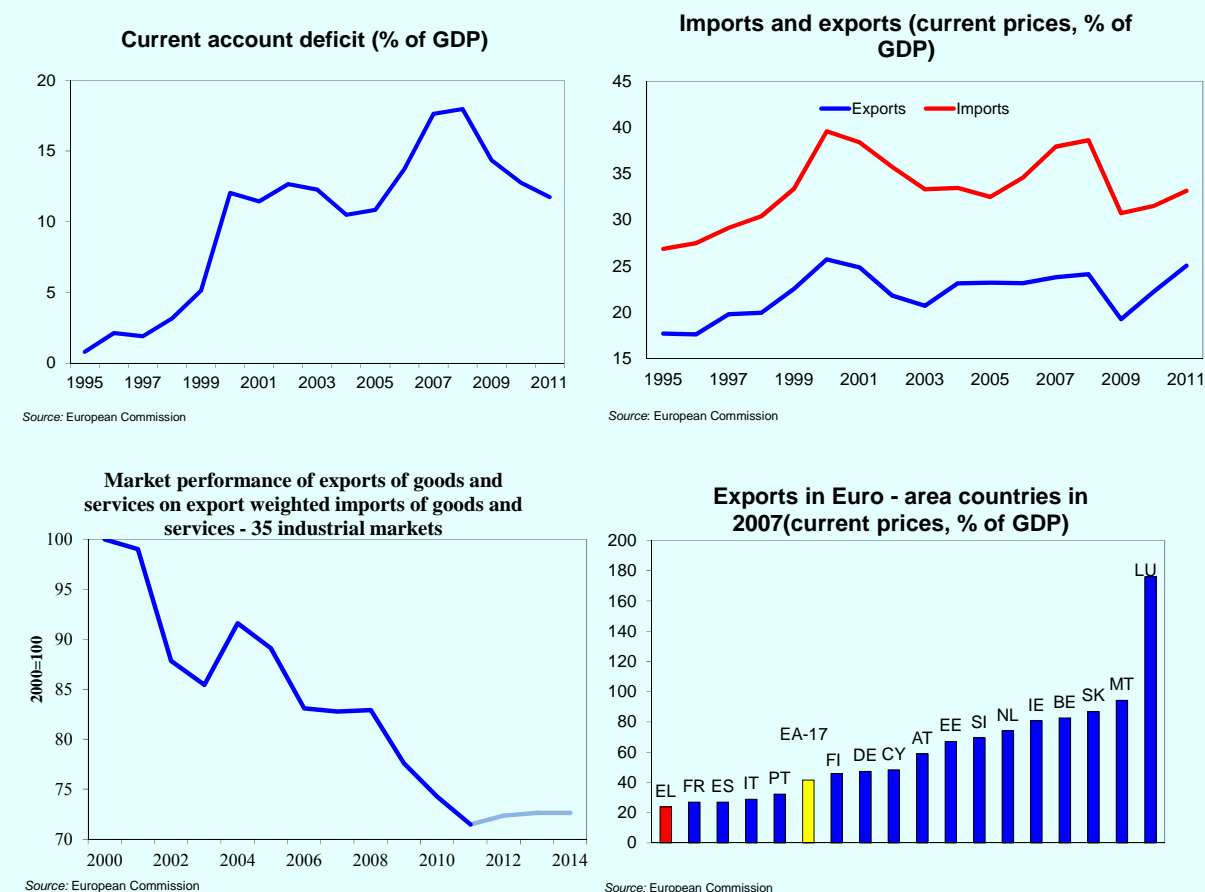
- Nicholas Bloom, 2009. "The Impact of Uncertainty Shocks," *Econometrica*, vol. 77(3), pages 623-685, 05.
- Scott R. Baker & Nicholas Bloom & Steven J. Davis, 2012. "Policy uncertainty: a new indicator," *CentrePiece - The Magazine for Economic Performance* 362, Centre for Economic Performance, LSE.
- IMF World Economic Outlook, Box 1.3. "How does Uncertainty affect Economic Performance?," October 2012

- 10. A revival of exports will support further improvements in the trade balance, so far largely driven by a collapse in imports.** This contribution will increasingly be driven by a more significant pace of total exports (with growth rates of 2.7% in 2013 and 4.8% in 2014), rather than by falling imports. In 2011 and 2012, net exports were the sole positive contributors to GDP growth. The sharp reduction in imports reflected domestic demand developments. Growing by 0.3% in 2011 and expected to grow by 0.8% in 2012, overall exports have underperformed compared to expectations due to weak external demand as well as restricted access to credit. Nevertheless some categories of export goods recorded significant growth rates in 2011, in the range of 10–30%, including metallurgy, refined oil and agricultural products, but these gains were largely offset by weaker exports of services, especially shipping services. In January–August 2012 exports of goods have continued to pick up, reflecting improvements in underlying competitiveness due to falling wages, moderation in inflation developments and advancing structural reforms (see Box 4). However, export of services is likely to remain in negative territory regardless of the unexpected better performance of tourist services in the summer months of 2012, reversing a dramatic but ultimately temporary drop in late Spring. Going forward, the forecast is based on the assumption that net exports will continue to contribute positively to growth. In the long run, these developments will contribute to a further opening up of the Greek economy.
- 11. The adjustment of the current account deficit is accelerating.** According to Bank of Greece figures (using balance of payments definitions), in the first eight months of 2012 the current account deficit decreased by EUR 9 billion, some 4.5% of GDP compared to the previous year. This represents a clear acceleration relative to the 8.0% year-on-year correction recorded for the same period in 2011. These developments mainly reflect a considerable fall in the non-oil trade deficit, further improvements in the services balance and a substantial reduction in net payments under the income account due to PSI. If the oil bill and net general-government interest payments are excluded, the current account is expected to show a surplus in 2012. In national accounts terms, the deficit is estimated to amount to 8.3% of GDP in 2012 – down significantly from 11.7% in 2011 and 12.8% in 2010. By 2014, the current account deficit is projected to decrease down to slightly above 5.0%, being supported by current inward transfers linked to accelerated absorption of EU structural funds.

Box 4. The external adjustment continues at significant pace

The debt-fuelled boom of the 2000s led to an unsustainable Greek external position (Graph 4.1). The current account deficit rose from 0.8% of GDP in 1995 to peak at 18% in 2008. In the same period, the share of imports in GDP increased from 26.9% to 38.6%, while the share of exports in GDP languished at 20-25%. The Greek export base declined as a share of world markets and remained the smallest in the Euro area relative to the size of its economy in 2007.

Graph 4.1. External adjustments



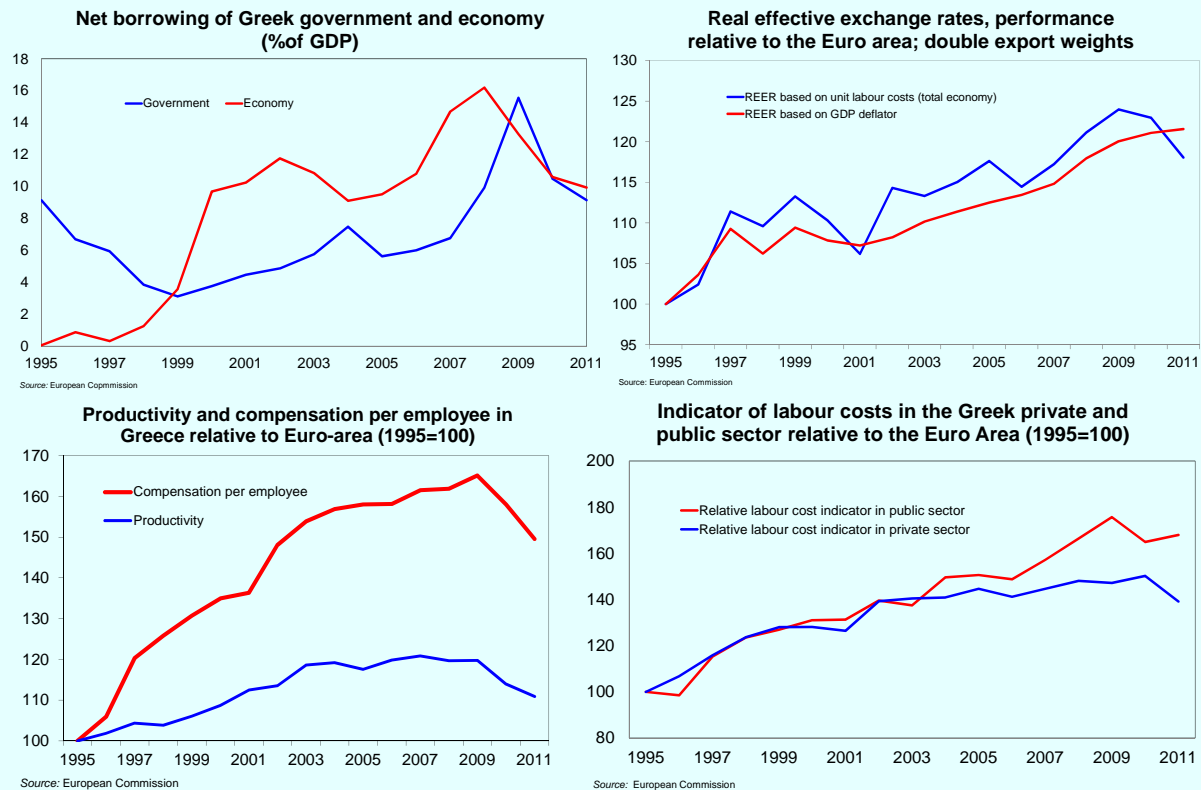
A boom in imports, in a context of declining export market shares, was the primary driver behind the widening of the current account deficit over 2005-2008. The import boom mirrored strong general domestic demand throughout this period financed by easy credit despite growing public and external debt. In turn, this reflected the extraordinarily loose international credit conditions and weak market discipline for individual Euro area member countries after the introduction of the Euro. After 2005, with the private sector no longer compensating the public sector borrowing, the economy run up an unsustainable imbalance.

The emergence of a stronger export base has long been held back by excessive regulatory burdens on businesses, a serious lack of domestic competition, and substantial wage and price inflation in an overheating economy. Greece performed poorly in terms of regulatory burdens and the business environment. In 2009, Greece ranked 96th out of 181 countries in the World Bank Doing Business report. The most serious difficulties were considered to be lengthy export procedures and the excessive need for licenses, permits and approvals. Other key problem were the obstacles to starting business, the rigidities in employment law and insufficient protection for investors. A lack of internal competition and widespread administered prices also has weakened external competitiveness. The scope for economies of scale and scope is limited, with a predominance of SMEs combined with a small domestic market. Highly regulated services markets for retailing, transport and professional services have for a long time limited competition and increased costs for exporters (see Conway and Nicoletti, OECD WP 530, 2006). Moreover, indicators of the perception of corruption from Transparency International showed the public sector in Greece as one of the worst performers in the EU with 95% of surveyed households claiming direct experience of public sector corruption (Transparency International, Greece).

Greek exports also suffered from substantial wage and price inflation in an overheating economy. When it comes to the competitive impact of wages and price developments, in the period 2000-2009 the real effective exchange rate relative to the Euro area rose by 24.0% in terms of unit labour costs and by 20.1% in terms of the GDP deflator (see Graph 4.2). Decomposing growth in unit labour costs confirms that the driver of this development has been excessive growth in

compensation per employee given a tightening labour market and easy financing conditions. This growth in the wage bill relative to general economic activity was especially pronounced in the public sector. Given a background of high regulatory burden for businesses, the labour cost developments played a key role in preventing the emergence of a stronger domestic export sector in the 2000s.

Graph 4.2. Competitiveness indicators



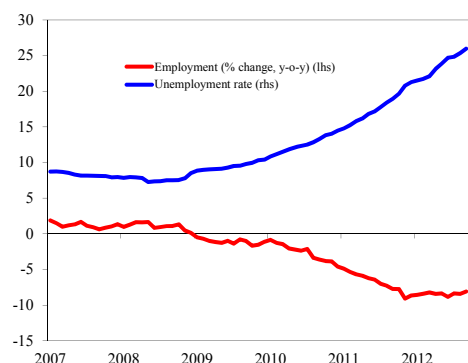
The Economic Adjustment programme aims to create the necessary conditions for strengthening the export base. The impact of previous reforms to improve the business environment under the adjustment programme has already manifested itself in placing Greece among the top ten countries scoring the biggest improvements in the World Bank's international ranking of "Doing Business 2013" with Greece rising 11 places in the rankings over the last year to stand now at 78th. Deregulation has taken place in services industries helping to bring down costs. Moreover, public sector reforms have brought down corruption perceptions significantly to 7.4% in 2011, although more needs to be done. Labour market reforms such as wider use of decentralized wage bargaining and a correction of minimum wages - are allowing wages to adjust downwards. Driven also by high current unemployment levels, unit labour costs have fallen by 2.4% in 2011 (and are projected to fall further by 8.7% in 2012 and 5.0% in 2013).

Under the programme, substantial progress has been made in resolving these external imbalances. The sudden reversal of financing conditions since 2009 had already engineered a massive drop in imports, prompting a painful start of the correction of the imbalances. Imports have cumulatively fallen by 30.6% in the period 2008-11, and consequently the current account deficit fell to 11.7% of GDP by 2011. Taking out oil and government interest payments, the current account (in balance of payment terms) even implied a small surplus of 0.2% of GDP. As a sign that these underlying competitiveness improvements are starting to bear fruit, receipts from exports of goods in the period January-August 2012 have grown by 7.6% relative to the previous year.

Nonetheless further adjustment is required to close the competitiveness gap, including continuing reforms to increase productivity and non-cost competitiveness. The real effective exchange rate has fallen in unit labour cost terms, but in 2011 it still remained 18.0% above its year 2000 level. In terms of GDP deflator, the real effective exchange rate has yet to fall (though it is projected to start falling this year). But the brunt of the adjustment has been mainly on the cost and wage side, while non-cost competitiveness must also be enhanced. Stronger increases in total factor and in labour and capital productivity are crucially needed, which require investment in human capital, in R&D and innovation, and policies to favour a better allocation of resources. Further structural reforms with focus on product markets are essential. Finally, for the underlying improvements in competitiveness to fully reflect in export growth, the paralyzing effect of policy uncertainty must be lifted.

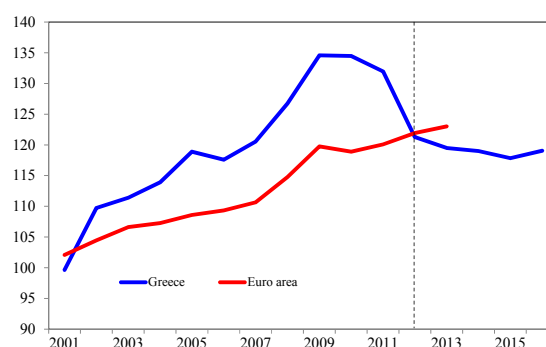
- 12. Unemployment is set to remain high in the face of the prolonged recession.** According to the Labour Force Survey, the unemployment rate rose to 23.6% in the second quarter of 2012 (compared to 16.3% in the corresponding quarter of 2011) and employment fell by 8.7% year-on-year. This implies that only 53% of the working-age population were in the labour force. Employment is expected to bottom out in 2013 and to recover only slowly thereafter. In the medium term, this decline is likely to gain momentum, as structural labour market reforms aimed at promoting business and job creation, decentralisation of wage negotiations and flexible forms of employment deliver their full effect, and the general economic recovery gains speed. The forecast projects that unemployment, following the national accounts definition presented in Table 1, falls to 20.6% in 2015 and to 18.9% in 2016.

Graph 8. 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).

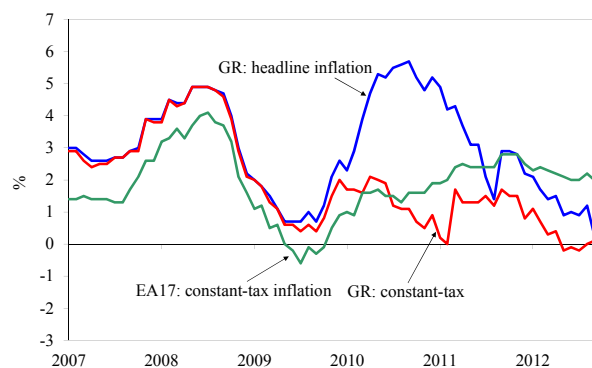
Graph 9. Nominal unit labour cost (2000=100)



Source : Commission services.

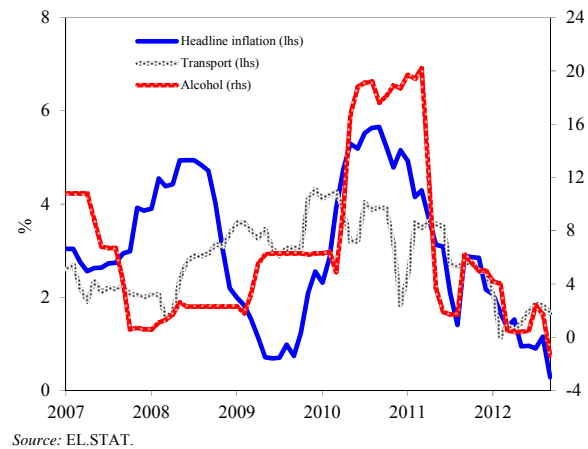
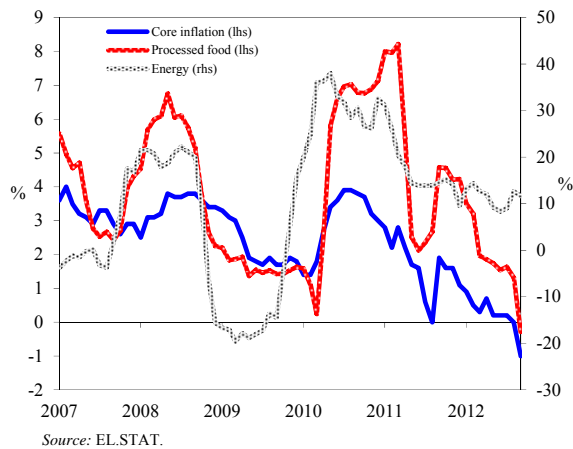
- 13. Inflation dynamics are expected to reflect continued wage reductions.** Extensive labour market reforms eventually allowed the severity of the current economic contraction to translate into a significant downward adjustment in wages. Compensation per employee fell by 2.6% in 2010 and 3.4% in 2011 and is projected to fall further by 6.8% in both 2012 and 2013. These developments have contributed to a perceptible, but still insufficient moderation of inflation in recent years. HICP inflation has fallen from 4.7% in 2010 to 3.1% in 2011. In 2012 the slowdown has continued in the first three quarters of the year and the headline HICP inflation rate is expected to be around 1.1% on an annual basis. For 2013 and 2014, prices are expected to actually fall. Overall, the decline in prices is expected to fall short of the decline in unit labour cost, since prices are also affected by non-labour cost of production as well as by changes in administered prices and changes in indirect taxes. The taxes on electricity, water and heating oil consumption are set to increase further. In view of these various factors, GDP deflator is projected to turn slightly negative in the years 2012-14 and to record moderate positive values thereafter. The expected transmission of cost-reductions to lower consumer prices is predicated on the assumption that structural product market reforms aimed at improving competition improve the transmission of cost-reductions into lower consumer prices considerably.

Graph 10. HICP inflation developments (% change, y-o-y)



Source: EL.STAT.

Graph 11. HICP inflation: main drivers
(% change, y-o-y)

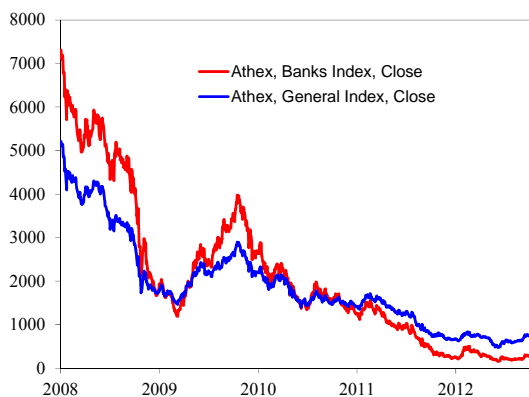


14. **The macroeconomic projections are subject to significant uncertainty and risks, both on the up- and downside.** On the downside, political uncertainty could delay the implementation of the structural reform measures of the programme. On the upside, an improved capacity of the government to absorb the subsidies from the EU Structural Funds and the repayment of government arrears may contribute to a stronger than assumed recovery in investment growth. The exact timing of the rebound in confidence and the prospects for the recovery in the world economy are uncertainties that could play in either direction.

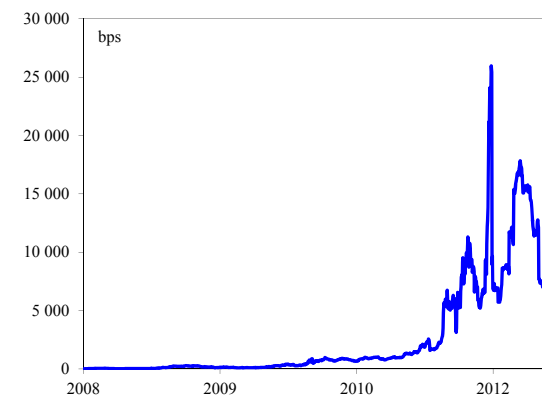
2.2 FINANCIAL MARKET DEVELOPMENTS

15. **After a successful Private Sector Involvement (PSI) operation in the first quarter of 2012, and glimpses of a return of confidence, the political uncertainty throughout the second quarter weighed heavily on financial market developments.** The two elections increased fears of adverse economic developments, which significantly influenced financial markets. Between April and end-November 2012, yields on 10 year government bonds went up from around 20% to 35%. During the same period, the Athens stock exchange index dropped by more than 30%. 5-year CDS prices on Greek sovereign debt decreased from 6877 bps to 5065 bps, after peaking during the electoral period.

Graph 12. Athens Stock Exchange Indices

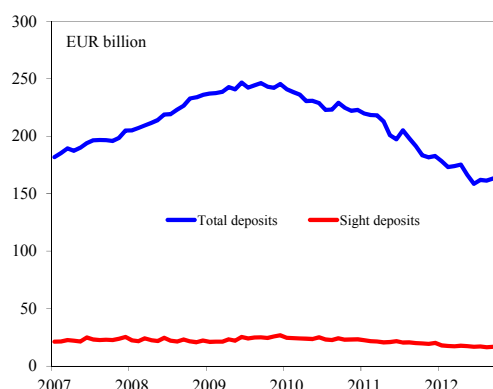


Graph 13. Greek CDS



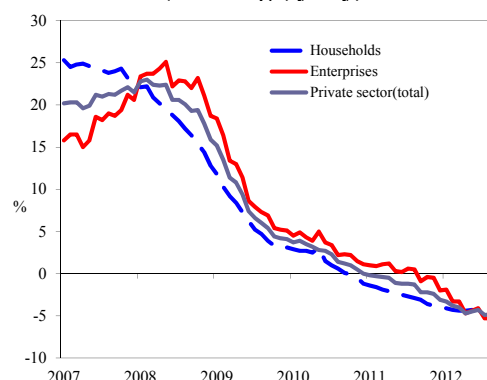
- 16. The deleveraging in the banking sector continues, the liquidity position of banks remains tight.** Until end-August 2012, the total balance sheet of the Greek banking sector contracted by 5% year-on-year. Domestic deposits continued falling from their peak in 2009, plummeting during the dual-electoral period in 2012 (approximately 9% outflow for the system in one month). Between end-2011 and 19 June 2012, Greek banks lost EUR 24 billion in deposits (-15%). Post-elections, deposits have been recovering and by end-September 2012, they had rebounded by EUR 7.7 billion from the trough of 19 June. The central bank liquidity has continued to be provided to the sector, including via emergency liquidity assistance (ELA). After the publication of the full-year 2011 results, which included the PSI-related losses, the four largest Greek banks became severely undercapitalized. To remedy the shortfall until banks can attempt to raise capital from private sources, the four largest Greek banks were recapitalised in May 2012, via a bridge HFSF recap facility of EUR 18 billion.

Graph 14. Bank deposits



Source: Bank of Greece

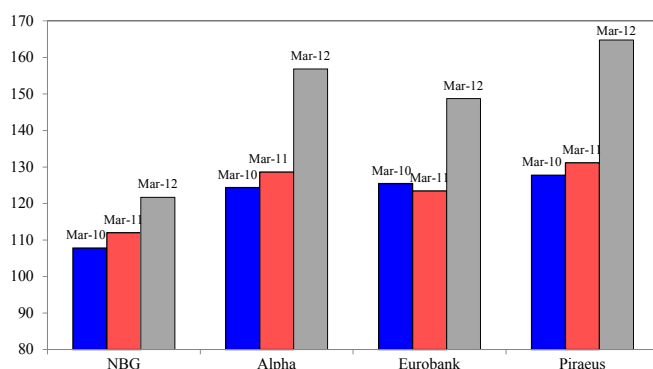
**Graph 15. Credit to private sector
(% change, y-o-y)**



Source: Bank of Greece

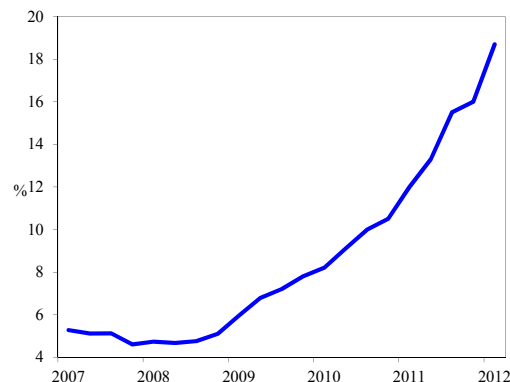
- 17. Greek banks continue to face the consequences of the recession and an unwillingness of some borrowers to service their debt obligations, while credit to the economy keeps shrinking.** Due partly to the uncertainties that the dual elections created, the morale of borrowers significantly worsened. Non-performing loans (NPL) increased, reaching 18.5% at a solo level by the end of March 2012, up from 16% in December 2011. Including restructured loans, NPLs reached 23.8% by Q1 2012. The coverage of non-performing loans by provisions decreased from 62% to 57% in the same period. Until end-August 2012, credit to the domestic economy shrank by 8%, with a reduction in loans to both households (-6.3%) and corporations (-8.5%). Nonetheless, loan to deposit (LTD) ratios increased to 132% in Q1 2012 from 120% in Q1 2011, since deposits decreased at a faster rate than loans.

Graph 16. Loan to deposit ratio by bank (in %)



Source: Banks' financial statements

Graph 17. Non-performing loans ratio

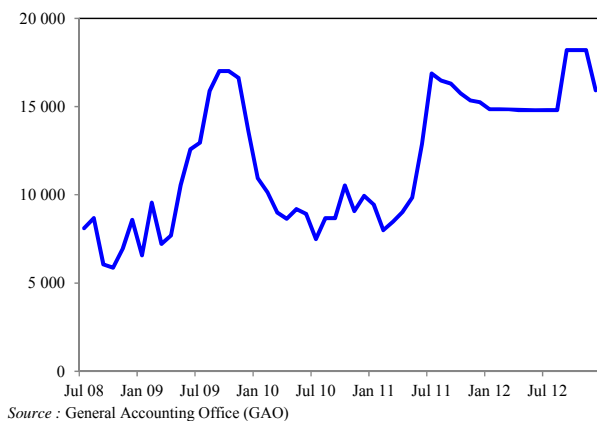


Source: Bank of Greece

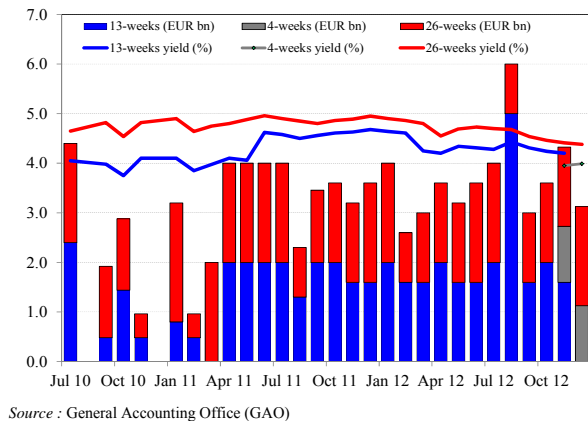
- 18. The banks have continued their efforts to adjust their business models to the harsh economic environment.** Year-on-year until end-August 2012, pre-provisioning income of banks on a solo basis fell by 50% to EUR 550 million. During the same period, after tax losses increased from EUR 241 million to EUR 1.5 billion primarily due to the PSI. At the same time, both staff costs and general administrative expenses were cut by 9% year-on-year on a solo basis in the first quarter of 2012.

- 19. The outstanding stock of T-bills remains large.** After increasing substantially in the summer 2011, the stock of T-bills remained relatively high reflecting the delayed disbursements under the first programme. The stock remained essentially constant after the first disbursement under the second programme in March. At the time of adoption, the second financing programme was expected to reduce reliance on T-bills by EUR 9 billion in a gradual manner. However, the T-bill stock even increased substantially in August 2012 to fund bond redemptions maturing in that month as the second disbursement under the new programme, initially foreseen for July, did not materialise. Greek banks and social security funds were the main participants in short-term debt auctions. In general, the yields on Treasury bills were slightly lower in the auctions after the approval of the second programme. The stock of short-term debt was rolled over repeatedly as the programme disbursement was delayed and stood at EUR 18.4 billion in mid-December 2012.

Graph 18. Outstanding stock of T-bills (including commercial paper), EUR million



Graph 19. T-bills auctions since July 2010 (amounts EUR billion and yields)



3. PROGRAMME IMPLEMENTATION

3.1. FISCAL POLICY PERFORMANCE

3.1.1 Fiscal performance under the programme

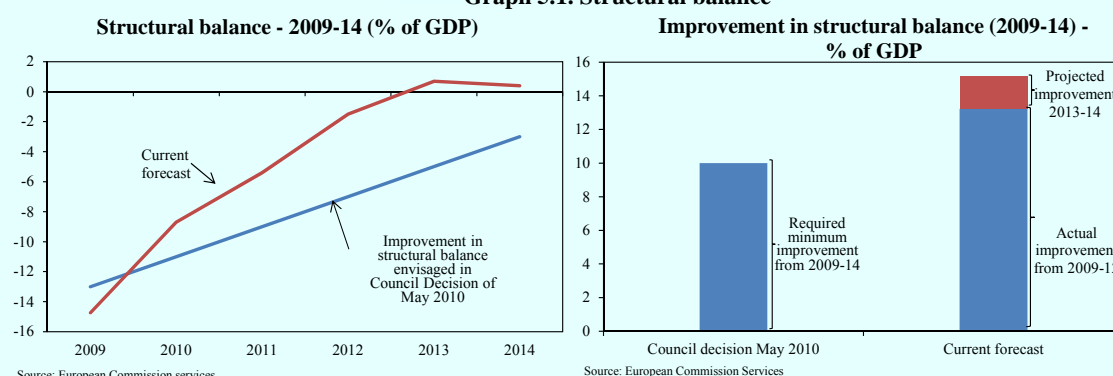
- 20. Greece has come a long way in correcting the fiscal imbalances since the outset of the crisis in 2009.** The general government fiscal deficit has been reduced from 15.6% in 2009 to 9.4% of GDP in 2011. However, the underlying fiscal effort is much larger when taking into account the impact of the deep economic recession that has taken a serious toll on the Greek public finances over the past three years. In fact, the fiscal effort undertaken by Greece since the start of the adjustment programme is actually bigger than anticipated in the initial Council decision in May 2010 (see Box 5). With the implementation of the additional large package of measures foreseen for 2013-14 (described in the next sections), Greece would fulfil the requirement by an even larger margin.

Box 5. Swimming against the tide - what cyclically adjusted balances tell us about fiscal adjustment in Greece

The downturn in Greece has been much deeper than anticipated when the first adjustment programme was adopted in May 2010. The cyclically-adjusted fiscal balance provides a tool to analyse the overall fiscal effort taking into account the economic cycle. The method used through this chapter is based on the EU common methodology (see European Economy. Economic Papers 247. March 2006), which relies on estimates of the output gap and the sensitivity of individual budget components to the economic cycle. Since output gap estimates can be difficult to ascertain during periods of major structural changes, there may be uncertainty about the level of the structural balance. However, the change over time is less sensitive to the assumption on potential output and hence the change in cyclical adjusted fiscal balance is better indicator of the underlying fiscal effort than the headline fiscal balance.

Measured on a cyclically-adjusted basis, the underlying fiscal balance has improved considerably and this will assist Greece in its effort in correcting its excessive deficit. The cyclically-adjusted budget deficit is estimated to have fallen from about 15% of GDP in 2009 by more than 13 percentage points between 2009 and 2012, and this will improve further with the fiscal measures adopted in 2013 and 2014. An adjustment of this scale carried out in such a short time and in difficult economic circumstances is exceptional in an EU context. The debt-reducing measures implemented in December 2012 reduce the interest payments for 2013-14, which will further improve the structural balance compared to this analysis.

Graph 5.1. Structural balance

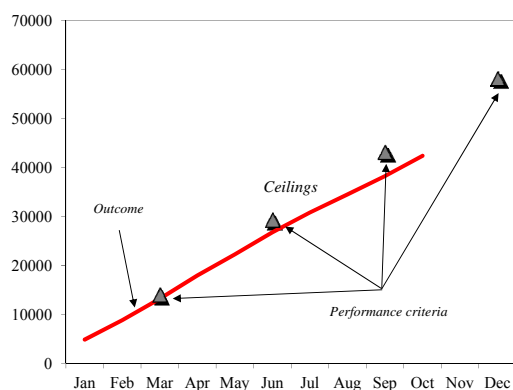


While there are different estimates of the output gap, there is general consensus that the output gap is currently significantly negative in Greece. This implies, whatever the method, that the cyclical adjusted balance must in fact be considerably better than the current headline deficit of 6.6% of GDP. Once economic recovery occurs and the output gap begins to narrow, an additional improvement of the headline fiscal balance towards 3% of GDP can be expected, owing to stronger revenue growth given the expansion in tax bases. This should assist Greece in complying with the Council's Excessive Deficit Procedure recommendation and support the debt-reduction objective.

3.1.2. Fiscal performance in 2012

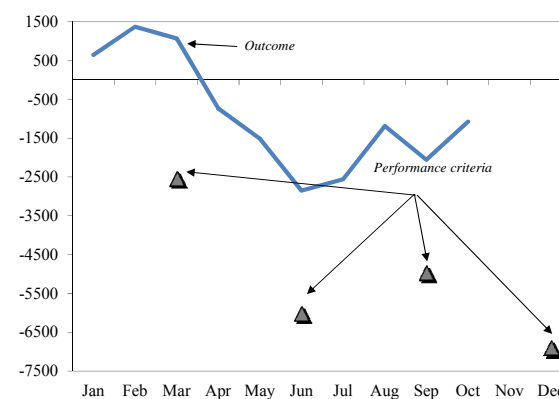
21. **Despite the sharp deterioration in economic conditions in spring 2012, the authorities managed to keep fiscal developments broadly in line with the programme targets during the second and third quarter.** The end-June and September 2012 performance criteria for primary expenditures and the primary balances were met, partly through improved monitoring and budget control. Revenues, notably indirect taxes, were heavily affected by the impact of the recession. Furthermore, the uncertainty related to the two elections led to delays in collecting income and property taxes. In response to the tight liquidity situation and weak revenue performance, the government held back on discretionary spending, in particular public investment, which were under-executed by a significant margin and to some extent operational spending. However, there were slippages in the main social health insurance fund (EOPYY), mainly due to an underestimation of contributions revenues and overspending on medical services vis-à-vis the projected original budget, which have resulted in a higher deficit for 2012.

Graph 20. State primary payments – 2012
(cumulative, EUR million)
Outcomes and quarterly criteria



Source: GAO and Commission services.

Graph 21. Government primary balance – 2012
(cash basis, cumulative balance, EUR million)
Outcomes and quarterly criteria



Source: GAO and Commission services.

22. **The performance criterion and indicative target on non-accumulation of arrears of line ministries and hospital and general government by end-June and end-September were missed.** On the basis of available data the stock of arrears to suppliers at end-September amounted to almost EUR 8.6 billion, around EUR 1.5 billion more than at the beginning of the year². The accumulation of arrears mainly took place in the health and defence sectors. It can be largely explained by weak budget planning and insufficient spending control in the main social health insurance fund (EOPYY). In addition, according to the most recent information, 0.7 billion in tax refund arrears have been identified. Work is on-going to process the stock of arrears not cleared yet.
23. **The overall ESA-deficit in 2012 is expected to be better than the 7.3% of GDP outcome included in the second programme.** The primary deficit target, on which there is particular focus in the programme, has been revised from 1.0% to 1.5% of GDP in light of the deeper-than-expected recession. In order to meet the revised target, the government retroactively lowered wages for special professions (judges, police, defence and university professors) from August 2012. Furthermore, measures were taken to reduce the overspending in the health sector and minimize the negative carry-overs for 2013. Moreover, the Public Investment Budget was

² At end-2011, the stock of arrears increased by about EUR 1 billion, following discovery of additional accounts payables of the 4 individual public health funds that were merged into one single public social health insurance fund (EOPYY) at the beginning of the year.

reduced by a considerable margin. The underlying fiscal effort in 2012 remains roughly as large as projected in the second programme. Despite a higher primary deficit, smaller-than-expected interest payments by almost 1.0% of GDP mean the government deficit will only amount to 6.6% of GDP, or 0.7% of GDP better than the target.

Table 2. Fiscal quantitative performance criteria (EUR billion)

	end Mar 2012		end Jun 2012		end Sep 2012	
	Data	Criterion	Data	Criterion	Data	Criterion
Performance criteria						
General government primary cash balance	1.0	-2.5	-2.9	-6.0	-2.1	-5.0
State primary spending	13.3	13.9	26.8	29.2	38.3	43.1
Ceiling of the accumulation of new domestic arrears by Hospitals and Line Ministries	0.5	0.0	0.7	0.0	0.9	0.0
Central government debt	289.9	340.0	308.1	340.0	308.0	340.0
New guarantees granted by the central government	0.0	0.0	0.2	0.0	0.2	0.0
Indicative target						
Ceiling on the accumulation of new domestic arrears by the General Government	0.6	0.0	0.7	0.0	1.3	0.0

Source: Commission services.

3.1.3. Fiscal outlook in 2013 and subsequent years

- 24. The fiscal adjustment path has been revised to take into account the deeper-than-expected economic recession.** Maintaining the original adjustment scenario of the second programme would have implied a need to find measures for the period 2013-14 amounting to about EUR 20 billion compared with EUR 11.5 billion envisaged in March. The increase in the adjustment needs to achieve the nominal primary balance targets primarily results from the deterioration in the macroeconomic forecast. Nevertheless, incomplete programme implementation, in particular in the area of measures targeting tax evasion, as well as reviews of social programmes and administration structures, also play significant role.
- 25. The two-year extension of the adjustment period will mitigate the impact on the economy, while securing a sustainable fiscal position.** Under the revised adjustment path the primary balance targets have been set at 0.0%, 1.5%, 3% and 4.5% of GDP for the four-year period 2013-16, respectively. The measures needed to reach the revised primary balance targets amount to about EUR 9.2 billion and EUR 13.5 billion in 2013 and 2014, respectively, in cumulative terms. The revised path for the primary balance means that the general government budget balance will fall below 3% of GDP in 2016, two years later than originally envisaged. However, the debt-reducing measure agreed by the Eurogroup on 26/27 November 2012 will reduce interest payments by around 1% of GDP, making it possible to bring the budget deficit below 3% of GDP already in 2015.

Table 3. Primary Balance and GG Balance 2013-2016

	2012	2013	2014	2015	2016
<u>March review targets</u>	-7.3	-4.7	-2.2		
General government balance	-1.0	-1.8	4.5		
Primary balance					
<u>Revised targets</u>					
General government balance	-6.6	-4.6	-3.5	-2.2	-0.6
Primary balance	-1.5	0.0	1.5	3.0	4.5

Source: Commission services.

26. **The extension of the adjustment period should not be seen as a way to reduce the effort, which would weaken the credibility of the programme.** The fiscal effort undertaken to achieve the target in 2013-14 remains very large and heavily frontloaded. Even though the primary balance is only expected to improve by 1.5% of GDP, this is in itself a large change in the face of a further deepening of the economic recession.
27. **The projections underlying the programme point to a need for further fiscal adjustment beyond 2014.** During this period a few existing measures are expected to expire and EU structural funds are going to decline in the transitioning to the new programming period. In the baseline scenario, additional adjustment needs could be up to EUR 4 billion in 2015-16. However, the projections are inherently uncertain and depend to large extent on the strength of the recovery as well as yields from the programme measures implemented in proceeding years.

3.2. Fiscal strategy 2013-2016

28. **The 2013-2016 Medium-Term Fiscal Strategy (MTFS), adopted on 7 November 2012, includes measures which could deliver a durable fiscal consolidation.** This law comprises the measures needed to bring the general government deficit in line with the 2013-14 primary balance targets, with savings of about 7.2% of GDP over 2013-14. It constitutes a comprehensive set of permanent measures underlying a substantial fiscal consolidation which should pave the way for the achievement of the 4.5% of GDP primary surplus in 2016.

Table 4. Medium-term deficit ceilings

	2013	2014	2015	2016
Deficit ceilings (EUR million)	8 534	6 386	4 222	1 226
Indicative as percentage of GDP	4.6	3.5	2.2	0.6

29. **The Greek Parliament approved the draft budget for 2013 on 11 November 2012, without any substantial modifications from the version submitted by the government.** The 2013 fiscal gap has been closed by identifying more than EUR 9.2 billion of viable measures. The adjustment of the first year represents 2/3 of the overall fiscal gap for 2013-2014.

30. **The fiscal consolidation measures are predominantly expenditure-based, and cover the whole range of government activity.** Main areas include:

- **Permanent reductions in the public sector wage bill.** After the substantial increase observed in the 2000-2009 period and following the significant cuts on wages operated in the past (see Box 6), the government is now planning a further series of

Progressive cuts on Special Wage Regimes	
Monthly wage (EUR)	Percentage of the cut
< 1,000	2
1,000 -1,500	10
1,500 - 2,500	20
2,500 - 4,000	30
> 4,000	35

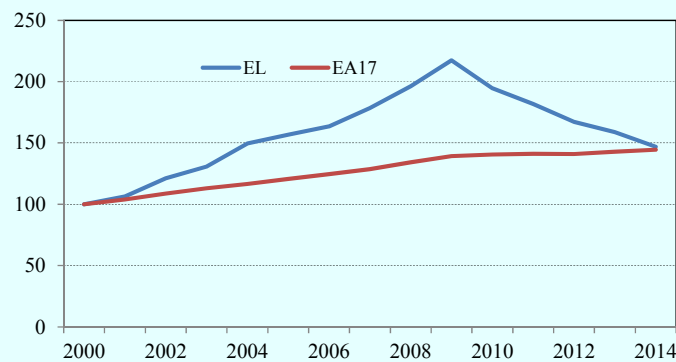
permanent reductions in wages of about EUR 1.3 billion (0.7% of GDP) over 2013-14. This category of savings represents 10% of the overall fiscal package for 2013-2014 (see graph. 23). The rationalization of the wage bill of employees under special wage regimes (judges, diplomats, doctors, professors, armed forces and police, airport personnel, and general secretaries, will be carried out through progressive cuts in the monthly wages with effect from August 1, 2012 (see

text table). These cuts will be then complemented in 2014 by the elimination of automatic wage promotions for the armed forces expected to yield yearly at least EUR 88 million. Another important measure is the elimination of seasonal bonuses of employees at the state and local governments and in legal entities of public and private law, accompanied for the 2013-2016 period by the suspension of the payment of the performance bonus in all the public sector.

Box 6. Pre- and post-Adjustment Programme Trends in the Public Sector Wage Bill

The reduction in the size of the public sector wages and employment under the Adjustment programme aims to correct the exceptionally strong pre-2009 growth in the public sector wage bill. The public sector wage bill in Greece grew significantly faster compared to the other categories of expenditures between 2000 and 2009 and it was considerably higher than the average in other euro area Member States (see Graph 6.1)

Graph 6.1. Nominal Wage Bill Greece vs EA17 (2000=100)



Source: European Commission

Under the adjustment programme, the strong reduction in the public sector wage bill in the period 2010-14 will bring its average growth back into line with the EU average growth over the whole period 2000-14 (see Graph 6.1). Public sector wages were already reduced through the elimination of 13th and 14th month salaries in 2010. This was followed by a comprehensive reform of the public sector wage grid in November 2011 that increased the coherence of the wage structure and reduced overall public sector wages by almost 20%. The new wage package presented by the government in the MTFS 2013-16 completes this process through cuts in the special wage regimes of some public sector workers, notably the higher paid ones, thus spreading the adjustment across the entire range of public employees. Taken all together, this reform effort eliminates the differential growth rate with the rest of the euro area in public sector wages cumulated since 2000. This does not exclude the need for further efforts given the debt problem and huge imbalances facing the greek economy.

Whilst reductions in wages have featured most prominently in recent adjustment efforts, the goal is also to downsize the number of public employees to make it more consistent with the needs of an effective and modern administration. The objective is a reduction by 150,000 in public employees between 2010-15. The application of the attrition rule (1 new hire against 5-10 retirees, depending on the different levels of government) and the recent commitment to the more extensive use of the mobility and exit scheme will facilitate the achievement of this target.

- Other wage-related measures include the rationalization of the State wage bill (including reduction in the wage bill for consultant doctors, and an hiring freeze at the Ministry of Citizen protection), application of the uniform wage grid for public servants to the parliamentary staff, the abolition of exceptions from the public sector wage grid reform introduced in 2011,. The MTFS also aims at reducing the local government wage bill. The public sector workforce is also being reduced by decreasing the intakes of professional academies, non-permanent teachers both at the secondary level of education and in universities and technical colleges and through a further reduction of fixed term contracts by 10 percent. Lastly 27 000 civil service employees will be placed into the mobility scheme by November 2013 abolishing positions of certain

categories of employees, addressing disciplinary cases (including via outright dismissals) and abolishing positions associated with closed/merged entities.

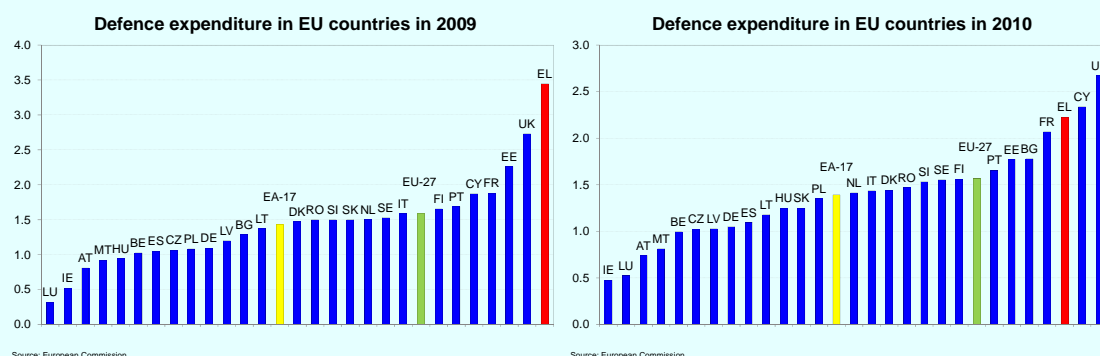
- Increased sustainability of the pension system, by reducing the cost of pensions and bringing forward the effects of the pension reform.** The pension measures are expected to generate savings of about EUR 5.3 billion over 2013-14, about 2.8% of GDP. They represent about 2/5 of the overall package for 2013-2014 (see graph. 23). These measures complete the series of reforms started in 2010 with the pension reform and needed to offset the very rapid increases in pensions observed in the 2000-2009 period. The statutory pensionable age will rise from 65 to 67 with proportionate changes in the age limits for almost all categories of retirees, thus not only bringing forward an element of the 2010 pension reform that was originally expected to start in 2015, but going well beyond the previously legislated increase in retirement age. All the seasonal bonuses on main and supplementary pensions will be eliminated, while the monthly amount of main and supplementary pensions per beneficiary will be reduced progressively (see text table). There will also be a reduction in new lump-sum benefits for public employees and for all SSFs. Pensions for special wage regimes will also fall following cuts in wages and the elimination of automatic wage promotions. Other measures include an increase of healthcare contributions for farmers, reductions of pensions for elected staff, the introduction of means-testing of pensions for specific categories of beneficiaries, the elimination of special pension benefits of trade unionists and cross-checks to remove ineligible pension benefits.

Monthly pension (EUR)	Percentage of the cut
< 1,000	0
1,000 -1,500	5
1,500 - 2,000	10
2,000 - 3,000	15
> 3,000	20
- Cost reductions and efficiency improvements in healthcare including pharmaceutical expenditure.** Cost savings in pharmaceuticals spending make up some 2/3 of the overall reductions in healthcare amounting to about EUR 1.0 billion (0.6% of GDP) over 2013-14. Savings stem from further development of incentives and obligations to use generic medicines, a revised co-payment structure for medicines exempting only a restricted number of products related to specific therapeutic treatments, the regular revision of drugs' prices based on the three EU countries with the lowest prices, and the application of automatic claw-back mechanism to pharmaceutical producers. The latter will guarantee that the outpatient pharmaceutical expenditure does not exceed the targets of EUR 2 440 million in 2013 and EUR 2 000 million in 2014, to be in line with the overall target of about 1.0% of GDP by 2014. Reductions in hospitals' expenditures, increase in co-payments in hospitals and a fee on prescriptions from 2014 onwards and the streamlining of the hospital network will also contribute to the expenditure reductions.
- Cost reductions and efficiency improvements in education** by at least EUR 86 million in 2013, and additional EUR 37 million from 2014 onwards (0.1% of GDP in 2013-14) will be achieved through improvement in efficiency which will translate into lower grants to entities outside the General Government for education, merger of universities and reduction in expenses for central and regional Units.
- Reducing and re-profiling operational defence-related expenditure.** The cuts in 2013-2014 in military procurement equals to about EUR 340 million come in addition to reductions in military equipment procurement already implemented in the past. Other measures include a reduction in operational expenditures through closure of military camps and a reduction of the intake into military academies. Savings for about EUR 400 (0.2% of GDP) are expected over 2013-2014.

Box 7. The contribution of defence expenditure in fiscal consolidation

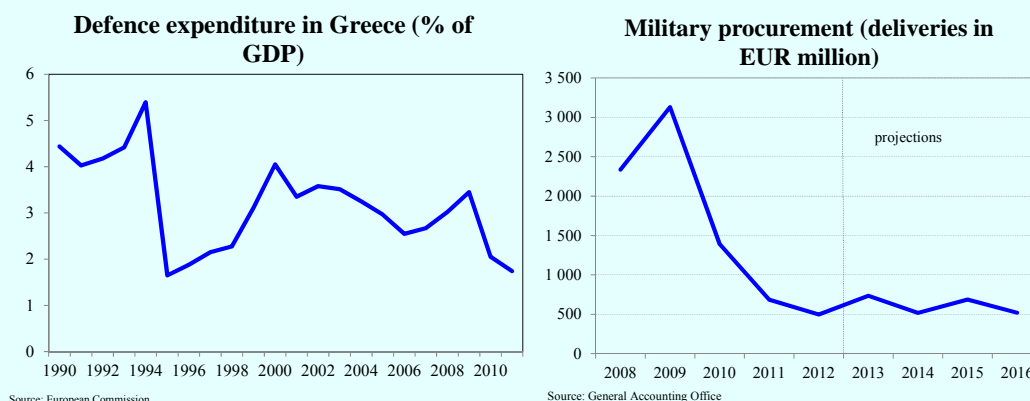
The geo-strategic peculiarities of Greece traditionally led to very high expenditure in defence. According to Eurostat data, military spending had even reached 5.4% of GDP in 1994, before easing down in the next years till the end of the '90s. In 2000 it increased again to 4.0%, while in 2009, just before the First Economic Adjustment Programme, it reached 3.9%. From 2000 till 2009 Greece steadily had the highest defence expenditure in terms of GDP between the 27 member states (see Graph 7.1).

Graph 7.1. Defence expenditure in EU countries (% of GDP)



As part of the implementation of the economic adjustment programme, significant cuts were made in military spending (without affecting the defence capability), as in all other categories of expenditure. Defence expenditure already in 2010 was reduced by 1.2% of GDP, to a level of 2.2% of GDP, thereby placing in 2012 Greece third among the 27 member states in terms of overall defence expenditure. Further cuts of 0.5% of GDP in military spending were adopted in 2011 and more is being implemented in the context of the MTFS 2013-16. In more than one occasion the media focused their attention on the military procurement in Greece pointing out the rather high level of these expenditure for a programme country facing social and economic hardship. This view is no longer supported by factual evidence since 2010. Accrual data and projections on deliveries for military procurement sharply and steadily declined from 2009 onwards (Graph 7.2) because of reductions adopted in the past and throughout 2013-16 due to further reductions described above. Military operational expenditures and wages and pensions for armed forces are also expected to decline by respectively 62% and 41% between 2009-2016, because of decisions adopted with the previous MTFS, the additional cuts included in the inception of the second programme and the further reductions included in the 2013-16 MTFS. Further rationalisation of expenditures could if sought still be achieved through an increase of the use of e-procurement or by the move to a professional military service.

Graph 7.2. Defence expenditure in Greece



- **Measures have been taken to reduce the operational expenditure of the government.** Measures of about 239 million in 2013 and additional EUR 225 million in 2014 amounting to about 0.5 billion (0.3% of GDP) include the gradual implementation of e-procurement for all public administration, 25 percent reduction in discretionary non-wage spending, reduction in subsidies to internal ferry boats and in grants to Extra-budgetary Funds outside the General Government, elimination of grants to farmers' trade unions linked to assistance in applying for EU financial aid and lowering of the Green Fund spending ceiling.
- **Promoting savings in and stronger monitoring of state-owned enterprises (SOEs),** through increase in revenue, reduction in transfers to SOEs outside the General Government, operational and personnel expenses (through the harmonization of the wage grid of all state-owned enterprises of public law with the one in place in the rest of the public sector), for a total amount of more than EUR 350 million over 2013-14 (0.2% of GDP). In order to ensure the achievement of those savings, a new monitoring and enforcement framework has been introduced by 2013 that will fix specific targets for the financial results of each SOE and impose sanctions to enforce and prevent any deviations from the target.
- **The rationalisation of social benefits (other than pensions) is expected to deliver savings for about EUR 300 million (0.2% of GDP) over 2013-14.** The measures adopted (see Table 5) are aimed at improving the targeting and actual impact of social benefits on lower-income households, in line with the recommendations delivered by the technical assistance partners (OECD). The measures strengthen the requirements to receive social assistance while improving their targeting to the most vulnerable sectors of society. The package includes also the introduction of two new social programmes aimed at cushioning the impact of high unemployment rates and contraction in disposable income on the population.
- **Reductions in state transfers to local governments,** through cuts in transfers for ordinary expenses and investment of local governments for a total of EUR 220 million over 2013-14. In order to enforce the achievement of these savings, an internal stability pact based on balanced budgets is strengthened by putting in place a system of monitoring municipalities' expenses, setting economic disincentives in case of deviations from the intra-year targets, and removing the possibility for deficit financing. Savings expected are of at least EUR 100 million in 2013 and additional EUR 120 million from 2014 onwards (0.1% of GDP over the period 2013-14).
- **Reductions in capital expenditure** (domestically-financed public investment, and investment-related grants) for a total of EUR 300 million over 2013-2014 (0.2% of GDP). To reduce the negative impact on the GDP of those cuts, the government has committed to cut projects with lower value added and especially those less capital-intensive.
- **Increases in taxes, aimed at addressing existing distortions, and a comprehensive reform of direct taxation and the tax administration** with the aim of collecting EUR 1 668 million in 2013 and EUR 1 820 million from 2014 onwards (1.9% of GDP). This set of measures represents about ¼ of the overall package. This includes increases in the fee for lawsuits, an increase of tax on ship-owners' assets, reduction of VAT refunds for farmers, reduction of diesel excise duty subsidy provided to farmers, equalization of the excise tax on LPG and motor diesel oil by raising the LPG tax, equalization of social security contributions by raising the ceiling for employees first employed before 1993 to that of employees first employed after 1993, a reform of tobacco excise taxation, imposing 30 percent taxation on OPAP's gross gaming revenue, 10 percent on off-line lottery winnings and increase of the tax rate on savings interest from 10 up to 15 percent. A major income tax reform is being introduced which should produce savings of almost EUR 1.6 billion in 2014 (see section 3.3.2). The reform of the tax administration should also support stronger tax collection (see section 3.3.3).

Table 5. Rationalization of social benefits
(in percent of GDP)

		2013-14
Social Benefits		0.16
Rationalization of benefits for uninsured	Introduction of a length of residence in Greece criterion for the provision of pension benefits for uninsured individuals	0.02
Introduction of means-testing for family benefits	Replacement of existing family benefits with a single targeted benefit which absorbs the tax family allowances	0.05
Reduction in subsidies to farmers	Closure of two programmes for the economic support of farmers	0.01
Limiting EKAS benefit to people above 64	The age condition for recipients of an income-tested supplement to low pensions (EKAS) is increased from 60 up to 65.	0.06
Cuts in special unemployment benefits	The elimination of seasonal benefits for workers in industries with seasonal employment patterns	0.02
Rationalization of transportation benefits	Rationalization of the transportation reimbursement scheme for selected categories of patients, in order to avoid frauds and misuse of public funds maintaining the service	0.04
Introduction of unemployment assistance	Introduction of a benefit equal to €200 per month payable for up to 12 months to long-term unemployed who exhaust the full length of the unemployment benefit (12 months), provided they do not qualify for other training schemes and have family taxable income up to €10,000 (capped at 35 million).	-0.02
New OEE program on housing		-0.01
Pilot implementation of Guaranteed Minimum Income	Minimum Income Guarantee scheme applied in two pilot areas of the country with different socioeconomic profiles (capped at €20 million)	-0.01

Box 8. Pre- and post-programme trends: growth rates in social transfers

Under the programme, the very large increase in social transfers experienced in 2000-2009 is being corrected. At the inception of the programme, pensions and other social benefits had grown well above the euro area average. This explains the reason why most part of the adjustment effort was especially focused on reductions in this area. The measures included in the new MTFS bring the average growth rate of social spending in Greece over the period 2000-2014 back in line with the euro area average growth rates.

Graph 8.1. Social transfers

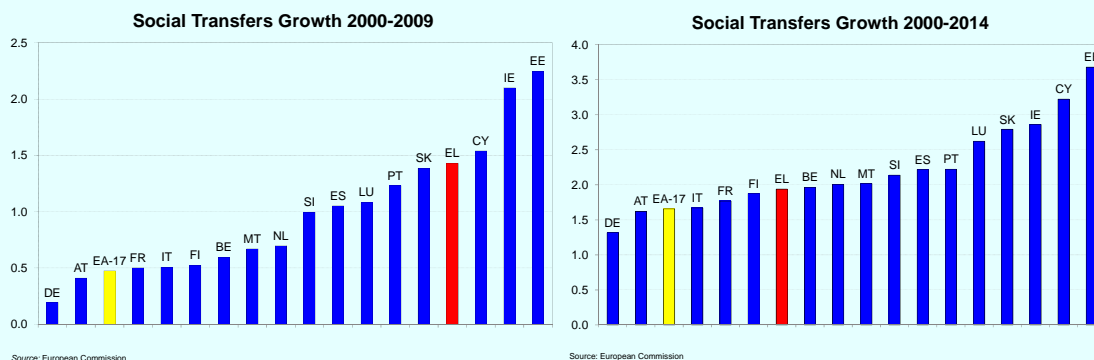
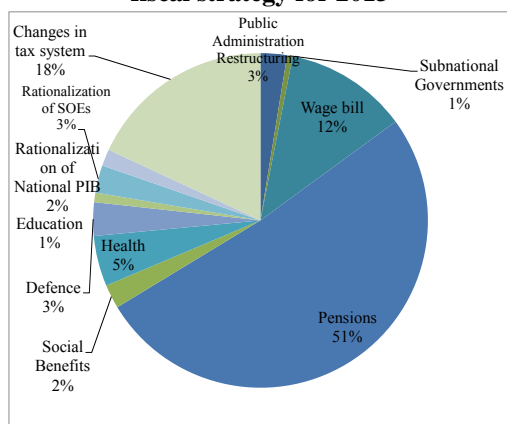


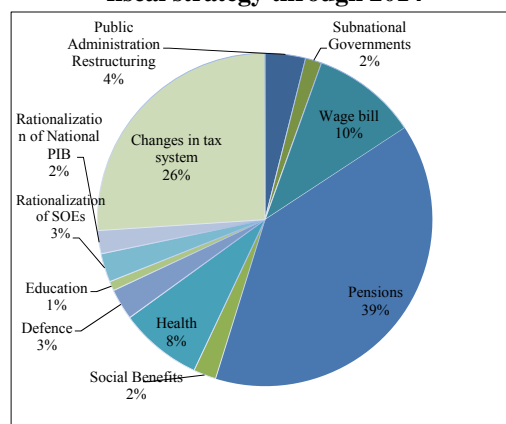
Table 6. Fiscal measures in the MTFS 2013-14

<i>(cumulative impact, % of GDP)</i>	2013	2014
<i>Public Administration Restructuring</i>	0.1	0.3
<i>Subnational Governments</i>	0.0	0.1
<i>Public Sector Wage bill</i>	0.6	0.7
<i>Pensions</i>	2.6	2.8
<i>Social Benefits</i>	0.1	0.2
<i>Health</i>	0.2	0.6
<i>Defence</i>	0.2	0.2
<i>Education</i>	0.0	0.1
<i>Rationalization of SOEs</i>	0.1	0.2
<i>Rationalization of National PIB</i>	0.1	0.2
<i>Changes in tax system</i>	0.9	1.9
Total package	5.1	7.2

Source: Commission services.

Graph 22. Fiscal measures in the medium-term fiscal strategy for 2013

Source: Commission services

Graph 23. Fiscal measures in the medium-term fiscal strategy through 2014

Source: Commission services

- 31. The overall quality of the measures included in the MTFS is high.** The MFTS leads to a permanent correction of those expenditure items which saw an excessive increase since 2000. The MTFS implies a substantial shift in spending composition away from entitlement spending and wages, with cuts in pensions and public wages accounting for about 2/3 of the total yields of the package. Part of the reductions in operational expenditures have been underpinned by structural measures, such as the introduction of e-procurement and mobility of personnel. Together with the adjustment on pensions and wages the package includes also feasible although less sound policies such as cuts in domestic investments. Despite these reductions, domestically-financed investment is expected to increase significantly over the medium-term. It should also be noted that the MTFS does not include savings which are likely to be generated from a host of administrative measures, as they entail more complex implementation steps and hence are

subject to higher implementation risks. The implementation of these measures is nevertheless crucial to further increase the efficiency of public spending and they will be part of the Memoranda of cooperation between the Ministry of Finance and the other line Ministries.

Box 9. How credible is the new MTFS for 2013-16?

The credibility of the fiscal adjustment for 2013-16 is based on several layers of prudence, preparing fiscal projections building on prudent macro assumption. Lastly prudence has been used in the selection of the measures viable to fill the gap, reducing as much as possible risks of implementation.

The new Medium Term Fiscal Strategy involves a very large consolidation in 2013-14, despite the fact that the extension of the deadline for the correction to 2016 has mitigated the need for an even larger adjustment in 2013-14. Overall, the net consolidation in 2013-14 amounts to EUR 13.5 billion (around 7.2% of GDP).

It is important to assess what risks surround the implementation of the MTFS. The assessment of the credibility of such a significant adjustment programme is always difficult ex-ante. Ex-post slippages could show up due to forecasting errors, delays in implementation or weak implementation of measures taken. The scale and speed of the adjustment itself could affect the credibility of implementation of the measures, since adjustment fatigue sets in and resistance from those affected by the reforms grow in a long-drawn-out programme. International studies on fiscal consolidation (Alesina and Perotti, 1996; Giudice, Turrini and in't Veld, 2007) show that the timing, the size, and composition of the overall adjustment matters greatly in terms of supporting the credibility and success of the adjustment programme. In the Greek case, political instability constitutes a key risk for programme implementation.

In terms of timing, the strong front-loading of measures in the new MTFS for 2013-16 helps to reinforce its credibility. The adoption of the budget 2013 and the MTFS package in November 2012 and the expected adoption of the necessary secondary legislation before end-year, should help to reduce any slippages due to implementation delays, allowing a full-year impact of the measures in 2013. Even more importantly, the overall package of measures adopted in November 2012 is concentrated in the first 2 years of the period covered by the MTFS thus reducing the risk of subsequent implementation shortfalls in later years. The high share of expenditure measures, moreover, limits the macroeconomic risks of the package, by reducing the sensitivity of the measures' yields to output fluctuations.

In term of size, the consolidation in the new MTFS remains very ambitious. While the consolidation is overall smaller than the previous MTFS, this reflects the fact that the correction comes on top of the already considerable adjustment efforts previously undertaken.

Time profile of MTFS adjustment measures and its composition

(Marginal Impacts, EUR million)	2013	2014	2013-2014
New MTFS 2013-2014 (November, 2012,	9 356	4 041	13 397
Expenditures	8 899	2 349	11 248
Revenues	457	1 693	2 149

In terms of quality, the majority of the adjustment consists of expenditure measures that will be undertaken early in the programme. The principal measures such as cuts in pensions and public wages will occur immediately. The remaining expenditure measures, such as cuts in operational expenditures are underpinned by strengthening administrative capacities, additional use of e-procurement and increasing mobility of personnel. The bulk of the revenue measures will occur in the context of a major tax reform package.

The authorities have established a system to regularly monitor compliance with the programme to enhance its delivery, led by a high level group involving senior officials from Prime Minister Office and the Ministry of Finance.

32. **Despite the relative robustness of the fiscal package, the risks to the programme remain high.** Whilst the macroeconomic scenario is considered prudent with a balance of upward and downward risks, considerable uncertainties remain concerning the exact timing of the expected rebound in domestic business confidence and concerning the external environment. Programme implementation risks relate in particular to the implementation of a major package of measures

during a severe recession while the society is already strained by the effort so far, and ensure that budgetary commitments are fully delivered.

33. The fiscal projections were subject to a stress test identifying potential risks. On the upside, the rebound in the economy could take place earlier and in a stronger fashion than assumed in the baseline scenario. Moreover several areas with some potential for higher revenues are identified. These include:

- **Recovery in tax compliance once the economy rebounds:** The fiscal projections do not include any revenues from the improvement in tax compliance once the economy starts to recover in 2015-16, even though empirical evidence suggests a strong connection between the economic cycle and tax compliance.
- **Additional revenues from collection of social security arrears.** This could improve the baseline projections by EUR 1 billion in 2013-16.
- **Earlier revenue gains from improvements in the tax and social security administration:** The authorities expect that these gains could materialise already one year earlier in 2013 and yield higher revenue resulting in the improvements of EUR 2 billion by 2016 compared to the baseline.
- **Stronger collection from gaming taxes:** The expected increase in the taxation of gaming revenues related to the privatised football betting company OPAP could generate revenues amounting to EUR 0.9 billion by 2016.

On the **negative side**, fiscal performance could be adversely affected by a slower economic recovery, reflecting persistent lack of confidence, but also inability of the administration to effectively implement the reforms necessary to ensure satisfactory conditions for growth. Additionally, further weakening of the current coalition agreement and any resulting political instability could deteriorate the business climate and pose a threat to continued adjustment. Important budgetary measures may also be challenged in courts, which could lead to the need to fill a fiscal gap emerging as a consequence.

34. To further limit risks, fiscal institutional framework needs to be strengthened to enhance the credibility of the programme and meet fiscal targets. One way is through the early implementation of the EU's Fiscal Compact (see box 10). On 17 November 2012, the Council of Ministers adopted an act (which has been converted to Law on 18 November) aiming at strengthening the Budget execution and enhancing the sound fiscal management. This act introduces: (i) Memoranda of Cooperation between the Ministry of Finance and the other Ministries or between the Ministries and managers of the supervised entities of the broad general government sector, to be signed by 31 December of each year; (ii) an internal stability pact for local government based on a balanced budget constraint and including corrective and sanctioning mechanisms as automatic cuts in expenditures to be applied as a rule when targets are expected to be missed; (iii) a strengthened system to monitor monthly budget execution for state-owned enterprises (SOEs) with sanctions for those SOEs who do not respect the agreed targets; and (iv) a reinforced centralisation of budget planning and implementation strengthening the coordination powers of the Government Accounting Office (GAO) towards the General Directorates Financial Services of the line ministries. The Act also provides for monthly submission of the budget execution programme and actual execution to the supervising Director General of Financial Services and the GAO (depending on the size of their budget). The Act also allows the Ministry of Finance to take corrective measures throughout the year against all the entities (other than SOEs and LGs) failing to comply with their budgetary obligations, including the possibility to bring them under the direct supervision of the Ministry of Finance.

Box 10. The EU's Fiscal Compact

Enhancing credibility is essential to the success of the adjustment programme for Greece. This has already been achieved through the use of prudent macroeconomic assumptions, the strong frontloading of measures and required legislation, and by fully-specifying the necessary measures over the entire programme period. The monitoring and control of the budgeting system has also been substantially improved.

A further way to enhance credibility is through the early implementation of the EU's Fiscal Compact. Greece has already signed and ratified the intergovernmental Treaty on Stability, Coordination and Governance in the EMU. A key part of the Treaty is the fiscal compact that introduces national budgetary rules and enhanced enforcement mechanisms at European level.

In particular the fiscal compact introduces requirement for National budgetary rules:

- Member States must reiterate their commitment to a budgetary position "in balance or in surplus" with a clear medium-term budgetary objective.
- National constitutional or other legal provisions of binding force must enshrine this medium-term budgetary objective in national law with deviations only allowed in "exceptional circumstances" or deep recessions. A national correction mechanism will be triggered automatically if a deviation is observed from the medium-term objective or in the adjustment path towards it.
- Compliance must be monitored by an independent fiscal council.

The Fiscal Compact will also be enforced through a series of mechanisms at European level:

- A Member State can now bring another before the European Court of Justice if the other Member State has not adequately transposed the fiscal compact into binding national law. The Court can impose a fine of up to 0.1% of GDP
- Member States must comply with the new debt reduction provisions of the amended Stability and Growth Pact (the "six-pack" amendments) or face enforcement through the excessive deficit procedure. Countries with a debt-to-GDP ratio of more than 60% must ensure an annual reduction of their debt ratio by 1/20 of the difference between the actual debt-to-GDP ratio and the 60% threshold. Countries already included in the Excessive Deficit Procedures in December 2011 are given a three-year transition period following the correction of their current deficit below the 3% target during which they need to show "sufficient progress" towards compliance with the benchmark.
- The Council will use a reverse qualified majority procedure which means that a recommendation or a proposal of the Commission is considered adopted by the Council unless a qualified majority of Member States votes against it.

The Treaty will enter into force automatically following the ratification by 12 euro area countries, expected to happen in the next few months. Greece will then have one year to enact legislation of binding force and permanent character to put in place the provisions on the medium-term budgetary objective, develop an appropriate adjustment path towards it, and ensure appropriate supervision by an independent fiscal council. These changes will thus need to be enacted in Greece within the adjustment programme period.

Early and robust implementation of these rules could considerably enhance the credibility of the Greek adjustment programme. This will ensure that Greece will exit the programme with appropriate legal mechanisms in place to ensure that national fiscal decision-making contains a structural deficit in line with the MTO requirements at its core. Non-compliance can be tested in the European Court of Justice.

35. **Within a comprehensive approach to safeguard the delivery of fiscal commitments, key areas to be enhanced are also corrective and sanctioning mechanisms, transparency, accountability, oversight and lastly debt servicing.** In this respect, additional institutional improvements are necessary. These include inter alia: strengthening HRADF's governance and independence through quarterly automatic correction mechanisms in the privatisation process, should there be slippages in the targets and reactivating the operation of the existing Parliamentary Budget Office by strengthening its reputation, independence and technical competence towards a fully-fledged fiscal council (e.g. provision/endorsement of forecasts for the budget preparation, monitoring of compliance with budgetary targets and fiscal rules,

provision of independent assessments of fiscal developments and challenges, etc), building on best international practices. On safeguarding debt service, the Government will ensure an effective implementation of the debt servicing account to monitor cash flows, avoid diversion of official financing and secure a timely debt servicing. Law 4063/2012 established a segregated account in the Bank of Greece. By law, disbursements to this account cannot be used for any other purposes than debt servicing. Via this account the amortization and interest payment costs of all HR's loans, debt management transactions and derivatives, as well as any parallel cost (fees and other expenses) related to debt servicing and in general to Public Debt Management are paid. The proceeds of this account are the disbursement of EFSF's loans, subject to an EFSF acceptance notice, as well as the Hellenic Republic's contributions to debt servicing, including all revenues from the privatisation of State assets and at least 30% of windfall revenues. All payments from this account will be subject to prior detailed reporting to the EFSF/ESM and *ex-post* confirmation by the account holder.

3.3. STRUCTURAL REFORMS WITH BUDGETARY RELEVANCE

3.3.1. Privatising to boost efficiency in the economy and reduce public debt

36. **Although privatisation proceeds have been disappointing so far, the privatisation process has regained some momentum since September 2012.** During its first months of existence, the Privatisation Fund (created in August 2011) did a lot of preparatory work for the assets to be privatised. This entailed the appointment of technical, legal and financial advisors, as well as intense interaction with the management of companies and the line ministries. Significant progress was made on intermediate steps, namely restructuring of firms, State aid notifications and clearance, rights clearance and regulatory changes, including unbundling of utilities. Unfortunately, it quickly emerged that the privatisation process was not sufficiently shielded from political hindrances and that political will to push the process ahead was lacking. A significant number of government actions required to enable the privatisation process was delayed. A four-month freeze in the activities of the Board of Directors of the Privatisation Fund (HRADF) linked to the April-July 2012 political uncertainty caused by the two legislative elections essentially grounded the process to a halt. Moreover, this political uncertainty combined with a deteriorating macroeconomic environment reduced investor appetite for Greek assets and resulted in generally adverse market conditions over the summer of 2012. Despite these difficulties, technical work has continued, and the momentum has been regained with the appointment of a new management in early September, the launching of calls for interest and tenders, as well as the rapid approval of government actions required for privatisation. Thirty-eight out of eighty-six actions required by the government were approved in less than two months; the remaining forty-eight are expected to be approved in due course and should not create bottlenecks in the privatisation process. To this end, the government agreed and delivered a comprehensive set of actions in November 2012. The completion of these actions should pave the way for the attainment of the programme's privatisation targets in 2013, as it comes too late in the year to improve the dismal performance in 2012.
37. **Expected proceeds have been significantly scaled down.** The cumulated amount of proceeds expected by end-2013 has been revised down from the original EUR 8.5 billion to around EUR 2.6 billion. In March 2012, they were expected to reach more than EUR 24 billion by 2016, while now the amount has been revised down to less than EUR 8.5 billion. Clearly, this downward revision has meant that the privatisation plan is falling short of achieving its potential in terms of improving economic efficiency and boosting investment and growth. At the same time, the shortfall in proceeds implies increased financing needs for the economic adjustment programme (as explained in section 3.5.).

Table 7. Expected Privatisation Receipts

By the end of:	Cumulative receipts since 2012 (EUR billion)
2012	0.1
2013	2.6
2014	4.5
2015	6.5
2016	8.5
2017	10.9
2018	14.2
2019	17.8
2020	22.0

Source: Commission services.

Note: Cumulative receipts are considered within the 2012-2020 period, excluding the EUR 1.6 billion generated since June 2011.

- 38. The greater realism reflected on the downward revision on privatisation receipts does not necessarily imply a slowdown in the Privatisation Plan.** Immediate cash is expected by December 2012, although for little less than EUR 100 million, reflecting the sale of the IBC (International Broadcast Centre, EUR 69 million plus EUR 12 million in 2013) and of four Airbus planes (EUR 32 million). Other sales of substantial assets soon in the pipeline include OPAP (gaming) and State Lotteries by early 2013; DEPA/DESFA (gas) by March 2013; Hellinikon (former Athens international airport) by December 2013.
- 39. Given the high share of real estate assets in total expected privatisation proceeds, action in this area remains crucial, but legal complexities make proceeds in the short-term limited.** From a universe of around 100 000 real estate assets, more than 3 000 have been screened, of which the Government is committed to fully identify and describe at least 1 000 and transfer the full and direct ownership of the commercially viable ones to the HRADF by end-2013 (targeting 250 transfers per quarter). Efforts need, however, to be stepped up in developing a coherent and comprehensive strategy for privatising real estate assets. This should at a minimum comprise a full identification of the assets that correspond to the expected proceeds as well as a well-defined approach to preparing real estate property for privatisation (clearing ownership issues, dealing with zoning and land use issues) in an efficient and expedient manner.
- 40. Additional vigorous measures are needed to secure an improved governance and transparency framework.** The HRADF is committed to publish semi-annual updates of their Asset Development Plan, including a portfolio overview, with a description of the assets it manages for privatisation, a timeline of planned tenders and targeted total receipts for the current and next year. These measures are essential to secure the needed public support for the process, to ensure increased microeconomic efficiency and by extension the growth-potential of the economy as a whole, while attracting foreign direct investment. Sequencing and timing of reforms will be of utmost importance to ensure the process advances in a smooth and transparent way. Political independence of the privatisation process will support the timely and effective implementation of the privatisation plan.

Table 8. Privatisation Plan

Greece--Hellenic Asset Development Fund: Projects Under Development 2012-14

Timing of Privatisation Project (Launch of Tender)		Intermediate Steps
I. State-owned enterprise/share sale		
2012 Q1	Public Gas (DEPA)	Modification of statutory provision at time of privatisation.
Q1	Public Gas (DESFA)	State aid clearance (January 2013).
Q4	Football Prognostics Organization (OPAP)	VLT regulation issuance and notification to EU (December 2012). Law on new tax provisions for state aid clearance (December 2012).
2013 Q1	Horserace Betting Organization (ODIE)	Pending state aid clearance-, adopt legislation for the granting of the new license and the subsequent liquidation of the company (January 2013).
Q1	Hellenic Post (ELTA)	Ministerial decisions for (i) the determination of the content of universal service and (ii) the compensation mechanism for USP drafted and prenotified to DGComp.
Q1	Hellenic Vehicle Industry (ELVO)	Transaction structure to be determined and agreed (February 2013).
Q1	Thessaloniki Water (EYATH)	Establish regulatory framework (December 2012). Establish pricing policy and amend the license (May 2013).
Q1	Mining and Metallurgical Company (LARCO)	Law for establishing a new company (January 2013).
Q1	Hellenic Defense Systems (EAS)	Identify EAS assets for privatisation (December 2012).
Q2	Hellenic Petroleum (HELPE)	Following divestment of DEPA.
Q2	Athens Water (EYDAP)	Establish regulatory framework (December 2012). Establish pricing policy and amend license (September 2013). Settlement of receivables from the State (September 2013).
Q2	Athens Airport (AIA)	Re-approach Hochtief Airports (December 2012).
Q2	Railways (Trainose)	Remaining problems in Trainose will be resolved (February 2013). Trainose will then be transferred to the HRADF (March 2013).
Q3	Public Power Corporation (PPC)	MoEnergy issues the Energy Policy Objectives and a restructuring plan is fully identified (December 2012).
Pending court decision Casino Mont Parnes		Pending legal action for the recovery of the state aid taken by the Ministry of Tourism (December 2012)
II. Concessions		
n.a.	Hellenic Motorways	Negotiations for the restart of projects currently in progress; ratification of reset agreement by Parliament (December 2012).
2011 Q4	State Lottery	Binding offers (December 2012). Submission to Court of Auditors (December 2012).
2013 Q1	Egnatia Odos	Launching of tender process dependent on: a) agreement/finalisation with Ministry of Development on key characteristics of the concession and conclusion of business plan, b) decision on tolling policy/toll collection system, c) treatment of Piraeus loan granted to Egnatia Odos SA, and d) reset of the 4 Motorway concession projects
Q1	Small ports and marinas	Resolve issues related to urban zoning (December 2012).
Q1	Regional airports	National Airports Policy defined. Establish regulatory framework (January 2013).
Q2	Thessaloniki Port (OLTH)	State aid clearance (March 2013). Establish regulatory framework (April 2013).
Q2	Piraeus Port (OLP)	State aid clearance (March 2013). Establish regulatory framework (April 2013).
Q2	Large regional ports	State aid clearance (March 2013). Establish regulatory framework (April 2013).
Q3	South Kavala Gas Storage	Decision on the best exploitation option (December 2012).
Q4	Digital Dividend	Pass law to finalise licensing of TV stations and digital broadcasting (December 2012).
n.a.	Mining rights	
III. Real Estate		
2011 Q4	Hellenikon 1	Transfer of Hellenikon SA ownership to HRADF (Pending decision: December 2012). Launch Phase B of tender process (December 2012).
2012 Q1	IBC	Get approval from Court of Audit (December 2012) and issue PD for ESCHADA (January 2013).
Q1	Cassiopi	Declassification of Naval outpost (December 2012).
Q1	Lot 1 (Afantou)	All intermediate steps have been fulfilled.
	Sale/repo 28 buildings	All intermediate steps have been fulfilled.
2013 Q1	Astir Vouliagmenis	Negotiations ongoing with NBG. ESCHADA (Zoning and land permit) to be submitted (January 2013). Process led by NBG.
Q1	Real Estate lot 2	40 properties to be identified (December 2012) and transferred to HRADF (March 2013).
Q4	Real Estate lot 3	At least 1,000 real estate properties to be transferred to HRADF (December 2013).

Source: HRADF.

3.3.2. Tax policy reform

41. **A comprehensive income tax reform aims to broaden the tax base and thus share more equally the tax burden.** The reform is expected to enter into force from January 2013 with the full budgetary impact expected to be realised in 2014. The reform was originally to be adopted earlier in autumn 2011 and is now expected to be revenue-positive (rather than revenue-neutral). The tax revenue implications of the reforms have been taken into account in the MTFS. The tax reform focuses on a new tax system for the self-employed, which does not any longer allow a tax allowance and the reshaping of the corporate income tax from dividends to profits taxation. The tax reform also aims at eliminating special tax regimes and tax expenditures in order to share the burden of taxation more widely. Some risks exist in the finalisation of the reform, as opposition from the liberal professions and self-employed can be expected.
42. **The main elements of the tax reform,** as currently designed, are as follows:
 - A simplification of the personal income tax with three rate bands instead of the current eight rates with an enhanced tax credit. Through these reforms, some one million wage and salary earners and pensioners will be taken out of the personal income tax.
 - The elimination of selective tax credits (on mortgage interest payments, life insurance payments, and student expenses etc.)
 - The conversion of personal tax allowances for children into means-tested benefits.
 - The introduction of a new integrated tax regime for the self-employed and professionals with an initial tax rate of 26% rising to 35% after 50 000 and with no personal tax allowance.
 - A restructured tax regime for corporate profits with a corporate tax rate of 26% and a tax on distributed dividends of 10%, resulting in a gross tax rate on distributed profits of 33.4% (instead of former tax rates of 20% and 25% respectively resulting in a gross tax rate of 40%).
 - The elimination of special tax regimes based on imputed income, such as those currently in place for farmers and seamen.
43. **The tax reform should allow the emergence of a wider tax base.** The elimination of the tax allowance for the self-employed is expected to generate substantial additional revenues, given that well over half the self-employed declare incomes less than the standard allowance of the personal income tax of EUR 5 000 per year. Furthermore, by increasing the taxation of profits and reducing that of dividends, the reforms aim at reducing the tax avoidance induced by the transferring of profits to other EU countries. However the increase in the effective tax rate from 21% to 26% may adversely affect non-equity financing of investment. The success of the reform will also require further improvements being made to tax administration and the successful implementation of the revised and greatly simplified set of business tax accounting rules, that will replace the excessively-complicated Code of Books and Records.
44. **The tax reform is also expected to produce net revenues of close to EUR 1 billion with the full budgetary impact felt in 2014.** Most of the gains will come from the elimination of existing allowances and credits, including the personal allowance for the self-employed, and from the reshaping of the corporate income tax. On the basis of appropriate auxiliary measures, such as the retention of presumptive income for the self-employed, an overall revenue gain of EUR 1 billion (some 0.5% of GDP) could be envisaged.
45. **The authorities also have committed to refrain in the future from tax amnesties.** Greece has had a tradition of very frequent tax amnesties, partially in the form of very generous instalment plans for tax debts. Their frequent repetition has undermined incentives for tax compliance and the credibility of the government's willingness and capacity to enforce the tax law. This has

resulted in an erosion of tax morale and an increase in tax evasion. The Government has committed to forego any new tax or social contribution amnesties and to limit instalment plans to small debtors that suffer clearly identified 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.

3.3.3. Revenue administration reforms

46. **The performance of the tax administration reform has been a notable disappointment of the programme.** The reforms in tax administration have moved slowly, in spite of technical support from both IMF and EC. Most of the structural benchmarks on tax audits have not been met and little progress has been realised in the re-training of staff and in the modernization of the administrative structures. There are also substantial delays in the operationalization of the performance-based system for office managers and tax auditors.
47. **The new government appears keen to address the shortcomings and plans to bring the situation back on track through a comprehensive reform programme.** To avoid risks of political interference the government is planning to grant bigger autonomy to the tax administration, while policy matters remain in the hands of the government. On the management side, a new Secretary General, with enhanced managerial powers, is envisaged to be appointed by December, after the definition of his or her functions through new legislation already adopted in November. The new regulations will give to the Secretary General more powers in disposing of the financial and human resources available to the tax administration, and guarantees will be put in place to ensure its independence from political pressure. Management rules with performance assessment targets techniques for auditors and managers, displacement of non performing individuals, and regular rotation of managers will be made fully operational. High priority tasks are rendering fully operational the specialized units for auditing large taxpayers, high wealth individuals, or large debtors, and the merge of small local offices into larger and more efficient units. The authorities are committed to ensure adequate staffing of those units with experienced auditors. The government also committed to strengthen the control methods by relying on a risk-based selection of audits, and by putting more focus on substantial rather than formal issues.
48. **A series of other reforms have been taken to empower the tax administration reform and strengthening the fight against corruption.** The replacement of the Code of Books and Records adopted in November 2012 and the enactment of a modern tax procedure code expected in mid-2013 are crucial to facilitate the implementation of the tax administration reforms and improve the scope of the tax policy reform. Several other measures are being implemented to improve tax collections: these include a strengthened focus on collectable tax revenue and new regulations to write-off non-collectable debts, while payments in cash are to be banned in tax offices. On corruption, the government is planning to start the implementation of the anti-corruption plan and reinforce the protection of whistle-blowers, while centralising decisions on internal disciplinary actions.
49. **During the next review, additional reforms need to focus on improving efficiency and simplifying processes.** To ensure a timely treatment by the courts of tax cases, their vast number must be reduced, which requires reforms to make the judiciary process more efficient. Improving the efficiency of the tax department's pre-court settlement scheme would avoid unnecessary tax disputes. Ensuring independence of reviewers from those who have made the tax assessment or audit is crucial to safeguard the process and reduce the risks of abuses and corruption.

3.3.4. Public Financial Management Reform

50. **Important progress has been achieved in implementing budgetary control.** Accounting officers have been appointed in most of the entities within the general government. The institution of commitment registers has also advanced, improving the monitoring of spending commitments. Despite initial delays, 72% of General Government entities reported data through commitment registries in June 2012, meeting the corresponding structural benchmark targets. The coverage is now projected at 90% in December 2012 as the main social health insurance fund (EOPYY) purchasing healthcare services will start reporting data through the e-portal. On the contrary, the end-June structural benchmark target on the discrepancies on arrears' data (i.e., between arrears data from commitment registers and those from questionnaires submitted to suppliers) has been missed.
51. **However serious problems remain in the area of commitment registries.** While showing improvements compared to 2011, the 2012 audits on the commitment registries operated by the Ministry of Finance revealed some weaknesses in the actual financial monitoring framework, such as the understaffing of the General Directorates of Financial Services (GDFS) within many public entities and the incomplete functional evaluation and reorganisation of these Services. Serious problems have been identified in the EOPYY, the unified social health insurance fund. Moreover the monitoring of commitments in the investment budget remains extremely limited, especially in the local governments, and based on a different IT interface than the one used for the monitoring of the ordinary budget. 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 needs further development so as to also include timely, comprehensive and accurate information on social security funds and on the public investment budget.
52. **Reforms to strengthen public expenditure management are expected to accelerate.** The government is planning to strengthen the organizational structure and staffing of the financial control services within the central government and expand fiscal reporting to all the phases of the budgetary cycle. Budgetary reporting in the other entities within the general government will also be strengthened and controlled through inspections by the Minister of Finance. Finally, the General Accounting Office has established a coordination committee to monitor and strengthen the implementation of commitment controls to prevent further accumulation of arrears. Lastly the General Accounting Office has established a coordination committee to monitor and strengthen the implementation of commitment controls to prevent further accumulation of arrears.
53. **The government has curtailed discretionary spending in light of the tight liquidity situation and weak revenue collection, but has also accumulated further arrears.** State primary cash expenditures, in particular public investment budget, are under-executed by a significant margin. Wages and pensions have been lower than budgeted thanks to a larger impact of the new wage grid and higher number of retirees. However, there have been slippages in the main public social health insurance fund (EOPYY), where the deficit is projected to be far from the original budget, mainly due to lower revenues than originally expected and overspending on medical services vis-à-vis the projected original budget. The Government urgently adopted contingency measures to increase revenue and reduce the overspending and minimize the negative carry-overs for 2013. However, as a result, the accounts payable to pharmacies and private health providers have increased by almost ½% of GDP in 2012. The high level of arrears, including in tax refunds, has a very negative impact on the economy as a whole. In this regard, the settlement of arrears would give a clearly positive impulse to the economy.
54. **A plan for the clearance of arrears and of tax refunds has been published by the government.** The conditions which a government unit must meet to allow funds for arrears clearance to be disbursed will include: (i) verification of arrears claims by an audit unit external to the relevant government unit; (ii) establishment by the unit of a fully functioning commitment

register; and (iii) reporting of at least three months of consistent data on commitments, payments, and arrears and, for tax refunds, verification of claims by the audit unit of the Ministry of Finance (the Directorate of Revenue Policy). The government is taking measures to ensure that sufficient administrative capacity is available to clear those arrears, including by staffing the relevant offices in those entities which accumulated most arrears.

Table 9. Arrears to suppliers
(EUR million)

	31-Dec-11	31-Mar-12	30-Jun-12	30-Sep-12
Total State	567.0	796.0	916.0	934.0
Local Government	804.7	559.0	829.0	1 523.0
Hospitals	1 298.0	1 556.0	1 630.0	1 790.0
Social Security Funds	882.0	895.0	771.0	756.0
Other government entities	3 730.0	3 808.0	3 979.0	4 492.0
Total General Government	7 049.0	7 608.0	7 878.0	8 572.0
Tax arrears				738.1

Source: General Accounting Office.

55. **The government is determined to secure tighter control over all general government spending.** Sectoral correction mechanisms supported by structural measures would help secure the achievement of the overall target. Explicit targets per sectors are envisaged, as well as timely monitoring and correction mechanisms in case of deviations from targets. To improve the fiscal framework the Government has taken steps to make effective an internal stability pact for local governments with a budget balance constraint and a system to monitor monthly budget execution for state-owned enterprises (SOEs) with sanction for those SOEs who do not respect budget targets. Other actions are planned to be taken in the course of the next months (see paragraphs 33, 34).

3.3.5. Making the public administration more efficient and effective

56. **While significant steps towards downsizing have been implemented since 2010 through the 1:5 attrition rule, more needs to be done to make the central public administration efficient and effective.** The government already committed in the first Economic Adjustment Programme to reduce public employment by at least 150 000 in the period 2011-2015. Progress so far (an expected decline by 79 923 during 2011-2012) may be largely explained by the application of the 1:5 attrition rule (by which only one in five employees exiting from the public sector should be replaced by a newly hired employee), combined with an increase in early retirements. A more targeted approach on downsizing is warranted, in order to protect crucial public sector functions and to ensure continuity. Preparations have started for comprehensive reforms consistent with the commitment to a smaller state expressed by the Greek authorities in August 2012: (i) the public administration reforms process is supervised and monitored by the newly-created high-level transformation steering group chaired by the Prime Minister; (ii) horizontal structures have been created; (iii) a single database to monitor stocks and flows of staff across government entities has been agreed between line ministries/institutions (this is a significant step, as until today there was no centralised database); (iv) an electronic automatic system linking the census database with the Single Payment Authority has finally been set up, allowing for a more efficient coverage, assessment and payment of employees; (v) medium-term staffing plans are now established. Meanwhile, the assessment/screening of sixteen ministries is on-going and an assessment of staff is being prepared. Both these assessments should provide the basis for a policy of mobility or of redundancy (essential to prevent mismanagement and cronyism), as well as for setting quarterly targets for mandatory exits through end-2014 after the completion of the staffing plans and the respective quantified savings.

57. **What was known before as the labour reserve has now been redesigned and relabelled as 'mobility scheme'.** By end-2102, 15 000 employees should have been placed in the labour reserve, but in fact only less than 100 (predominantly non-permanent SOE staff) were transferred. This evidenced that such an instrument was not fully operational. In an effort to re-launch the restructuring and the downsizing of the central public administration, the Parliament adopted a bill, providing the government with a tool allowing mobility in the interest of the service. In addition, the legal scheme for mobility and exits was activated by issuing the necessary implementing provisions. The aim of the new mobility scheme is to reassign civil servants to more useful jobs, therefore reinforcing the move towards a more productive public sector. The mobility scheme, where transferred personnel can remain for up to one year with a reduced rate of pay (substituting for severance payments), while they seek new employment and they are re-trained, will help the transition across job positions, if necessary towards the private sector. This means that, as downsizing in the public administration will need to continue, the employees in the scheme that are unable to find a new job in either the public or the private sector, will be dismissed after one year. After a first transfer of 2 000 employees in 2012, the further expected transfers to the mobility scheme for 2013 will be implemented gradually, in four tranches, totalling 27 000 staff by end-2013.
58. **Adherence to the agreed measures on public procurement is needed to generate fiscal savings and help the implementation of community funded projects.** Policies include first, the steady increase of the amount of supplies and services tendered through Central Purchasing Bodies and framework contracts; second, the completion of the e-procurement infrastructure and its gradual take up by the various contracting authorities at the central and regional level and third, the codification and simplification of the whole body of public procurement legislation (with completion expected by the end of 2013). Most of these policies and reforms have been under discussion since the start of the adjustment programme. They now need to be pushed by the new political leadership and implemented in a credible way.
59. **The Single Public Procurement Authority (SPPA) has started operations.** The new Authority, an independent watchdog, will increase transparency and ensure legal compliance of the administration's procurement practices. It has taken its first decisions to block various negotiated procedures without publication. However, despite progress made, its regulatory framework needs to be issued completely and its staffing levels increased with resources within the Greek public sector, to fulfil its mandate. Looking forward, the Authority must take a strategic leadership role in legislative reform and in overall policy guidance on public procurement.

3.3.6. Completing the pension reform to secure sustainability

60. **Substantial progress has been achieved in the reform of the pension system.** In particular, the authorities have recently adopted a Law revising the supplementary pension system. The Law sets up a new single fund (ETEA) in which almost all funds have been merged. It also defines a new formula, based on an actuarially neutral calculation of pension benefits (a "notional defined contribution" system) and topped up by a sustainability factor to guarantee the future sustainability of the system. The new formula is applied retrospectively to pension rights accumulated since 2001 and will affect pension paid since January 2015. The coming months require strong efforts to implement the reform, in particular the organisational aspects of ETEA and the setting up of individualised pension files, possibly with technical assistance from other Member States. Too generous lump sum pensions at retirement have been substantially curtailed and the government is devising a new, actuarially neutral, formula for calculating future lump sum entitlements.

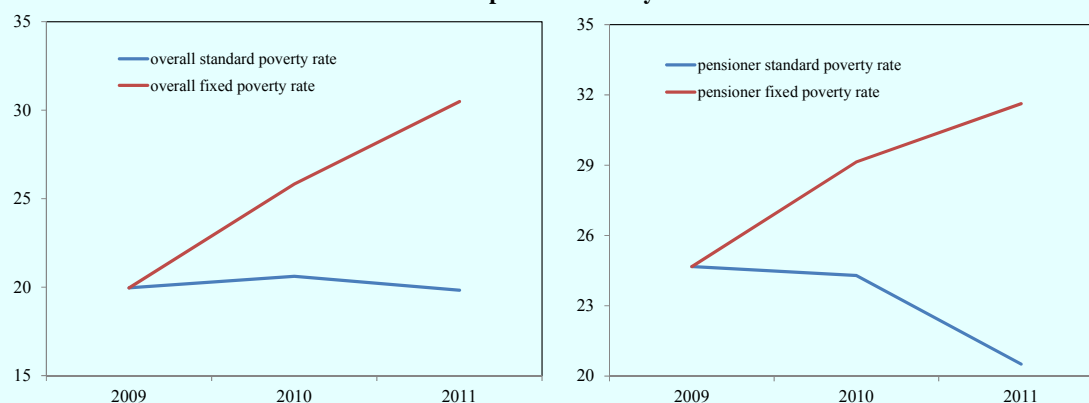
Box 11. Economic Adjustment Programme and Social Equity

Some commentators have criticised the social implication of the Greek adjustment programme, but neglect the fact that social considerations have been prominent in its design and implementation. Correcting large and unsustainable external and fiscal imbalances inevitably imposes a reduction in living standards. It is important that these are borne fairly by the entire society. The social impact would have been even greater in the absence of the programme.

- **Pension reforms have been extensive, but protected the lowest income pensioners.** The comprehensive pension reform of 2010 simplified the highly fragmented pension system, equalising retirement ages and decreasing the generosity of benefits, while introducing a universal minimum pension, limiting the effects on low- and middle-income earners. Recent reforms have also been progressive, mostly affecting those that are better off.
- **The on-going review of social programmes aims at better targeting and more effectively protecting the vulnerable.** The current system needs reforms, as it is disproportionately expensive for the benefits it provides and does not sufficiently target relief of poverty and hardship. The reform of family allowances removes benefits from most prosperous households and allows better focus on the less well-off.
- **Labour market policy changes are designed to improve job prospects for young people and the lower-skilled.** Despite a considerable reduction in output, rigidities in wage-setting has contributed to a sharp increase in unemployment, in particular of these more vulnerable groups. This action complements the targeted EU initiatives focusing EU structural funds on these groups.
- **The tax reform will make the tax system more progressive.** In particular, taxes will be reduced on low income wage and salary earners and over a million people will be taken out of the tax system altogether. The increase in property taxes will also contribute to a fairer taxation system. The fight against tax evasion is also critical for social equity, since pervasive tax evasion shifts the tax burden to wage and salary earners.

Poverty indicators. Poverty has inevitably increased as a result of the major economic recession. An absolute poverty threshold is based on the number of people earning below 60% of the median income in a given year in real terms. In the charts, the red line shows the number of people earning this level of income based on incomes in 2009 (see Matsaganis and Leventi 2011). There is a clear rise of poverty based on this standard between 2009 and 2011, although the increase slows somewhat after 2010. Nevertheless there is some evidence that policies have resulted in limiting the rise in poverty. The conventional or relative poverty rate is measured in terms of the proportion of the population with income below 60% of the median disposable income at a given date. This standard goes up as median incomes improve and of course goes down when median incomes fall. The blue line shows that the overall relative poverty rate has remained almost unchanged in the general population and has even fallen somewhat amongst pensioners, as a result of the progressive implementation of the pensions reform.

Graph 11.1. Poverty Indicators



EUROMOD (version F4.32).

EUROMOD (version F4.32).

Note: The conventional poverty threshold (60% of median) for a person living alone was EUR 571 per month in 2009, EUR 538 per month in 2010 and EUR 505 per month in 2011. The fixed poverty threshold (60% of the 2009 median, adjusted for inflation) was EUR 597 per month in 2010 and EUR 616 per month in 2011. Individuals are ranked according to their household disposable income, equivalised by the "modified OECD" equivalence scale. Household disposable income is defined as total income, from all sources, of all household members, net of taxes and social insurance contributions.

References

Matsaganis, M., Leventi, Ch., (2011), "The Distributional Impact of the Crisis in Greece", EUROMOD Working Paper No. EM3/11.

3.3.7. Modernising the healthcare system

61. **Reform continues and an important policy impetus took place in March 2012 with the adoption of the new healthcare law (Law 4052/2012) and a large number of related Ministerial Decrees.** These legislated policies were directed at i) reducing and thereafter controlling expenditure in the pharmaceutical sector; ii) instituting a single universal social health insurance fund – EOPYY (National Organisation for the Provision of Health Services) and iii) reforming the hospital sector. Following a period of slow progress during the election campaign, delays in policy implementation related to strong resistance by vested interests and lack of political will, authorities have recently re-affirmed their commitment to implement legislated reforms. As a result, a new set of reforms were included in the legislative package adopted in November 2012. Commitment must now turn into practice and the Government must now ensure the implementation of the policies just legislated.
62. **Improvement has been observed in some areas and measures implemented so far have started to bear fruit.** The e-prescription system has been strengthened and electronic prescriptions constitute now more than 90% of all prescriptions. The system can provide real-time information for continuous monitoring and assessment of prescription behaviour and pharmaceutical spending by EOPYY and the Ministry of Health. Pharmaceutical spending in 2012 spending will likely not exceed EUR 3.1 billion, corresponding to about EUR 1 billion in savings as compared to 2012 (about EUR 4.1 billion). Regarding the hospital sector, 2012 will see a reduction in operation costs of more than 8%.
63. **However, there have been costly delays in policy implementation** In particular, in the pharmaceutical sector, some crucial measures adopted in March were only partially implemented. One such example is the lack of full and proper implementation of doctor's compulsory prescription by active substance or INN (international non-proprietary name) prescription. Indeed, doctors have continued to prescribe by brand name, and therefore more expensive medicines, while patients are now only reimbursed the cheapest medicine in each active substance group (so-called "internal reference pricing"). Implementing such a reimbursement system without proper INN prescription, without enforcing mandatory generic substitution with cheapest medicines in pharmacies (as also legislated) and without full control of doctor prescriptions would lead to shifting the burden of adjustment onto citizens/patients (with risk of access to health care). While a reference price system for reimbursement is crucial to send a right signal to patients, it must be complemented with other measures, as already envisaged (INN, prescription guidelines, monitoring) that protect patients. Moreover, the current situation continues to leave room for wrong incentives to doctors, overprescription and outright fraudulent prescription behaviour. Another example regards the delay in the collection of the claw back from pharmaceutical companies, to be activated when public expenditure on outpatient pharmaceuticals is above the target. While the Law was adopted in March 2012, the clawback was calculated and requested with a delay of several months. Companies introduced legal action against some aspects of the clawback collection, resulting in zero clawback collection so far and the risk of budgetary slippages by the end of the year.
64. **As a result, the Government has had to recently adopt a number of legislative steps to overcome such situations.** Regarding, INN prescription an additional MD stating clearly the exemptions to INN has been published and a circular will be sent to all pharmacies to ensure that mandatory generic substitution takes place. In relation to the clawback, the authorities have just legislated a contingency measure (entry-fee to products on the positive list). In addition, the High Court has recently judged the clawback system as appropriate, and authorities have reactivated the procedure.

65. **Regarding health insurance, the consolidation of all existing health insurance in EOPYY will be achieved at the end of the year, after some delays cumulated since the beginning of the year.** Most health insurance schemes, including the four largest health insurance schemes, were merged into EOPYY in April 2012. However some health insurance schemes refused to join the single fund, delaying the overall consolidation process. To fix this problem, the authorities have recently legislated that all remaining health insurance schemes should join EOPYY by December. Health contributions have not been equalised across all population groups, hindering equity in financing and access to care, which was to be achieved through the pooling of funding and health risks, more uniform contributions and services package. Most recently, OGA's contributions to EOPYY have been doubled, but they remain far below the average contributions paid by other population groups..
66. **To sum up, after a long period of slow progress and delay, the new set of legislated measures should give a new impetus to the reform of the health care system: efforts should continue and reforms have to go deeper.** The authorities must make the most of their renewed commitment to address vested interests in the sector in order to achieve agreed targets and limit unnecessary increase in the burden to patients. The measures adopted in March and those adopted most recently (mid-November) will have to be fully implemented, including INN prescription and generic substitution, monitor of prescription behaviour (on pharmaceuticals but also on diagnostic), regularly update and publish the price list and positive list of medicines and introduce competition in the generic market. The entire package of health services provided by EOPYY has been recently reconsidered and substantial savings are expected to be achieved in the field of access to private clinics and diagnostic, where expenditure has gone out of control in recent months. More use should be made of centralised tenders for hospital medicines and medical devices. Hospital reorganisation should now receive priority and the hospital network should be streamlined, excessive capacity (the number of beds) reduced, staff mobility increased and emergency and on-call structures reconsidered so as to increase efficiency and quality of care and reduce overtime work. Full implementation of those measures can produce significant and needed savings in 2013 and 2014.

3.3.8. Upgrading the education system

67. **The education sector is undergoing limited but progressive changes.** While this is a complex sector, three reform areas are on-going: (i) a concrete and defined Action Plan provides guidelines for the improvement of education indicators (lagging today behind the EU average); (ii) Laws 4009/2011 and 4076/2012 on higher education are securing changes such as the introduction of governing boards (which may include non-academic managers), the financial autonomy and responsibility of universities, mergers of institutions, and the internationalisation of curricula. (iii) On primary and secondary education, a concrete evaluation policy of schools and teachers has been launched, including a schools' self-assessment project (reported on a quarterly basis), implying the revision of curricula, the introduction of teachers' evaluation, recurrent training of teachers, upgrading and extension of all-day schools. The reform includes the closure and merger of establishments with some 2 000 small schools already closed.

3.4. STABILISING THE FINANCIAL SYSTEM

68. **The recapitalisation process of the core banks is expected to be finalised by end April 2013.** This process has been postponed due to the delays caused by the elections. Current plans aim to carry out the process in three phases. First the HFSH will provide further 'bridge' recap facility in a form of capital advance to the core banks until end-2012. In a second step, by end-January 2013, the HFSF will subscribe to 100% of any convertible instruments that the banks will decide

to issue. In the third stage, by end-April 2013, the core banks will complete the rights issue and any shares not subscribed by the private sector will be acquired by the HFSF subscription to the common equity. The Ministry of Finance together with the Bank of Greece and HFSF have prepared the term sheet for the recapitalisation of the four largest banks. The designed recapitalisation framework aims at the participation of private investors by providing incentives such as warrants and full private sector voting rights if at least a 10% private sector participation in the equity raising is reached.

69. **An exercise was carried out by the Bank of Greece to verify the final capital needs for banks, in view of the latest financial data.** In view of the negative economic developments of the first half of 2012, the BoG carried out an exercise to verify whether the credit-loss projections estimated in 2011 were still valid. Even though the capital buffers established through the capital needs assessment exercise have been partially consumed, they have not been exhausted. Therefore, the current envelope of EUR 50 billion available for the recapitalisation and resolution of the Greek banking sector remains sufficient, with a capital needs assessment reasonably conservative.
70. **Governance of the HFSF has been strengthened.** The overhaul of the HFSF governance structure is close to being completed. A two tier management system, with a General Council and an Executive Board has been established. The recapitalisation and resolution functions in the HFSF's internal organisation have been established. Relationship frameworks have been prepared that clarify the rights of HFSF vis-à-vis resolved and recapitalised banks and ensures that banks are run on a commercial basis. The frameworks differentiate between banks that remain under private control and those that have become fully controlled by the HFSF. Internal firewalls within the HFSF will aim at maintaining an independent oversight of individual banks, which will also support competition between them. The HFSF has also completed the due-diligence of banks that received capital advance. Auditors focused on the review of governance including loans to related parties, asset quality, and risk concentration. Any findings of interest to the supervisor were communicated to the BoG.
71. **ATEbank, the largest state owned bank, was resolved in July 2012 via the Purchase and Assumption transaction.** The 'good' part of ATEbank assets and liabilities was acquired by Piraeus Bank, which plans to gradually integrate the two operations with the aim of reaping benefits from numerous synergies. The HFSF provided the funding gap and the necessary capital to Piraeus Bank. The remaining assets are under liquidation.
72. **The consolidation of the sector is on-going.** Emporiki Bank, the subsidiary of Credit Agricole has been acquired by Alpha Bank. Ahead of that transaction, Credit Agricole has fully recapitalised Emporiki in line with the BoG's requirements and committed to providing additional buffers for unexpected losses. Geniki, the subsidiary of Societe General has also been fully recapitalised and sold to Piraeus Bank. Both transactions are expected to yield synergies in terms of costs, funding and revenues.

3.5. STRENGTHEN LABOUR MARKET INSTITUTIONS AND PROMOTING EMPLOYMENT

73. **Significant action has already been taken to reform the Greek labour market in the past two years but more efforts are needed in light of high levels of unemployment and still high non-wage labour cost.** The sharp recession has taken a heavy toll on employment and the unprecedented downward wage flexibility that has been observed throughout 2012 has not been sufficient to overcome the very high unemployment. Wages have been falling as the result of the recession and of previous wage-setting reforms, restrictions in the scope of sector collective agreements and allowing notably more opportunities for firm-level agreements, a limitation of

the 'after-effects' on pay after the expiration of collective agreements, and reductions in minimum wages. Overall, wage cuts in the order of 20% have been observed on a growing number of collective agreements – something unseen at such a large scale in the EU or other developed economies. These trends may well continue until mid or late 2013.

74. **The newly agreed measures aim at further improving the functioning of the labour market over the medium term.** They comprise (i) a reform of the minimum wage framework; (ii) easing the degree of employment protection in order to facilitate job mobility and encourage job creation; (iii) less restrictive regulations for the adjustment of working hours to enhance the firm's efficiency in using labour services; (iv) lower non-wage labour costs by cutting social contribution rates and by abolishing red tape; (v) more efficient approaches to control undeclared work and informality, with a view to enforcing labour laws and contracts and mitigating revenue losses from social contributions evasion; (vi) curtail excessive and costly reporting requirements; (vii) policies to improve the employability of disadvantaged groups among the unemployed (e.g., long-term unemployed).
75. **The wage setting at national level is going through a major reform of the minimum wage framework.** The objective of the reform is to avoid jeopardising job opportunities through excessively high minimum wages while protecting those employees and workers with less bargaining power by defining a lower floor for wages and salaries. Every collective wage agreement or individual contract needs to respect the minimum wage floor which will be decided by the government after consultation with social partners. A proper consideration of economic developments and prospects, particularly the level of unemployment, before setting the minimum wage rates is also expected, preferably in an institutionalised way, in order to strengthen the economic rationale behind the decisions. Meanwhile, the national general collective labour agreement will only be binding for the signatories.
76. **Excessively expensive statutory severance pay slows down the labour market adjustment and hampers job creation.** This also hinders labour mobility to dynamic sectors and firms as acquired severance payment entitlements would be lost in case of taking up a job elsewhere. Statutory requirements on severance payments, which were visibly higher in Greece compared with other European countries will from now on be capped at 12 months of pay. Employees whose accrued potential entitlements at the moment of this reform had exceeded that cap will see their right preserved up to a monthly value of EUR 2 000 in case of future dismissal. Combining the reduction for severance pay with preservation of entitlements for low and middle income earners should allow the reform to have immediate effects in terms of facilitating hiring – since potential cost of firing of new hires will be lower in case the job matching is considered unsuccessful – without triggering a wave of firings. Notice periods will be reduced to a maximum of four months. Looking forward, this reform is an important complement to the product market reforms of the Programme: as the latter are expected to give rise to more dynamic market entries and exits of firms and thereby of potential employers, proper framework conditions enhancing labour mobility need to be in place.
77. **A reform to reduce social contribution rates will be prepared in 2013.** That will help in reducing non-wage labour costs, also by making taxation less distortive, thereby increasing incentives for employment and improving cost competitiveness. The reform is expected to allow for a revenue-neutral gradual reduction in social contribution rates over the programme period by simplifying and harmonising the rates across the various funds now in place, while at the same time broadening the bases for contributions. Details and exact phasing in of this reform are still to be decided. Efforts to streamline social contribution collection and to fight blatant evasion will also have to be stepped up significantly.
78. **The adaptability of working hours will be increased to facilitate efficiency and productivity gains.** While current limitations on the duration of the working week (including the 40-hours working week as a reference) and of minimum rests due to health reasons for specific categories of workers remain untouched, some more freedom will be given to adjust the working time to sector and firm specific needs. This includes (i) allowing a maximum number of 6 workdays per

week in the retail sector as it is already the case for the rest of the economy; (ii) the minimum daily rest; and (iii) the timing of annual leave in seasonal sectors.

79. **Red tape on labour arrangements will be reduced.** The authorities are abolishing pre-approvals of overtime work and streamlining reporting requirements for employers' working hours' arrangements in order to reduce the administrative burden. These requirements, which have so far been in place in order to facilitate checks by the Labour Inspectorate have implied administrative burden that have become disproportionate with the basic requirements for such checks and controls. However, additional ways to improve the efficiency of the Labour Inspectorate's approach to fostering compliance with labour law and contracts and to controlling undeclared work and informality need to be identified in a more thorough review of its work and functioning.
80. **The fight against undeclared work and informality is being stepped up.** The Government has secured an independent external assessment of the Labour Inspectorate covering its mandate, activities and structure, and the enforcement and penalty structure for infringements of labour arrangements. Subsequent work in 2013 is expected to strengthen the fight against undeclared work and to raise the effectiveness of the Labour Inspectorate.
81. **To make the labour law more transparent and enforceable,** the Government will prepare a single Labour Code by end 2013.
82. **Further action is needed to limit long-term unemployment through active labour market policies.** This requires, first, that the jobless remain attached to the labour market and do not lose their employability and their primary labour skills. Second, a consistent reform approach is needed aimed at supporting labour market flexibility. This requires a lasting improvement of the benefit system, providing the right incentives and resources to the unemployed to facilitate re-entry to employment after a limited period of job-search. Furthermore, the programme suggests that labour market policies should be strengthened with a view to facilitate the transition of workers across occupations and sectors, to promote the employability of the disadvantaged groups, to contribute to improving the overall level of human capital by better training policies and to mitigate the hardship of unemployment. However, given the fiscal constraints, it will take some time until Greece can afford a more extended publicly-funded social safety net. Nevertheless, first efforts with this aim are reflected in the proposals for a means-tested long-term unemployment assistance to start in 2014.

3.6. CREATING FAVOURABLE CONDITIONS FOR ECONOMIC ACTIVITY

83. **The continued commitment to far-reaching growth-enhancing reforms remains a prerequisite for stabilizing the economy and strengthening the basis for economic growth.** In the course of 2012, significant implementation delays were accumulated on account of the political uncertainty and lack of decisive commitment to the structural reform agenda over the prolonged election period. Following the recent labour market reforms, wages and hence productions costs in the economy have declined, but output prices have not yet fallen commensurately. To foster competitiveness and support the citizens' purchasing power, product and services markets need to be comprehensively reformed by removing the remaining unnecessary restrictions and barriers to entry that currently impede competition and price adjustment. In many areas, such as business environment, energy, transport, retail trade and regulated professions, ambitious reforms have been designed and implemented. A persistently strong ownership of the reform agenda on the part of the Greek government remains essential for maintaining the reform momentum in this area and bringing the ongoing recession to an end.

3.6.1. Promoting an efficient and competitive business environment

84. **Over 2012, the Government has taken measures to ease company creation and to reduce transaction costs.** These include i) the creation of a new company form, with no minimum

capital requirements and flexible rules for internal decision making; ii) the authorisation to the Ministry of Development to issue standardised articles of association for the establishment of various company types and iii) the elimination of the requirement to hire a lawyer for the drawing up of notarial deeds establishing *société anonymes* and limited liability companies. Other measures to facilitate doing business include the abolition of the mandatory registration in the chamber of commerce's export registry, before a company is allowed to export and the elimination of costly company publication requirements in newspapers.

85. **For the first time since the start of the programme, Greece has improved substantially its performance on international business rankings.** The World Bank Doing Business indicators are a case in point. The 2013 edition shows a year-on-year forward leap by eleven positions, underpinned by improvements in areas such as protecting investors, paying taxes, trading across borders and resolving insolvency. On the less positive side, starting up a company and registering property remains relatively expensive. In addition, there is room to reduce the time and the cost to export and import. These areas need to be targeted as a matter of priority.
86. **However, the gap between Greece and the OECD average in indicators measuring business friendliness is large.** The Government has committed to additional reforms. For example, it has pledged to curb by June 2013 the cost of creating companies and of registering property by 50%. Significant reductions in time to export and import are also targeted as per the October 2012 Trade Facilitation Strategy. Moreover, the time to get licenses for manufacturing activities and for environmental projects is expected to go down after the full implementation of the respective 2011 licensing laws. Furthermore, a systematic screening of legislation through the application of the OECD toolkit (for competition enhancement in sectors such as tourism, construction materials, retail and food processing) and the Standard Cost Model (for administrative burden reduction in 13 selected sectors) will also be undertaken, with results expected by Q4 2013.

3.6.2. Reforming the judicial system to support economic activity

87. **Further efforts are needed on judicial reform.** The focus is on the production of judicial statistics, the development of e-justice applications, the reduction of tax (and non-tax) case backlog in courts, the promotion of mediation and the revision of the Code of Civil Procedure. Specifically:
- In the first half of 2012, the Ministry of Justice has continued publishing statistical data on administrative and on civil courts. Whilst there is no data on recovery rates for tax cases and no breakdown according to case value, these gaps will be bridged in the near future with increased interministerial coordination and with revised brackets for court data breakdown. Close cooperation between the Ministry of Justice and ELSTAT (the Greek Statistical Authority) will also contribute to the collection and better use of data. Eventually, the development of e-justice applications, a medium term project, will improve dramatically the efficiency of court data compilation.
 - The reduction of the backlog of tax cases has lagged behind programme targets. The June 2012 50% reduction target was missed, the breakdown by court showing that at appeal court level the target was reached in seven out of nine cases, but not met at first instance level (with an average backlog reduction of 34%). Aside from the protracted 2012 electoral period, the slippage was attributed by the Authorities to various strikes in the legal profession and to the lack of administrative support staff for judges. To help reduce the tax case backlog, the Authorities will request the re-allocation of resources from the central government to support the judiciary. The definition of backlog reduction remains an issue for further discussion between the Authorities and the mission.
 - The Government has also presented its strategy for the development and promotion of civil mediation in Greece. Training programmes, awareness campaigns, day events and seminars are planned throughout the next three years and the first mediators are expected to be certified in autumn 2012. However, unlike other jurisdictions, the profession is reserved in

exclusivity to members of the Bars, with no indication as to when the exclusivity will be lifted.

- Lastly, as this Compliance Report went to press, the presentation of the strategy to reduce the backlog in non-tax cases was pending.

88. Looking forward, the focus of judicial reform will continue to be on correcting slippages from the backlog reduction target for tax cases, defining a strategy for the reduction of the non-tax case backlog, on promoting civil mediation and on completing the on-going review of the code of civil procedure by the end of 2013.

3.7. EFFICIENT NETWORK INDUSTRIES AND SERVICES

3.7.1. Energy policy

89. In 2012, the Government continued implementing the Third Energy Package. Following the adoption of law 4001/2011, the unbundling of the electricity transmission system operator has progressed, including the submission of the certification file to the Commission for its opinion. However, the unbundling of DESFA (i.e., the gas company's Transmission System Operator) has cumulated delays. Nevertheless, the Government amended, prior to the disbursement, law 4001/2011 to provide for the ITO unbundling option for DESFA. It is important that the Government catches up with cumulated delays in the unbundling of the gas company, as it is prepared for privatization.

90. The Greek electricity sector has been hit in 2012 by a severe liquidity crisis. A number of factors (e.g., unpaid electricity bills, liquidity tensions in the Greek banking system and structural deficiencies of the Greek energy market) have tightened severely the cash position of PPC, the state owned vertically integrated electricity company. In parallel, LAGIE, the Greek electricity market operator, has accumulated unsustainable debts due to overly generous -and insufficiently financed- renewable energy support schemes (especially for Photovoltaic -PV), which it manages. As a result, the main actors in the Greek electricity system have piled up inter-sectoral arrears, eventually reaching other energy companies that cannot pass on these payment difficulties to their fuel suppliers.

91. In response to the liquidity crisis, the Government granted in June 2012 emergency funding to PPC and to DEPA through the Consignment Deposit and Loans Fund. As a temporary measure ameliorating the liquidity tensions in the Greek electricity market, the state guarantees backing the two loans by the Consignment Deposit and Loans Fund were extended in December by a maximum of further three months. The Authorities have also taken measures to reduce the high debt levels in the balance sheet of LAGIE. Lower PV feed-in-tariffs (including for rooftop PV) were approved and the RES levy (i.e., the fee financing feed-in-tariffs through the electricity bill) was raised in August 2012. Moreover, the Hellenic Parliament adopted in November 2012 a temporary –and retroactive- tax (solidarity contribution) on revenues from renewable energy installations.

92. Additional measures to underpin the financial sustainability of renewable energy support schemes are needed in the next few quarters, including by a revision of non-PV support mechanisms (to be applied to new contracts), semi-annual adjustments of the RES levy, and incentives for the implementation of licenses issued for renewable energy installations. The publication in 2013 of data and projections on the evolution of the RES account will bring transparency in the system. It will also contribute to minimize deviations from the end-2013 zero debt target in that account. The current debt level of the RES account is a significant contingent fiscal liability.

93. **The liquidity tensions in the Greek electricity market also call for other structural measures**, such as the liberalization (and full cost recovery) of end-user prices for low voltage customers, and to allow the entry of new companies in the generation market. The former is envisaged for June 2013, with two intermediate steps before this deadline; the Government plans to address the latter in the framework of PPC's privatization, the strategy of which remains to be unveiled. In parallel, further cost reductions in PPC are warranted, based on the ongoing study evaluating operating costs. Whilst there is political resistance to increase low voltage end-user prices, cost recovery-based electricity tariffs are needed to foster the entry of new generation companies in the market and to help the incumbent electricity company cope with liquidity tensions.
94. **Legislation has also been passed to facilitate fuel distribution**, such as the liberalization of the opening hours of gas stations, easing the opening of gas stations by supermarkets, as well as eliminating unjustified restrictions in the transportation of fuel by independent retailers. Additional measures will be taken before year-end to ease the import of oil and of oil products (in the context of the transposition of the Directive of Security of Oil Stocks).

3.7.2. Electronic communications

95. **In the sector of electronic communications, the Government has eased the licensing of telecommunications' infrastructure**; by *inter alia*, instituting EETT, the Greek telecommunications' regulator, as a One-Stop Shop for the licensing of antennae and base stations. In addition, the authorities are actively pursuing the release of the Digital Dividend, so as to meet their obligations under EU law. The Digital Dividend and the development of Digital Television (DTV) will boost the wireless communication industry and make a major impact on competitiveness and growth.

3.7.3. Transport

96. **Sizeable and strategic changes are underway in the transport sector.** Land transport is being liberalised, as the restrictions on licenses for both road haulage and occasional passenger transport have been relaxed, providing a leeway for more market access. The simplification of the highly regulated structure of the regular passenger transport is also underway. Progress has been made with the restructuring of the railways sector, including a concrete strategy for privatisation. To reduce transport prices and to strengthen the growth of the tourism sector, the authorities have also committed to remove restrictions on the rental of pickup trucks and vans, chauffeur services and to allow shuttle services by hotels and tour agencies to use small vehicles and tour packages for small vans and off-terrain vehicles.
97. **In maritime activities and ports, as well as in airports, new strategies for growth are being identified.** These sectors are now leading the way in the process for the establishment of an independent regulatory framework, through a clear separation between administrative responsibilities and commercial activities. Given budget consolidation constraints, the authorities are preparing decisive measures to promote more flexible labour agreements and to bring expertise on how to prepare key assets for privatisation, mainly through concessions. Important reforms to strengthen the growth of the tourism sector in domestic maritime transport (such as launching public consultations for routing and labour arrangements in domestic ferry services) are underway. Additional medium-term objectives are in the pipeline to ensure a better intermodal connectivity between different types of transport means, by better prioritising public spending (including EU funds), by creating a hub, and by better exploiting Greece's regional competitive advantage in this vital economic sector.

3.7.4. The Retail Sector

98. **The Greek retail and wholesale sector stands out for having a higher share in value added and employment compared to the euro area average**, lower levels of labour productivity as well as for higher prices in key consumer basket items. A series of reforms extending over the next few quarters are needed to bring the main parameters of the retail sector to the average values in the EU.
99. **The Government adopted in the first half of 2012 two measures specifically aimed at introducing downward price flexibility in the sector**, such as the abolition of the prohibition of selling merchandise at prices below cost and the simplification of the system of submission of wholesale price lists and cost elements to the Ministry of Development. These were favouring price rigidities and collusion in prices from the dissemination / publication of collected data to competing companies. Whilst the simplification introduced to the system of reported prices is a step in the right direction, there remain potential competition policy concerns. These should be addressed in the on-going review of the Code of Market regulations, which was notified in mid-October 2012 to the Commission Services, as required by Directive 98/34.
100. **In addition, the Government has removed a number of outstanding restrictions in the retail sector.** Prior to the disbursement, it has adopted measures to i) distribute restricted product categories such as baby milk, tobacco, newspapers and magazines in supermarkets (in addition to the regular channels); ii) eliminate the requirement of minimum space for the sale of food products; iii) allow mixed shops to sell goods other than food, subject to hygiene and food and safety standards; iv) sell pre-packaged meat, cheese and fish products in supermarkets; and v) address labour market issues, by among others, delinking the working hours of employees in retail outlets from the opening hours of the establishment.
101. **Combined, these measures should allow a wider class of goods to be sold by more productive retailers, help reduce the sector's operating costs and eventually feed into higher downward price flexibility.** Looking forward, the Government will look into regulations on pricing, sales and labelling, as well as to the rules on transport applicable to retail outlets.

3.7.5. Regulated professions and professional qualifications

102. **Since the second programme, problems have occurred in liberalising the professions and several slippages in MoU compliance need to be corrected before year-end.** This is the case of the full assessment of the justification and the proportionality of the requirements reserving certain activities to providers with specific professional qualifications. In addition, work needs to be done to de-link fees charged by professionals from taxation, social security contributions and payments to professional associations. Steps have been taken by the engineering profession, but not for lawyers. Such de-linking is a prerequisite for the effective elimination of minimum fees charged for professional services, and hence, for allowing downward price flexibility.
103. **However, since July 2012, the reform of the Greek regulated professions has re-gained momentum.** Renewed emphasis on the reform of the regulated professions is welcome, as it follows a period of political inaction in the first half of the year, explained in part, by the long electoral process. The Government has eliminated unnecessary restrictions in 20 professional activities of high economic importance, as part of the conditionality prior to the disbursement. Compared to the previous review, there have been amendments to sector specific legislation, in various cases, going beyond what is strictly required by law 3919/2011 on professions, as per the opinions of the Hellenic Competition Commission. This is the case of lawyers, customs brokers, tourist guides and tourist offices, real estate brokers, temporary employment agencies, private labour consultancy offices, car-rentals, sworn in valuers and stevedores in ports and for land operators.

- 104. Looking forward, the Government has committed to eliminating inconsistencies between the 2011 law and the sector specific legislation of each profession** (other than the abovementioned 20) **before the end of 2012**. The Government has already identified the professions falling under its scope (as these are not explicitly mentioned in the law) as well as the individual inconsistencies. However, there are divergences between the approach planned by the Government and the one recommended by the Commission services. Whilst the Government is seeking to issue instructions (circulars) addressed to the licensing bodies in the administration on the application of the 2011 law, the Commission services have pressed for the amendment of sector-specific legislation, in the interest of legal certainty.
- 105. The authorities have also passed legislation easing further the professional recognition of franchised diplomas** (i.e., the recognition of diplomas offered by educational institutions located in Greece, providing (under a franchise agreement) the training program agreed with institutions in other countries). Lastly, the completion of the Point of Single Contact in the coming months, an infrastructure providing information about the procedures on the access to or exercise of a service activity and allowing for the online completion of those procedures, will also be a powerful complement to the liberalization of the professions.

3.8. INCREASING THE IMPACT OF STRUCTURAL AND COHESION FUNDS

- 106. To accelerate the absorption of structural funds, there has been progress on the required measures that simplify project implementation and speed up the absorption.** A number of procedures have been simplified and enhanced monitoring has been established for the priority projects as well as for key areas in which issues had arisen. The necessary amounts to complete unfinished projects of the 2000-06 operational programmes, to cover non eligible expenditure as well as for the guarantee mechanism of the SMEs have been earmarked. Absorption for the first half of the year reached EUR 732.6 million. Around EUR 200 million were suspended from the claim due to issues with the development law that are being evaluated by the European Commission services and EUR 167 million of realised expenditure cannot be claimed until the Operational Programmes are revised. The country's absorption rates are above the EU average.

3.9. TECHNICAL ASSISTANCE AND MONITORING

- 107. 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 for Greece) 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.

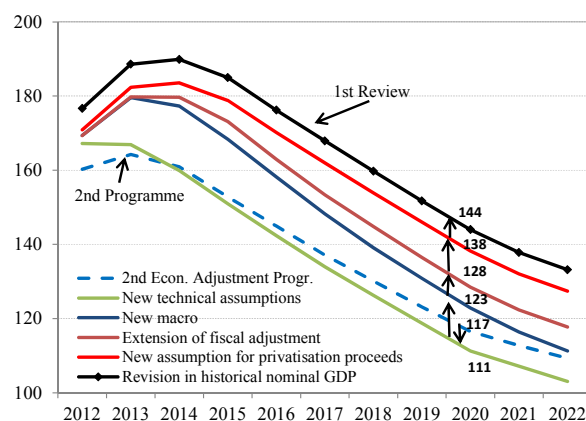
4. DEBT SUSTAINABILITY ANALYSIS AND PROGRAMME FINANCING

4.1. DEBT SUSTAINABILITY ANALYSIS

4.1.1. BASELINE AND MEASURES TO IMPROVE DEBT SUSTAINABILITY

- 108.** This section assesses the sustainability of the Greek sovereign debt in light of the latest macroeconomic developments and the measures agreed by the Eurogroup on 26/27 November and 13 December 2012. The forecast of the evolution of the Greek government debt-to-GDP ratio over the next decade is based on assumptions on economic growth, fiscal performance, other financial flows, such as privatisation receipts and the recapitalisation of banks, as well as on official and market financing interest rates. The debt-to-GDP ratio is forecast to decline steadily from 2014 onwards, provided that the adjustment programme is fully implemented. Nevertheless, despite this decline, debt will remain at a very elevated level for several years to come and full capital market access will thus be unlikely in the years immediately following the end of the programme. The calculations were based on the assumptions that Greece can refinance itself at EFSF conditions until it has regained market access and that deferral of interest applies to all euro area loans.
- 109.** The outlook for debt sustainability had significantly deteriorated compared to the projections at the time of the adoption of the second programme in March. While new information on technical factors (mainly the cost of the new EFSF loans) had slightly improved the debt trajectory (Graph 24), this had been more than compensated by the deterioration in the macroeconomic projection that had raised the debt-to-GDP ratio in 2020 by 11½ percentage points. The recent revision of the level of nominal GDP in 2011 resulted in an additional increase in the debt-to-GDP ratio in 2020 by 6 percentage points¹¹. Moreover, the extension of the fiscal adjustment period implied a further deterioration of the debt-to-GDP ratio in 2020 by another 5½ percentage points. Privatisation proceed projections were also revised downwards, thereby increasing the debt-to-GDP ratio in 2020 by a further 10 percentage points.

Graph 24. Debt to GDP ratio



Source: European Commission calculations

Note: the debt projection for each factor considered also reflects the cumulative impact of the previous factors

- 110.** The euro area Member States have responded to this deterioration with a series of initiatives to ensure sufficient financing for the programme and strengthen the sustainability of Greek government debt, decided at the Eurogroup meetings on 26/27 November and 13 December 2012:
- **Foregoing the previously-programmed decline in the stock of T-Bill:** The programme had foreseen a reduction of the T-Bill stock. While still desirable, it has on balance been deemed

possible to forego this reduction.. The new package therefore envisages maintaining a T-bill stock of EUR 15 billion through the end of the programme. This will reduce the financing needs of Greece by EUR 9 billion in the period 2012-2014.

- **Postponing part of the Treasury cash buffer build-up:** The March programme had foreseen a build-up of the Treasury cash buffer by EUR 5 billion to provide some flexibility to the Greek Treasury. The new package partially postpones this build-up until after the expiration of the programme. Over the 2012-2014 period, a EUR 1.5 billion build-up of the cash buffer is now foreseen. The cash buffer would be increased by an additional amount of EUR 2 billion in the 2015-2016 period.
- **Bailing in subordinated debt holders:** Under the second programme, the four largest Greek banks are scheduled to receive a further EUR 23.8 billion in December 2012 and January 2013 to cover recapitalisation and resolution needs. These largest Greek banks are expected to conduct further liability management exercises (LMEs) on their hybrid capital instruments. Data provided by the Bank of Greece suggest that this exercise could yield EUR 600 million in terms of extra CT1 capital, thereby reducing the remaining amount that will be disbursed to cover recapitalisation and resolution needs.
- **Debt-buy-back (DBB) of new GGBs:** Greece concluded on 11 December the tendering process for a debt buy-back operation to capture a substantial discount on new Greek government bonds (nGGBs), thereby reducing public debt substantially. Before the DBB, the total of nGGBs amounted to EUR 62 billion (including the EUR 15 billion held by Greek banks and EUR 8 billion held by Greek pension funds). The DBB invitation yielded a total participation of approximately EUR 31.9 billion at an average price of 33.8% of the nominal value. Following the settlement of the operation, Greek debt will be reduced by EUR 21.1 billion in net terms.
- **Reduction of Greek Loan Facility (GLF) interest margin:** The first Greek programme was financed by bilateral loans from Member States pooled in the so-called GLF. Following previous amendments, the GLF interest rate was based on the 3-month Euribor rate plus a margin of 150 basis points. Euro area Member States agreed to lower the margin by 100 basis points to 50 basis points. As long as Euro area Member States are under a full financial assistance programme they are not required to participate in the reduction of the margin.
- **Cancellation of the EFSF guarantee commitment fee:** Since the second programme, Greece is financed by the EFSF, which charges a lending rate equivalent to its borrowing costs plus a guarantee commitment fee and a service fee in order to constitute a reserve and to cover its operational costs. The EFSF will no longer charge a guarantee commitment fee on Greece which according to EFSF will save a total of EUR2.7 billion over the entire period of EFSF lending to Greece.
- **Deferral of EFSF interest rate payments:** Greece faces important interest rate charges due to its borrowing from the EFSF. Deferring these interest payments will allow Greece to reduce substantially its financing needs over the 10-year deferral period. This operation will not create additional costs for the EFSF since Greece will have to pay interest charges on the deferred interest. While the Master Agreement on Financial Assistance (MAFA) did not include loans funding the PSI sweetener and the accrued interest payments for 2012-14, subject to the approval of bondholders, the Eurogroup also agreed that the conditions will be amended so as to implement the deferral of interest after 2014.
- **Maturity extension of GLF and EFSF loans:** While the maturities of both loans by the GLF and the EFSF are long-term, this still creates an amortisation hump for Greece in the 2020s. Starting from 2022, Greece would have faced large repayment obligations which could have hampered its return to the market. The Eurogroup, therefore, decided on 26/27 November 2012 to extend the maturities of the GLF and the EFSF by a further 15 years. This extension does not per se have an impact on the reduction of debt by 2020 or beyond.
- **SMP income:** The holdings of GGBs by the Eurosystem national central banks (NCBs) under its Securities Market Programme (SMP) generate income from coupon payments as well as from the amortisation of the discount to par at which these bonds were acquired since the portfolio is

accounted for at amortised cost by all NCBs. Member States committed to pass on to Greece an amount equivalent to the income on the SMP portfolio accruing to their national central bank as from budget year 2013. Member States under a full financial assistance programme are not required to participate in this scheme for the period in which they receive themselves financial assistance.

- **Other contingent measures:** Greece and other Euro area Member States will consider further measures and assistance, including inter alia lower co-financing in structural funds and/or further reduction of the interest rate on the Greek Loan Facility, if necessary, to ensure that Greece can reach a debt-to-GDP ratio of 124% in 2020, and in 2022 a debt-to-GDP ratio substantially lower than 110%. This is contingent on Greece reaching an annual primary surplus, as envisaged in the current MoU and full implementation of all conditions contained in the programme.
- **Rollover of ANFA holdings:** The Eurosystem NCBs hold GGBs in their investment portfolio. The Eurogroup assumed a rollover of ANFA holdings of NCBs on equal terms for the period of 2013-2016, while acknowledging that this option will still need to be assessed and independently decided by NCBs. Such a roll-over would reduce the financing needs and smoothen the debt repayment profile in the programme period. It does not per se have a perceptible impact on the reduction of debt by 2020 or 2022.

Table 10. Addressing financing needs and reducing the debt-to-GDP ratio

	Financing needs in 2012-2014 (in EUR bn)	Financing needs in 2015-2016 (in EUR bn)	Debt level in 2020 (in % of GDP)	Debt level in 2022 (in % of GDP)	Debt level in 2030 (in % of GDP)
Baseline estimate 1/	14	18	144	133	113
Greece					
-Foregoing T-bills stock reduction	-9.0	0.0	1.0	1.0	1.0
-Postponing the build-up of the Treasury cash buffer	-3.5	2.0	0.0	0.0	0.0
-Banks -Bailing-in subordinated debt holders	-0.6	0.0	-0.3	-0.3	-0.3
Private Creditors: debt buy back operations	10.3	-0.5	-9.5	-9.6	-10.2
Euro area Member States					
-Reduction of GLF interest margin by 100 bps	-0.9	-1.0	-2.0	-2.3	-2.7
-Cancellation of EFSF Guarantee Commitment Fee	-0.2	-0.3	-0.6	-0.7	-1.2
-Deferral of EFSF interest rate payments 2/	-3.4	-9.5	0.0	0.0	0.0
-Return of SMP profits (100%)	-4.1	-3.0	-4.6	-4.7	-5.2
-Extension of GLF maturities	0.0	0.0	0.0	0.0	-3.9
-Extension of EFSF maturities	0.0	0.0	0.0	0.0	-5.4
Financing needs/debt-to-GDP ratio	2.6	5.6	128.0	116.4	85.1
Contingent measures 3/			-2.7	-5.1	[...]
Additional contingency measures 4/			-1.4	-1.4	
(Roll-over of ANFA holdings 5/	-3.7	-1.9	0.1	0.1	0,1]
Financing needs/debt-to-GDP ratio	-1.1	3.7	124.0	< 110	[85,2]

1. The calculations were based on the previous IMF disbursement schedule. The revised schedule would increase financing needs by 0.5bn in 2012-14 and decrease financing needs accordingly in 2015-2016. We would not expect this shift of IMF disbursement to have a noticeable impact on debt.

2. Calculations are based on the assumption that Greece can refinance itself at EFSF conditions until it has regained market access and that deferral of interest applies to all euro area loans except those for the PSI sweetener and PSI accrued interest. Subject to the approval of bondholders, the conditions will be amended so as to implement the deferral of interest after 2014 to all EFSF loans.

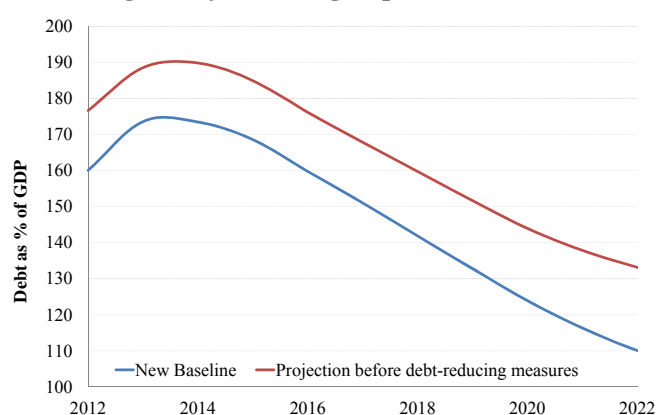
3. The Eurogroup is confident that, jointly, the above-mentioned initiatives by Greece and the other euro area Member States would bring Greece's public debt back on a sustainable path throughout this and the next decade and will facilitate a gradual return to market financing. Euro area Member States will consider further measures and assistance, including inter alia lower co-financing in structural funds and/or further interest rate reduction of the Greek Loan Facility, if necessary, for achieving a further credible and sustainable reduction of Greek debt-to-GDP ratio, when Greece reaches an annual primary surplus, as envisaged in the current MoU, conditional on full implementation of all conditions contained in the programme, in order to ensure that Greece can reach a debt-to-GDP ratio of 124% in 2020, and in 2022 a debt-to-GDP ratio substantially lower than 110%.

4. This could possibly be reduced through a buy back of PSI holdouts. Euro area Member States will consider additional further measures and assistance, if necessary to bring the total yield of additional contingency measures to 1.4 percent of GDP, provided that Greece meets the 2013 primary balance target as defined in the MoU.

5. Tentative amounts; subject to NCBs' approval.

111. The Eurogroup stressed that the above-mentioned benefits of initiatives by euro area Member States would accrue to Greece in a phased manner and be conditional on a strong implementation of the agreed reform measures in the programme period as well as in the post-programme surveillance period. The details of such conditionality still have to be developed by the Troika.
112. These initiatives significantly change the profile of the debt trajectory. As a result, and taking into account additional contingent measures still to be decided, the debt ratio would reach 124% of GDP in 2020 and lie substantially below 110% in 2022 (Graph 25).

Graph 25. Debt to GDP evolution before and after the debt-reducing initiatives agreed by the Eurogroup on 26/27 November 2012



Source: European Commission calculations

Box 12. The Spring 2012 bond exchange offer

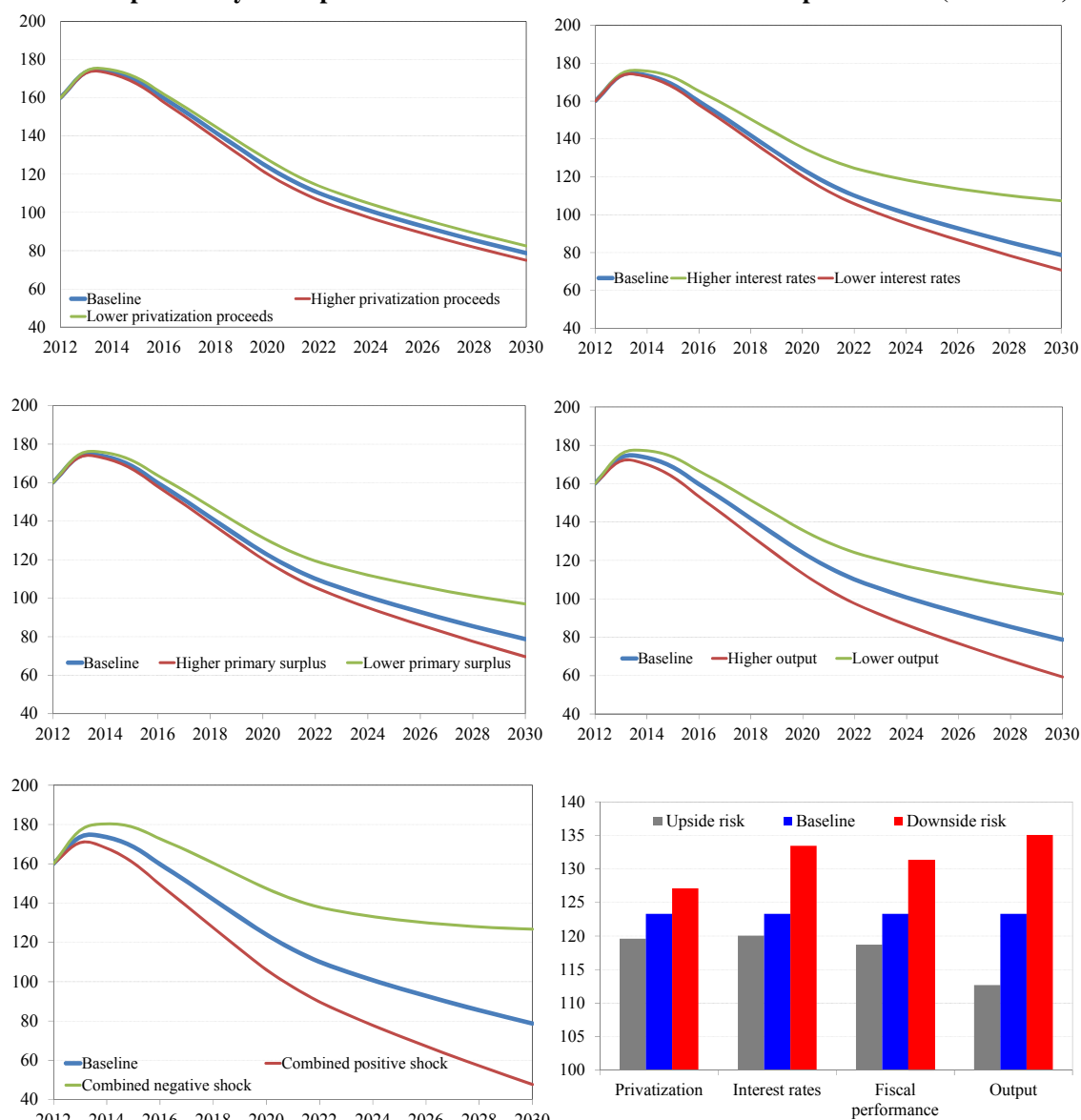
On 24 February 2012, Greece launched an exchange offer for bonds with an aggregate outstanding face amount of approximately EUR 206 billion. The initial deadline of the offer was 8 March but the invitation period was extended twice to eventually end on 20 April 2012 (for more details see box 4, p.47 in Occasional Paper 94, March 2012, "The second economic adjustment programme for Greece. March 2012"). 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% 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% 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.

From a total of EUR 205 billion of Greek sovereign bonds eligible to the exchange offer, Greece received tenders for exchange and consents from holders of EUR 198 billion of bonds received through an exercise of collective action clauses, representing 96% of the outstanding face amount of these bonds. Holders of 3.6% of the outstanding face amount of these bonds had not been tendered for PSI exchange or become subject to mandatory exchange.

4.1.2. STRESS TEST SCENARIOS

113. The outlook for debt sustainability is sensitive to developments in key parameters, reflecting exogenous as well as policy-dependent factors. To identify the inherent risks, remaining after the recent initiative to strengthen sustainability, the impact on the debt-to-GDP ratio of various shocks is quantified and applied to the new baseline. Some of the shocks outlined below are designed as asymmetric, given the assessment of risks at this stage, which tend to be predominantly to the downside:

- **Economic growth:** On the one hand, stronger growth dynamics could unfold, as a swift return of confidence following agreement by the Eurogroup on debt-reducing measures could help exit the prolonged recession faster than currently forecast. On the other hand, a slower-than-foreseen implementation of structural reforms under the programme or a more adverse international environment could have a negative impact on economic growth. The impact of annual upward or downward revision of the real GDP growth rate by 1 p.p. each year from 2013 onwards would move the debt ratio from the baseline of 124% of GDP by 2020, to 113 and 136% of GDP, respectively. In 2030, the outcome of these two scenarios would be a shift from a baseline of 79% to 59% and 103%, respectively.
- **Interest rates:** The projections under the debt sustainability analysis rely on a set of interest rate assumptions built on current yield curves and related spreads for Greece (for GLF, EFSF and market financing). Wider interest rate movements than assumed in the programme may occur impacting on market rates and ensuing rates under the facilities and Greece itself. Given the high debt stock, interest rate variations have a considerable impact on the debt path. The impact of a downward revision by 50bps (positive shock with a zero interest floor) or an upward revision of 150bps of the interest rate applying to Greek debt will bring the debt ratio to 120 and 136% of GDP, respectively, by 2020, and 71 and 107% of GDP by 2030.
- **Privatisation proceeds:** The expected privatisation receipts in the current baseline have been revised down considerably to EUR 10 billion through 2016 against EUR 23 billion in programmed in March. In the period from 2012 through 2020, the expected receipts amount to EUR22 billion. The stress scenarios assume that privatisation proceeds through end-2020 are EUR8billion higher or lower than in the baseline, leading to a debt-to-GDP ratio of 120% or 128% of GDP in 2020 and 75% or 83% of GDP in 2030 in the positive and negative case, respectively.
- **Fiscal performance:** The primary surplus in the baseline is assumed to average 4.4% of GDP from 2016-2020 and 4.0% of GDP from 2021-2030. In the shock scenarios the primary balance is either 0.5 percentage points of GDP higher than assumed in the baseline, or 1 percentage point worse in the negative scenario. The debt ratio becomes in these scenarios 120% and 131% of GDP by 2020, respectively, and in 2030, 70% and 97% of GDP, respectively.
- **Combined shock:** Weakening resolve to implement the programme and to maintain sound policies in the aftermath of the programme could lead to a combined shock. In such a scenario it is assumed that (i) weak implementation of structural reforms would lead to GDP growth being 1 p.p. below the baseline; (ii) privatisation proceeds would be EUR 8 billion below the baseline; and (iii) the primary surplus would be 1 p.p. below the baseline. As a result of this combined shock, the debt-to-GDP ratio in 2020 would be 147% in 2020, 138% in 2022, and 127% in 2030. Conversely, strong policy implementation, returning confidence and foreign investors and stronger growth could lead to (i) privatisation proceeds being EUR 8 billion higher than the baseline; (ii) GDP growth being 1 p.p. above the baseline; and (iii) the primary surplus being 0.5 p.p. above the baseline. As a result of this combined shock, the debt-to-GDP ratio in 2020 would be 106% in 2020, 90% in 2022, and 48% in 2030. These results point to the crucial importance of a steadfast implementation of the programme and adherence to sound policies in the post programme period, including in respect to growth-enhancing structural reforms. There exists scope for a faster debt reduction with very strong and convincing implementation, but also a significant probability of, and high risks from weak implementation, as debt would decline only very, thereby exposing Greece to persistent vulnerability.

Graph 26. Dynamic profile of stress-test scenarios and overall impact in 2020 (% of GDP)

Source: European Commission calculations

4.2. PROGRAMME FINANCING

- 114. Until June 2012, disbursements under the programme amounted to EUR 148.6 billion,** including seven tranches of the first disbursement under the second programme (see Table 11).

Table 11. Disbursements under the Greek adjustment programmes (EUR billion)

		Past disbursements			
1 st programme		Euro-area Member States		IMF	Total
1 st disbursement		18 May 2010	14.5	12 May 2010	5.5 20.0
2 nd disbursement		13 September 2010	6.5	14 September 2010	2.5 9.0
3 rd disbursement		19 January 2011	6.5	21 December 2010	2.5 9.0
4 th disbursement		16 March 2011	10.9	16 March 2011	4.1 15.0
5 th disbursement		15 July 2011	8.7	13 July 2011	3.3 12.0
6 th disbursement		14 December 2011	5.8	7 December 2011	2.2 8.0
1 st programme - Total disbursements			52.9	20.1	73.0
2 nd programme		EFSF ¹		IMF	Total
1 st disbursement	1 st tranche ²	12 March, 10 April and 25 April 2012	29.7	19 March 2012	1.6
	2 nd tranche ³	12 March, 10 April and 25 April 2012	4.9		
	3 rd tranche	19 March 2012	5.9		
	4 th tranche	10 April 2012	3.3		
	5 th tranche ⁴	19 April 2012	25.0		
	6 th tranche	10 May 2012	4.2		
	7 th tranche	28 June 2012	1.0		
2 nd programme - Total disbursements till October 2012			74.0	1.6	75.6
1 st programme and 2 nd programme - Total disbursements till October 2012			126.9	21.7	148.6

Notes:

¹ This table does not include EUR 35.0 billion of EFSF notes handed over to the ECB on the 7th of March 2012 as collateral, so that ECB continues to accept SD - rated Greek government bonds in monetary financing activities. EFSF notes have been released by the ECB on the 25th of July 2012.

² Sweetener PSI, EFSF notes

³ Accrued interest PSI, EFSF notes

⁴ Bank recapitalisation, EFSF notes

Source: European Commission and EFSF

- 115. The Eurogroup released on 13 December the 2nd disbursement of the Greek Second adjustment programme.** Member States have authorised the EFSF to release the next disbursement for a total amount of EUR 49.1 billion. The disbursement will be made in several tranches. EUR 34.3 billion will be paid out to Greece in December 2012. The remaining amount will be disbursed in the first quarter of 2013. First, a further amount to cover bank recapitalization and resolution costs will be paid out in January 2013. Second, funds to cover budgetary financing will be disbursed in three sub-tranches, linked to the implementation of specific MoU milestones to be agreed by the Troika (see tables 12 and 13). Following achievement of the respective milestones, an amount of EUR 2.0 billion is expected to be disbursed in January, EUR 2.8 billion in February, EUR 2.8 billion in March. The IMF is expected to release EUR 3.3 billion by early January.
- 116. A mechanism to better trace and monitor the official borrowing and internally-generated funds destined to service debt has been introduced to improve Greece's credit standing.** This mechanism includes a segregated account and the payment to this account of the necessary resources to service debt. Official disbursements to Greece still are conditional on compliance with the programme. Moreover, the government has adopted legislation giving priority to the debt service vis-à-vis other cash outflows. While the segregated account has been used by the Greek Treasury for servicing its debt, its full operational use and advance funding has not yet materialised due to the delayed disbursement under the programme and the ensuing lack of liquidity in the treasury. To ensure this and to meet the pre-funding quarterly target for debt service, it was agreed by the Eurogroup of November 2012, that Greece would transfer all privatisation revenues and primary surpluses to this account.

Table 12. Detailed composition for next disbursement by EFSF following the review

Composition first disbursement December 2012 including DBB	
Total disbursement December 2012	34.3
o/w for bank recap and resolution (notes)	16.0
o/w for bank resolution	5.8
o/w for bank recap	10.2
o/w for DBB (notes)	11.3
o/w for budget (cash)	7.0
Composition disbursement in 1st quarter 2013	
Total disbursement January - March 2013	14.8
o/w for bank recap/resol. (notes) - Jan	7.2
o/w for budget (cash) - Jan-March	7.6
o/ w January	2.0
o/w February	2.8
o/w March	2.8
Total disbursements EFSF	49.1

Source: EFSF

Table 13. Milestones for the disbursement of 3 sub-tranches of the 2nd disbursement

Milestones for January Disbursement (from MoU December actions)	Area	MOU section
Adoption of income tax reform	(Tax policy)	2.2.1
Adjustment of end-user prices for low voltage customers, following the recommendation of the energy regulator (RAE), and of the RES Levy	(Energy)	6.1.3.i. and 6.1.5.3
Milestones for February Disbursement (from MoU January actions)	Area	MOU section
Update of MTFS, incl. setting binding 3-years expenditure ceilings for government subsectors.	(Public financial management)	2.5.2.1
Milestones for March Disbursement (from MoU February actions)	Area	MOU section
Complete the staffing plans for line Ministries , use them to identify redundant positions and employees and on this basis set quarterly targets of mandatory exits through end-2014	(Public Administration)	2.7.1.2.3
Revises downward the price of medicines, based on the three EU countries with lowest prices (Quarterly update of price list)	(Health care)	2.9.2.2.1

Table 14. Financing programme: quarterly financing needs and disbursements of official assistance

in bn EUR, unless otherwise noted													
	2012				2013				2014				2012-2014
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Financing needs													
A. Overall deficit	2.5	3.7	1.1	2.7	4.2	1.5	0.6	0.2	1.5	0.5	1.4	0.3	20.2
Primary deficit ("-" is surplus)	0.2	1.9	-0.8	1.6	2.3	0.1	-1.6	-0.8	-0.7	-0.7	-0.7	-0.7	0.2
Interest payments (1)	2.3	1.7	1.9	1.1	1.9	1.4	2.2	1.0	2.2	1.2	2.1	1.0	20.0
B. Other government cash needs	0.1	0.8	-1.1	5.6	1.6	2.9	1.6	1.7	0.1	0.2	-0.2	-0.2	13.2
Estimated cash adjustments (2)	-1.2	2.0	-1.0	1.2	0.1	0.5	0.1	0.2	0.1	-0.2	-0.2	-0.2	1.5
Arrears	0.0	0.0	0.0	2.0	1.5	1.5	1.5	1.5	0.0	0.0	0.0	0.0	8.0
Cash buffer	1.3	-1.2	-0.1	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.5
ESM capital	0.0	0.0	0.0	0.9	0.0	0.9	0.0	0.0	0.0	0.5	0.0	0.0	2.3
C. Maturing debt	4.9	4.0	0.0	0.3	4.1	5.3	3.5	1.3	3.0	10.3	7.4	2.5	46.5
Bonds & loans after exchange	4.9	4.0	3.4	0.3	0.6	5.3	2.8	0.2	1.7	8.4	5.5	0.2	37.3
Bonds after exchange (3)	4.7	3.8	3.1	0.0	0.4	5.0	2.5	0.0	1.5	3.0	3.8	0.0	27.8
other, incl. loans	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	5.4	1.8	0.2	9.5
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	0.0	0.0	-3.4	0.0	3.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
D. Cost of PSI and Debt Buyback	34.6	25.0	0.0	34.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	94.0
Cash upfront for PSI (sweetener and accrued interest)	34.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	34.6
Bank recapitalisation	0.0	25.0	0.0	23.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	48.2
Cash upfront for Buyback	0.0	0.0	0.0	11.3	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.)	42.1	33.5	0.0	43.1	9.9	9.8	5.7	3.1	4.6	10.9	8.6	2.6	173.9
Financing sources													
F. Private financing sources	0.0	0.0	0.0	0.1	0.1	1.0	0.7	0.7	0.5	0.5	0.5	0.5	4.5
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	0.0	0.0	0.0	0.1	0.1	1.0	0.7	0.7	0.5	0.5	0.5	0.5	4.5
G. Additional financing sources	0.0	0.0	0.0	0.3	0.0	2.7	0.0	0.0	0.0	2.4	0.0	0.0	5.5
ANFA & SMP profits	0.0	0.0	0.0	0.3	0.0	2.7	0.0	0.0	0.0	2.4	0.0	0.0	5.5
H. Financing needs per quarter	42.1	33.5	0.0	42.6	9.8	6.0	5.0	2.4	4.2	8.1	8.1	2.1	163.9
I. Official assistance disbursements	75.6	0.0	0.0	52.4	6.0	5.0	2.4	4.2	8.1	6.5	1.8	1.8	163.8
IMF disbursements	1.6	0.0	0.0	3.3	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	19.1
EU disbursements	40.5	33.5	0.0	49.1	4.2	3.2	0.7	2.4	6.3	4.8	0.0	0.0	144.7

(1) incl. GLF margin reduction and EFSF interest deferral

(2) incl. guarantees on SOE debt, transfers from/to SFFs and other consolidation items

(3) incl. ECB holdings and ANFA rescheduling; ANFA rescheduling includes tentative amounts and is subject to NCB approval

Source: European Commission calculations

Annex 1: Assessment of compliance with the Memorandum of Understanding on Specific Policy Conditionality

I. Assessment of actions taken prior to the disbursement, included in the seventh updated Memorandum - verified by the Eurogroup on 26-27 November 2012

	Actions	State of play	in old MOU	section in new MOU
	Fiscal			
1	The Government adopts the budget for 2013	Adopted, Law 4095 (Official Journal 226/A/15.11.2012)		1.a
2	Adopts additional measures with the aim of reducing the primary deficit to EUR 2925 million in 2012, EUR 0 million in 2013, and ensure a primary surplus of 2774 million in 2014, 5727 million in 2015 and 9005 million in 2016	Adopted, omnibus Law 4093 (Official Journal 222/A/12.11.2012)		1.b
3	The Government adopts the medium-term fiscal strategy (hereinafter MTFS) through 2016 and the respective implementing bill. The MTFS elaborates on the permanent fiscal consolidation measures, which ensure that the deficit ceilings for 2013-16 as established by the Council Decision are not exceeded, and that the debt-to-GDP ratio is put on a sustainable downward path.	Adopted, omnibus Law 4093 (Official Journal 222/A/12.11.2012)	Yes	1.c.
	Privatisation			
4	Present an updated Privatisation Plan to Parliament with the 2012-2016 MTFS.	Uploaded on Ministry website		2.1.a
5	Publish a semi-annual update of the Asset Development Plan, which will include a Portfolio Overview with a description of the privatisation assets, a timeline of planned tenders and targeted total receipts for the current and next year.	Published		2.1.b
6	Amend the Articles of Association of the HRADF (Article 16.3.) in order to stipulate that the “due cause” required for substituting members of the Board of Directors is defined in particular by the undue suspension or by the intentional compromising of the objectives of the HRADF with acts or omissions of its Board members.	MD 2/79634/0025/26.10.2012 (GG B’ 2880/2012).		2.1.c
7	Amend Law 3986/2011 to require the publication of quarterly reports of the HRADF on activities and financial accounts, including a detailed profit and loss statement, a cash flow statement, and a balance sheet, within 60 days of the end of each quarter.	(Omnibus) Law 4093 (Official Journal 222/A/12.11.2012, Section D2 (5a).	Yes	2.1.d
8	Transfer to the portfolio of privatisation assets of the HRADF the full and direct ownership (shares or concession rights) of: Egnatia Motorway, and the regional ports of Elefsina, Lavrio, Igoumenitsa, Alexandropolis, Volos, Kavala, Corfu, Patras, Heraklion, and Rafina.	Done for Egnatia (Ref: B2316/10-8-2012). Ports (decision 222/5.11.2012./FEK 2996, 12 November	Yes	2.1.e
9	Sign the contract between HRADF and the Ministry of Finance for the use of the voting rights for ELVO.	Contract signed and sent.	Yes	2.1.f

	Actions	State of play	in old MOU	section in new MOU
10	Issue an Inter-Ministerial Decision that secures that the proceeds of the sales of the Digital Dividends are transferred to the HRADE.	IMD 223/5.11.2012/FEK 2996, 12 November	Yes	2.1.g
11	Have the line ministries and other relevant entities providing the General Secretariat for Public Property with full access to the inventory of all real estate assets owned by the State.	The appropriate letter has been sent to the line ministries. Line Ministries have provided the requested information.		2.1.h
12	Amend/repeal statutory provisions of companies that diverge from private company law (PPC, OLP and OLTH port authorities, HELPE, EYATH and EYDAP, ports, etc.), regarding any restrictions on voting rights of private shareholders	Amended in the new Privatisation Law (Article 2)	Yes	2.1.i
13	Launch the process to obtain the zoning and land planning permits (ESCHADA), i.e., submit the environmental and zoning study for Afantou and Kassioyi.	Environmental and zoning studies have been submitted.	Yes	2.1.j
14	Launch tenders for the appointment of advisors for EAS, ELVO, South Kavala Natural Gas, Trainose being consistent with existing procurement rules	All tenders have been launched		2.1.k
	Tax Administration			
15	Adopts legislation to define the role and qualifications of the Secretary General. Concerning qualifications, this will be a person with senior management experience, expertise in tax matters, and an impeccable reputation (including a strong tax compliance history).	(Omnibus) Law 4093 (Official Journal 222/A/12.11.2012, Section E, Article 6	Yes	2.3.a
16	Adopts interim legislation, and the Minister of Finance will use this to delegate decision making powers to the Secretary General. These powers will include the competence to make operational decisions, direct and control local offices, manage human resources, replace underperforming senior managers, manage the budget of the tax administration, and manage all information with due confidentiality;	(Omnibus) Law 4093 (Official Journal 222/A/12.11.2012, Section E, Article 6	Yes	2.3.b

	Actions	State of play	in old MOU	section in new MOU
17	Adopts legislation to deploy experienced tax auditors towards activities serving the immediate revenue imperative, making fully operational key enforcement areas as the large taxpayer unit by transferring 100 auditors, establishing one functional unit for high-wealth individuals and high-income self-employed and staffing the unit with 50 experienced tax auditors directly accountable to the Secretary General of the tax administration;	Ministry considers no need for legislation and can be done by Ministerial decision. Four ministerial decisions (MD) produced : - MD 31/10/2012 to transfer 100 auditors to Large taxpayers Unit, - MD 31/10/2012 to give competence to DEK Athens for High Wealth Individuals (with criteria in the MD), - MD to transfer of 50 auditors to DEK Athens, signed 8 November 2012 by Deputy Minister. - Then to ensure adequate staffing, another MD D2A 1157921 16/11/2012 was issued to move more auditors to fill gaps. All auditors have reported to their new offices.	Yes	2.3.c
18	Establishes procedures for the rotation of managers in critical tax offices on a periodic basis.	(Omnibus) Law 4093 (Official Journal 222/A/12.11.2012, section E 2 , article 14, point 1.a	Yes	2.3.d
19	Replaces the Code of Books and Records by significantly simpler legislation in line with international standards;	Code of Books and records abolished and replaced by Code of tax recording of transactions, by (Omnibus) Law 4093 (Official Journal 222/A/12.11.2012, in 1. of part E1. Amendment in "Minibus" act FEK 229A/19.11.2012 ref. Chapter B, Article 4. MD on issuance of electronic tickets FEK 1208/16.11.2012	Yes	2.3.e
	Public Financial Management			
20	adopt the 2013-16 Medium term fiscal strategy	(Omnibus) Law 4093 (Official Journal 222/A/12.11.2012, , sole article, section A		2.4.a
21	ensure that EOPYY reports for at least two consecutive months (retroactive reports included) from its commitment register through the e-portal.	Data submitted		2.4.b
22	introduce and make operational an internal stability pact for local governments;	FEK A nr 228, date 18/11/2012		2.4
23	establish: a system to monitor budget execution for state-owned enterprises(within the general government definition); monthly budget targets; sanctions for their non-observance.	FEK A nr 228, date 18/11/2012		2.4

	Actions	State of play	in old MOU	section in new MOU
	Safeguards for the delivery of fiscal commitments			
24	Adopt a Council of Ministers act (replacing the Council of Ministers act adopted on 29 October 2012, aiming at strengthening the Budget execution and enhancing the sound fiscal management), and including, beyond the provisions in the original Council of Ministers act, additional provisions, establishing that Memoranda of Cooperation are signed by end-December of each year between the Ministry of Finance and the other Ministries or between the Ministries and managers of the supervised entities (thus covering the entire General Government). The Memoranda aim at enhancing the current monitoring and introducing corrective mechanisms, such as: quarterly budget execution targets, corrective actions in case of deviations from targets and further actions in case of non-compliance with the corrective actions	FEK A nr 228, date 18/11/2012		2.5.a.i
25	The same Council of Ministers act includes other additional provisions strengthening the current balanced budget constraints for Local Governments in order to be more effective, but also including corrective and sanctioning mechanisms	FEK A nr 228, date 18/11/2012		2.5.a.ii
26	The same Council of Ministers act includes other additional provisions strengthening the current monitoring system for SOEs, introducing an enforcement mechanism in case of deviations from the specific targets identified for each SOE	FEK A nr 228, date 18/11/2012		2.5.a.iii
27	iv. Setting the framework for defining specific targets for the coverage of operational commitment registers for LG and SOEs to be established by December of each year	FEK A nr 228, date 18/11/2012		2.5.a.iv
28	The same Council of Ministers act includes other additional provisions setting up a framework for correcting transfers from central government to address deviations from targets within the year and possibly in the following years while ensuring that arrears are not increasing. Improvements in operational terms should be integrated in the relevant legislation, including inter alia triggering circumstances, criteria for graduation from suspension to outright reduction of transfers, and timing issues	FEK A nr 228, date 18/11/2012		2.5.a.v
29	The same Council of Ministers act includes other additional provisions making it explicit that the proceeds from the privatisation of government assets are paid directly into the account referred to in section 2.5.6 of the MoU	FEK A nr 228, date 18/11/2012		2.5.4.vi
30	Set automatic cuts in expenditures to be applied as a rule when targets are missed, while ensuring that arrears are not increasing.	FEK A nr 228, date 18/11/2012		2.5.4.vii

	Actions	State of play	in old MOU	section in new MOU
31	Reinforce centralisation of budget planning and implementation. This will include further strengthening of the Ministry of Finance vis-à-vis line ministries, notably with the introduction of an effective top-down budgeting, including a veto role of the Minister of Finance, monthly submission to the supervising Director General of Financial Services (DGFS) and the GAO (depending on the size of their budget) of the budget execution programme and actual execution, and the power to take corrective measures if appropriate at the implementation stage, with bodies failing to comply with their obligations being brought under the direct supervision of the Ministry of Finance	FEK A nr 228, date 18/11/2012		2.5.4.vii
	Other Institutional requirements			
32	(i)adopts the legal act harmonising the entrance fees for all casinos in Greece and all necessary actions are taken toward full and effective recovery of the illegal state aid from all Casinos, including Casino Mont Parnes	(Omnibus) Law 4093 (Official Journal 222/A/12.11.2012, section E7, art. 7, point 9) Recovery ongoing	Yes	2.6.a
33	Identifies the assets and production units of LARCO assets and rights that belong to the Agios Ioannis/Larymna concession in view of their sale after the current concession of LARCO.	Material submitted, Letter from Ministry of Energy and from CEO of HRADF		2.6.b
34	Amends the current requirement in the existing ETEAN law of providing government bonds at market value to banks when guarantees are called. Instead the State will provide ETEAN with cash against ETEAN holdings of government bonds to pay banks for the guarantees called.	(Omnibus) Law 4093 (Official Journal 222/A/12.11.2012, section C.4		2.6.c
	Public administration			
35	The Government ensures that at least 2,000 staff will be moved to the mobility scheme	Legal framework in place. CIRCULAR PUBLISHED AND SENT TO SERVICES ΑΔΑ:Β4ΣΩ Χ-ΗΤΔ 12-11-2012, ex legem implementation of the circular.		2.7.1.a
	Pension Reform			
36	The age of retirement is increased by 2 years, starting from (1 January 2013). The increase is applied to the statutory retirement age and any other retirement age for special groups and to the minimum requirement for getting a pension.	(Omnibus) Law 4093 (Official Journal 222/A/12.11.2012, section K.3		2.8.a

	Actions	State of play	in old MOU	section in new MOU
	Health Reforms			
37	To strengthen health system governance, improve health policy coherence, reduce fragmentation in the purchasing of health services and reduce administrative costs, the Government prior to the disbursement finalises the concentration of all health-related decision making procedures and responsibilities (including payroll expenditures) under the Ministry of Health by merging all health insurance funds, without exception, into EOPYY.	(Omnibus) Law 4093 (Official Journal 222/A/12.11.2012, section IB1/1	Yes	2.9.1.a
38	, adopts legislation which activates contingency measures (including e.g. a cross-the-board cut in prices) , if, for any reason, the claw-back is not able to achieve the target. Such measures produce equivalent amount of savings.	Entry fee introduced . Ref. "Minibus" act FEK 229A/19.11.2012 Article 11 par.1 (entry fee)		2.9.2.2.a
39	sets, through Ministerial decree, the new claw back threshold for 2013, based on the above mentioned targets (2.4 billion for outpatient).	FEK 3035/B/15.11.2012		2.9.2.2.b
40	repeals the current provision of the law which hampers the collection of the rebate from pharmacies in case of delays in payments on the part of EOPYY.	(Omnibus) Law 4093 (Official Journal 222/A/12.11.2012, section L 2		2.9.2.2.c
41	update the price list and the positive list of reimbursed medicines notably by reimbursing only the cost effective packages for chronic diseases, by moving medicines from the positive to the negative and OTC lists and introducing the reference price system developed by EOF. These lists must be updated at least twice a year.	FEK 3047/ B/ 16.11.2012 and FEK 3046/ B/ 16.11.2012	Yes	2.9.2.3 a
42	making it compulsory for physicians to prescribe by international non-proprietary name for an active substance, rather than the brand name.	FEK 3057/B/18-11.2012	Yes	2.9.2.4.a
43	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").	FEK 3057/B/18-11.2012	Yes	2.9.2.4.b
44	To improve the current financial situation of EOPYY and ensure that the budgetary execution is closer to a balanced budget in 2012 and 2013, a set of measures will be implemented prior to the disbursement, including: i. restricting the benefit package; ii. increasing cost-sharing for private care; iii. negotiating price-volume agreements and revising case-mix agreements with private providers; iv. revising the fees for and number of diagnostic and physiotherapy services contracted by EOPYY to private providers with the aim of reducing related costs by at least EUR 80 million in 2013. v. introducing a reference price system for reimbursement of medical devices. vi. progressively increasing the contributions paid by OGA members to the average of those paid by other members of EOPYY.	FEK no.3054/B'/18-11-2012	Yes	2.9.3.a

	Actions	State of play	in old MOU	section in new MOU
	Banking			
45	the BoG has informed all banks, of their individual capital needs and has requested that they finalize the capital raising process by end-April 2013	BoG confirmed that letters have been submitted to the banks. The letter reference numbers are 2660/8609/8.11.2012 to 2672/8621/8.11.2012.		3.1.1.a
46	the legal framework for recapitalisation is put into place	FEK 38/9.11.2012		3.1.2.a
47	The HFSF will complete the due diligence of core banks and any findings of interest to the supervisor will be communicated to the BoG. The due diligence will, inter alia, focus on a review of governance including loans to related parties, asset quality, and risk concentration. The BoG will address these findings promptly, including suspension of private shareholders (which would prevent them from participating in bank recapitalization framework) and/or removal of board members and managers.	Due diligence completed. BoG has confirmed that documents have been received on 16 November, 2012.		3.4.a.
48	The authorities agree, with the EC/ECB/IMF the terms of reference for the monitoring of trustee and have communicated them to the banks with instructions for the trustees to begin work no later than mid-January 2013	Done on 16 November, 2012.		3.4.b.
49	The authorities will amend the HFSF by-laws to clearly stipulate that the HFSF Board, including the EC and ECB observers at the HFSF, must be informed of all decisions of the core banks having an impact on the HFSF's rights as a shareholder/investor. This information, as soon as received by and through the senior executive of the HFSF, is to be provided within one day of receipt	HFSF Board of Directors decision on 8 November, 2012.		3.4c.
	Labour			
50	The Government adopts the framework provisions for the reform of the minimum wage framework as described above, with the view of having the necessary changes enacted by Q1-2013 at the latest.	(Omnibus) Law 4093 (Official Journal 222/A/12.11.2012, subsection K.11 (paragraphs 1-4))	Yes	4.1a
51	The Government makes it possible - and in full respect of the current limits on the duration of the working week (including the 40-hours working week as a reference) and of minimum rests due to health reasons for specific categories of workers - to: (i) on a contractual basis, apply the general rules on the number of maximum workdays to sectors not now covered by the general rules; (ii) set the minimum daily rest at 11 hours; (iii) allow in seasonal sectors the consecutive minimum two week leave requirement to be taken anytime during the year.	(Omnibus) Law 4093 (Official Journal 222/A/12.11.2012, subsection K.14 (paragraphs 1-3))		4.2.a
52	the Government reduces the maximum dismissal notification period to 4 months and caps statutory severance pay at 12 months (while preserving the existing link between tenure and severance for tenures with severance below the cap). If the cap has already been surpassed on the date of the reform, the amount accrued will be grandfathered in case of future dismissal, but subject to a cap of EUR 2000 per month for the number of months that exceed 12. In addition, in those occupations where statutory severance costs are in excess of the rule just described, the compensation for severance will be aligned with the latter.	(Omnibus) Law 4093 (Official Journal 222/A/12.11.2012, subsection K.12 (paragraphs 1-4)). "Minibus" act FEK 229A/19.11.2012 art 12 par.2		4.3.a

	Actions	State of play	in old MOU	section in new MOU
53	eliminates the obligations: i) to ex-ante submit work schedules to the Labour Inspectorate; ii) to require pre-approval by the Labour Inspectorate of: overtime work, itinerary books of trucks and buses, the work book of daily employment of construction workers, and split of annual leave. These changes shall not apply in the cases of underage employees and workers. Employers will be obliged to record this information and make it available to the Labour Inspectorate for checks whenever requested.	(Omnibus) Law 4093 (Official Journal 222/A/12.11.2012, subsection K.13 (paragraphs 1-4))		4.4.a
54	it undertakes an independent external assessment of the Labour Inspectorate, to be completed by Q4-2012, on: (a) the mandate, activities and structure of the Labour Inspectorate with a view to increase its effectiveness and efficiency in fighting undeclared work while keeping administrative burdens for firms contained; and (b) the enforcement and penalty structure for infringements of labour arrangements (including undeclared work).		Yes	4.4.b
	Business environment			
55	removes the mandatory presence of a lawyer to draft the articles of association of companies with capital in excess of €100,000 (cfr. Art. 42.1 of law 3026/1954).	(Omnibus) Law 4093 (Official Journal 222/A/12.11.2012, section M 1,7		5.1.2.1.a
56	amend the regulatory framework of custom brokers to, among others i) eliminate the limitation of customs brokers' services to natural persons and to legal partnerships; ii) allow legal persons to represent others at customs, authorise companies (natural and legal persons) to complete customs formalities (for themselves or for other companies) without employing the services of a customs broker; iii) lift geographical restrictions, nationality requirements, the age limit to sit the examinations for customs brokers; iv) increase the frequency of examinations; v) review the system of annual renewal of licenses and to vi) repeal minimum fees.	(Omnibus) Law 4093 (Official Journal 222/A/12.11.2012, section D 5,1, "Minibus" act FEK 229A/19.11.2012 , article 3,		5.1.2.4.a
	Energy			
57	allow independent gas stations to (i) own or (ii) rent tanker trucks of any capacity provided that safety standards for the transportation of fuel are respected.	(i) FEK B 3052/18-11-2012 (ii) Omnibus Law, ref O 1-15		6.1.7.2.a
58	allow independent gas stations to hire public-used tanker trucks for fuel transportation without needing to qualify for their own private used tankers.	(Omnibus) Law 4093 (Official Journal 222/A/12.11.2012, section O 1-15, minibus Article 6 par. 6		6.1.7.2.b
59	allow any tanker truck, regardless of its capacity, to enter the refineries and customs installations to transport fuel under their own brand name/trademark, provided that safety standards for the transportation of the fuel are respected.	(Omnibus) Law 4093 (Official Journal 222/A/12.11.2012, section J3, MD FEK 3052/B/18-11-2012		6.1.7.2.c
60	issues technical specifications and next steps for the implementation of the input-output measurement system in all fuel stations;	FEK B 3017/ 14.11.2012		6.1.7.3.a
61	issues a Ministerial Decision providing for the installation of GPS systems, as provided for in Art. 320 of law 4072/2012.	ΦΕΚ B 3052/18-11-2012		6.1.7.3.b
	Transport			
62	remove restrictions on the rental of pickup trucks, vans and chauffeur services;	(Omnibus) Law 4093 (Official Journal 222/A/12.11.2012, sections H2 and O4 ΦΕΚ B 3053/18-11-2012		6.3.1.a

	Actions	State of play	in old MOU	section in new MOU
63	Allow shuttle services by hotels and tour agencies using small vehicles (less than 12 seats) and tour packages for small vans and off-terrain vehicles.	(Omnibus) Law 4093 (Official Journal 222/A/12.11.2012, section H2 FEK B 3049/16.11.2012		6.3.1.b
	Retail			
64	eliminates the requirement of minimum space for the sale of food products.	MD issued (Y1γ/T.II/ouk. 96967 (FEK 2718/B/2012)	Yes	6.4.a.
65	allows mixed shops to sell goods other than food, subject to hygiene and food and safety standards.	MD issued (Y1γ/T.II/ouk. 96967 (FEK 2718/B/2012)		6.4.b.
66	(i)allows supermarkets the sale of pre-packaged meat, cheese and fish products; (ii) liberalizes sale in supermarkets for infant milk (i.e., 0-6 months).	(i) MD issued (Y1γ/T.II/ouk. 96967 (FEK 2718/B/2012), "Minibus" act FEK 229A/19.11.2012 Article 6. par. 5 (ii) Omnibus Ref. H.3		6.4.c.
67	allows a delink of the working hours of all employees in establishments (as defined in Law 1037/1971 and related implementing legislation) from opening hours of the establishment.	(Omnibus) Law 4093 (Official Journal 222/A/12.11.2012, subsection K.10 (paragraph 1)		6.4.e.
68	adjusts the law to clarify that shift breaks are allowed in all retail establishments (including those with continuous working schedule).	(Omnibus) Law 4093 (Official Journal 222/A/12.11.2012, subsection K.10 (paragraph 2)		6.4.f
	Regulated Professions			
69	the Government amends sector specific legislation to lift the restrictions in the professions and economic activities listed in Section 9.2.1 of this Memorandum.	(Omnibus) Law 4093 (Official Journal 222/A/12.11.2012, sections K.4.I, E.6., H.5, K.4.II, K.4.III, I.1-11-13, N.1, E.5, F.3.N.1, J.1. Minibus and FEKs and MDs, FEK 3055/B/18-11-2012 TOURIST GUIDES, FEK 3055/B/18-11-2012 TOURIST AGENCIES, FEK 3056,3057/18-11-2012 MoEDUCATION (2JMDs & 4 MDs) 1MD Pending FEK (SAEP) MINI BUS: ART. 6 (accountants), ART 10 (stevedores), ART. 12 (lawyers) ART. 13 (tourist guides), ART.3 (custom brokers), ART. 7 (private education establishments), ART. 8 (energy inspectors) PENDING FEK: JMD from MoL (private labour consultancy offices), MD from MoState (newspaper agencies) and MD from MoDEV (accountants)527/18.11.2012 (board of recognition of professional qualifications). Government commitment in writing to address two legislative amendements in response to comments by EC/ECB/IMF prior to disbursement	Yes	6.5.1.1.

	Actions	State of play	in old MOU	section in new MOU
70	repeal Art. 42 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.	(Omnibus) Law 4093 (Official Journal 222/A/12.11.2012, sectin M1. 8 A The mandatory presence of a lawyer for the buyer is abolished; the mandatory presence for the buyer for transactions above a certain threshold is abolished as of 1 January 2014	Yes	6.5.2.a.
71	repeal the scale of minimum monthly amounts that are due to lawyers remunerated for services rendered with a fixed periodic fee (without prejudice to having fee regulations for trainee lawyers).	(Omnibus) Law 4093 (Official Journal 222/A/12.11.2012, section M1. 8 B, "Minibus" act FEK 229A/19.11.2012 Article 12 par. 2 and ref.	Yes	6.5.2.c.
	Statistics			
72	Prior to disbursement, and to ensure a smooth and effective transition toward the new framework, the Authorities commit to clear all arrears toward ELSTAT for the financial years 2011 and 2012.	(Omnibus) Law 4093 (Official Journal 222/A/12.11.2012, section C.3		8.1.2

II. Assessment of compliance with Memorandum of Understanding (sixth update, March 2012)

Table A1 - Fiscal Consolidation

Fiscal consolidation	
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.	NOT OBSERVED. PROGRESS MADE Due to a deeper recession the achievement of the primary spending and deficit targets is delayed. Revised fiscal targets The Council decision provided an extension of the adjustment path by two years. The new primary balance targets are set at -1,5% for 2012, 0% for 2013, 1,5% for 2014, 3% for 2015 and 4,5% for 2016.
Prior to the first disbursement 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.	OBSERVED - Law 4052/2012 (Official Gazette 41/A/01.03.2012) - Reduce medicine prices: Ministerial Decision YG/151/29.02.2012-Official Gazette 545/B/01.03.2012. - Reduce prices for off patent medicine: Ministerial Decision YG/151/29.02.2012-Official Gazette 545/B/01.03.2012. - Reduce generic prices: Ministerial Decision YG/151/29.02.2012-Official Gazette 545/B/01.03.2012. - Reduce off branded prices: Ministerial Decision YG/151/29.02.2012-Official Gazette 545/B/01.03.2012. - Increasing co-payments: Joint Ministerial Decision F42000oik2555/353/28.02.2012- Official Gazette 497/28.02.2012. - Reduction in pharmacists and wholesalers margins: Ministerial Decision YG/151/29.02.2012-Official Gazette 545/B/01.03.2012. - Compulsory prescription by e- prescription: Ministerial Decision YG/148/29.02.2012 Official Gazette 545/B/01.03.2012 - Compulsory protocols: Ministerial Decision Y4a/29.02.2012 Official Gazette 545/B/01.03.2012 - Only reimburse pharmacists on the basis of electronic prescription: Ministerial Decision YG/148/29.02.2012 Official Gazette 545/B/01.03.2012. - Rebates for positive list: Ministerial Decision YG/151/29.02.2012 Official Gazette 545/B/01.03.2012. - Circulars requesting the update on hospital's and social security funds' budgets . F.80000/5368/1108/06.03.2012 and 22435/06.03.2012 and Joint Ministerial Decision Y10/G.P. oik GY156/01.03.2012. - Claw back: Ministerial Decision GY 150/01.03.2012- Official Gazette 681/B/08.03.2012
- Reduction in overtime pay for doctors in hospitals by at least EUR 50 million.	OBSERVED - Reduction in overtime pay for doctors: Law 4051/2012, Official Gazette 40/A/29.02.2012.

	- Implementing circular 2/17589/022/29.02.2012
- Reduction in the procurement of military material by EUR 300 million (cash and deliveries).	OBSERVED Reduction in the procurement of military material: Law 4051/2012 Official Gazette 40/A/29.02.2012
- 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.	OBSERVED Reduction by 10% in the remuneration of elected and related staff: Law 4051/2012 Official Gazette 40/A/29.02.2012. The reduction in remuneration is immediate. However the reduction in the number of deputy mayors and associated staff will only become effective on 1 January 2013.
- 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.	OBSERVED Reduction in central government's operational expenditure and electoral spending: Law 4051/2012 Official Gazette 40/A/29.02.2012. Although legislative changes have been made, the reduction of expenditure in some categories has been ex-post smaller than originally included in the programme due to the fact that some unexpected spending have not been sufficiently offset by other savings (thus requiring the increase of the appropriation through the contingency reserve).
- Reduction in operational expenditure by local government with the aim of saving at least EUR 50 million.	OBSERVED Cuts on subsidies and grants: Law 4051/2012 Official Gazette 40/A/29.02.2012
- 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.	OBSERVED - Remote areas: Joint Ministerial Decision 1411/25952/05.03.2012 - Grants: Ministerial Decision amending the budget of Ministry of Education F.1/A/137/23741/IB/06.03.2012, amending the implementing budget F.a/A9017022/16.02.2012, on grants to universities on contractual university employees F.a/G23736/IB/06.03.2012, on grants to universities for operational expenditure 1/A/23740/IB/06.03.2012, on grants to universities on expenditure for food for students F.1/B 23738/IB/06.03.2012, on grants to technical schools for contractual employees, operational expenditure and food to students 23734/IB/06.03.2012. - On amended budget to Ministry of Culture and Tourism YPPOT/OIKON/A1/19924/05.03.2012
- 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-	OBSERVED Reduction in PIB: Law 4051/2012 Official Gazette 40/A/29.02.2012

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).	OBSERVED - Changes in supplementary pensions Law 4051/2012 Official Gazette 40/A/29.02.2012. - Joint Ministerial Decision for NAT Official Gazette 499/B/28.02.2012
- Cuts in family allowances for high-income households, with the aim of saving EUR 43 million.	OBSERVED Cuts in family allowances Law 4052/2012 Official Gazette 41/A/01.03.2012
Prior to the first 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;	OBSERVED Business tax: Ministerial Decision POL 1167/02.09.2011
Prior to the first disbursement the Government also adopts the following pending acts: - 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.	OBSERVED - Wage Grid: Law 4051/2012 Official Gazette 40/A/29.02.2012 - Joint Ministerial Decision for staff of ministerial offices 2-16306/0022/23.02.2012 Official Gazette 78/Yo/24.02.2012 - Joint Ministerial Decision for fixed term contracts 2-391/0022/17.02.2012 Official Gazette B 414/23.02.2012 - Joint Ministerial Decision for heavy duty tasks Official Gazette 465/B/24.02.2012 - Joint Ministerial Decision for lawyers Official Gazette 498/B/28.02.2012 - Joint Ministerial Decision for special scientist of independent authorities Official Gazette 498/B/28.02.2012
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).	OBSERVED (see new MoU, Annex 9.6.1, PA) The Government adopted in November the cuts in special wage regimes; they have been included in the omnibus bill (Paragraph C.1/13-39). Although those cuts should have entered into force in June rather than in November, they are made retroactively as of 1 August 2012.
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	ONGOING KEPE carried out a review on public spending reflecting concrete results that the Government used as part of the measures adopted in the fiscal package.

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.	OBSERVED
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.	OBSERVED (see new MoU, section 1.c, PA) Presentation of MTFS was delayed but it was finally adopted with the omnibus law (Section A, article 1)
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.	OBSERVED AND ONGOING The activation of commitment registries is the most important element of this process; this is ongoing but not completed yet.

Table A2-Structural Fiscal Reforms

<i>Asset management and privatisation</i>	
<p>The Government implements the privatisation programme with the aim of collecting EUR 50 billion in the medium term.</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>PARTIALLY OBSERVED (see new MoU, section 2.1,d-g, PA, and 2.1.11).</p> <p>All PAs have been respected. However, cumulative receipts did not add up to EUR 5200mn by end-2012.</p>

All legal, technical and financial advisors for the privatisations planned for 2012 and 2013 will be appointed by end Q1-2012.	OBSERVED (see new MoU, section 2.1.k, PA)
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.	ONGOING (see new MoU, section 2.1.1, DECEMBER 2012 to JUNE 2013)
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]	OBSERVED FEK of legislative act is A' 175/07.09.2012
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.	NOT OBSERVED (see new MoU, section 2.6.2, JANUARY 2013) The appointed interlocutor unit has not delivered the expected results and needs strengthening and readjustment.
- 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	PARTIALLY OBSERVED (new MoU 2.6.a-c and 2.6.1) Pending issues related to Casino Mont Parnes (recovery of illegal State aid still pending, as the authorities need to

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.	appeal from the suspension of the recovery orders (or alternatively, ignore the suspension decisions)).
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.	OBSERVED AND ONGOING (see new commitment in new MoU 2.1.h, PA)
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]	OBSERVED (see new MoU, section 2.1.h and 2.1.j, PA)
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]	NOT RELEVANT YET (see new MoU, section 6.3.4.5, JUNE 2013 for TRAINOSE, OCTOBER 2013 for OASA)
<i>Tax policy</i>	
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.	NOT OBSERVED. PROGRESS MADE (see new MoU, section 2.2.1, DECEMBER 2012) Extensive and detailed discussions on key parameters and budgetary impact of PIT and CIT income tax reform. Draft legislation on PIT, CIT, and sanctions etc circulated and most likely to be enacted end-December 2012.
By June 2012, the Government will revise the legal values of real estate to better align them with market	NOT OBSERVED. PROGRESS MADE (see new MoU, section 2.2.3. MARCH 2013) According to Bank of Greece, the shortfall of real estate

prices.	prices in 2011 and 2012 reduced de facto the discrepancy between prices and legal values by 80%. Therefore, Authorities focused their efforts on a dynamic process to timely updates legal values towards market prices. The Ministry of Finance has initiated the design and implementation of a standard procedure for revision of legal values. An amendment has been drafted for placing the respective responsibility in the Directory of Capital Taxation. This new process will reduce the political interference in the determination of real-estate prices for taxation purpose.
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.	OBSERVED
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.	OBSERVED Ministerial Decision 02.04.2012 POL 1090. While standards for processing tax refunds were set in Ministerial Decision 02.04.2012 POL 1090, tax refunds in arrears were defined in a letter signed by the Deputy Minister of Finance on 07.09.2012 (letter ref. 2/65333/ΔΠΠΚ). The Authorities have published September data in the budget execution bulletin (October).
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	PARTIALLY OBSERVED (see new MoU, section 2.3.2.4, DECEMBER 2012) Of the ten tax administration structural benchmarks, five are seriously lagging their full year targets: 10 percent of new (2012) debts were recovered against a target of 20 percent; EUR 0.7 billion of old debts were recovered against the annual target of EUR 2.0 billion; less than 10 percent of the annual target for full-scope audits and 35 percent of temporary audits for large taxpayers were completed at June 30 while around 25 percent of the annual audit target for HWI is achieved. Achievement of December targets appears to be also at risk.

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.	OBSERVED
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]	OBSERVED (see new MoU 2.3.c, PA). The Authorities took two Ministerial decisions to move auditors (MD 31/10/2012 to transfer 100 auditors to Large taxpayers Unit, and another MD D2A 1157921 16/11/2012 was issued to move more auditors to fill gaps). Staff of LTU has been reported to reach 100 new auditors on 19/11/2012. The management of tax files has been centralised.
- 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;	NOT OBSERVED. PROGRESS MADE (see new MoU, section 2.3.2.2, June 2013) A competitive examination took place internally and 235 employees were selected as tax auditors. The rest of the tax auditors were employees selected by the directors of DOY according to qualitative criteria and approved by the Central Mgmt with contracts' signature. A legislative provision is in force that enables the increase of the auditors to the one required although this objective will be reached in mid-2013 rather than at end-2012 (Omnibus law section E article 14).
- removes barriers to effective tax administration [June 2012], including a formal performance review and replacing managers who do not meet performance targets;	OBSERVED (see new MoU, section 2.3.2.3, DECEMBER 2012 and 2.3.5.1, CONTINUOUS) Re-assessment of auditors has proceeded. Following this assessment a few new contracts have been offered to reassessed auditors. The process has been too slow. To reverse this trend, the new Government decided to take actions to bring back the highest number of tax auditors and introducing quarterly performance (Omnibus law section E article 14).
- continues to centralise and merge tax offices; 200 local tax offices, identified as inefficient, will be closed, by end-2012;	PARTIALLY OBSERVED (see new MoU, section 2.3.1.3, JUNE 2013) 6 tax offices closures in April (May tax adm monitor) which brings the total of closed offices to 51. By mid-October additional 48 tax offices will be disrupted. Current plan is to close all the local tax office leaving only 90-110 offices in place.
- centralises the management of tax files related to the taxpayers in the list of big debtors; [Q1-2012]	OBSERVED The management of tax files has been centralised, but the unit still lacks effective means to do meaningful recovery work

- revises the procedures to write-off tax debts, so that the administrative efforts may focus on effectively collective debts, by end-2012;	ONGOING (see new MoU, section 2.3.3.2, FEBRUARY 2013)
- 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];	NOT OBSERVED. PROGRESS MADE (see new MoU, section 2.3.3.3 DECEMBER 2012) The required institutional changes have been identified and the necessary action to complete this task is underway. To be completed by December 2012. Work is in progress to complete the payment of assessed debts through the banking system to be completed by end-October. It will include debts that are under instalment plans (currently the majority due to the crisis).
- starts to publish on the web key performance indicators for the tax department [Q2-2012];	OBSERVED
- puts in place a new IT system that interconnects all tax offices.	ONGOING (see new MoU, section 2.3.6.2, MARCH 2013)
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.	OBSERVED AND ONGOING (see new MoU, section 2.3.6.3-7 MARCH 2013) The new data centre hardware is in place and running by end-March 2012; According to GSIS secretariat the first major upgrade has been completed. All systems are delivered and operational.
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];	OBSERVED Further to orders nr GDOE 1140569/10.10.2011 and GDOE 1119710/26.08.2011, whereby Financial Inspectors were instructed to focus on the audit of tax collection, Financial Inspection operations are being reformed through interventions such as: - use of the new custom-made IT application (within IIS Elenxis) to assess risk and perform investigations efficiently - using the Complaints Prioritization Committee to screen information about employee misconduct and focus on serious cases (Ministerial Decision to be signed

	<p>shortly)</p> <ul style="list-style-type: none"> - setting up a Committee for the Review of Inspection Reports, which aims to provide Financial Inspectors with legal coverage and more freedom in their investigations (Ministerial Decision drafted and expected to be signed shortly) - applying the means of tax audit reviews, to re-examine 3% of tax audits that were completed in the first half of 2012 (order issued 10 Aug. 2012) - relieving Financial Inspection from the burden of financial audits of public entities (legislation drafted and expected to pass shortly). <p>It is expected that a) the training (by the National Centre of Public Administration) of 80 new recruits and b) the structural changes to be legislated by the Ministry of Administrative Reform and E-Government by the end of 2012, shall further enhance Financial Inspection's capacity.</p>
- activate an Internal Affairs Directorate [June 2012];	<p>PARTIALLY OBSERVED (see new MoU, section 2.3.2.7 APRIL 2013)</p> <p>Law (ΦΕΚ 811/19-3-2012). However the Internal Affairs Directorate does not have powers to adopt disciplinary actions so far. The anti-corruption strategy should still gain momentum and it should be redirect to tackle the entire public Administration and not only the Tax Administration.</p>
- require the Financial Intelligence Unit to audit annually at least 200 asset statements of tax officials [June 2012];	<p>NOT OBSERVED. PROGRESS MADE</p> <p>The Authorities report that the General Auditor for Public Administration has already assessed more than 500 tax officials asset declaration. The Financial Intelligence Unit is involved in Anti Money Laundering activities and its activity has not yet been redirect towards audits of tax auditors.</p>
- establish procedures for the rotation of managers on a periodic basis [June 2012];	<p>OBSERVED (see new MoU, section 2.3 lett. d PA)</p> <p>Omnibus Law, E 2 , article 14, number 1.a</p>
- improve the system to protect whistle-blowers who report corruption [June 2012];	<p>NOT OBSERVED (see new MoU, section 2.3.2.6 MARCH 2013)</p>
- prepare a fully-fledged anti-corruption plan [September 2012].	<p>NOT OBSERVED (see new MoU, section 2.7.1.1.8 FEBRUARY 2013)</p>
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	<p>OBSERVED (see new MoU, section 2.3 lett. b PA)</p> <p>Section E, Article 6 omnibus Law</p>

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.	OBSERVED Laws on Article 70A committee and independent arbitration were enacted and amended several times in 2011-2012, but the outcomes are still poor due to the presence of bottlenecks. A change in legislation is needed and expected to be approved by November.
The Code of Books and Records is repealed in its entirety and replaced by simpler legislation. [not later than June 2012]	OBSERVED (see new MOU 2.3.2.1 PA) The Code of Books and records was abolished and replaced by the Code of tax recording of transactions, by (Omnibus) Law 4093 (Official Journal 222/A/12.11.2012, in 1. of part E1). Amendment in "Minibus" act FEK 229A/19.11.2012 ref. Chapter B, Article 4. MD on issuance of electronic tickets FEK 1208/16.11.2012.
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.	NOT OBSERVED. PROGRESS MADE (see new MoU, section 2.4.4) A draft of the plan has been prepared but it will be finally presented by end-November.
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;	OBSERVED AND ONGOING (see new MoU, section 2.4.3.i. DECEMBER 2012) Circular on commitment registers for the investment budget issued in March. 72% of spending units reported data from commitment registers in July meeting the relevant structural benchmark (the other one concerning discrepancies between data reported through surveys and those by commitment registers was missed by a small margin).
- 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]	PARTIALLY OBSERVED (see new MoU, section 2.4.3.iii. CONTINUOUS) Enforcement mechanism has been put in place as cuts in grants for those entities which do not report fiscal data properly. Disciplinary actions were not taken. There is still a lack of staff and the need to provide training in some entities.
- adopts legislation streamlining the procedure for submission and approval of supplementary budgets, [October 2012] and establishes an administrative	PARTIALLY OBSERVED (see new MoU, section 2.4.1 FEBRUARY 2013) An administrative calendar for the update of the medium-

calendar for the update of the medium-term fiscal strategy. [Q1-2012]	term fiscal strategy has been established in Q1. The MTFS has been adopted. Adoption of legislation to streamline procedures for submission and approval of supplementary budget under discussion with the Authorities.
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Table A3 - Pensions

<i>Pensions</i>	
<p>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.</p> <p>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:</p> <ul style="list-style-type: none"> - 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. 	OBSERVED
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]	OBSERVED
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]	OBSERVED
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]	PARTIALLY OBSERVED (see new MoU, section 2.8.2, 1H 2013 to Q4 2013) Supplementary pension have been reduced as of January 2012. However, the new computerised system will start to be implemented only in 2013.
The Government identifies the schemes for which lump sums paid on retirement are out of line with contributions	NOT OBSERVED (see new MoU, section 2.8.3, Q4 2012)

paid, and adjusts the payments. [Q1-2012]	The technical work to establish an actuarial formula for the calculation of supplementary pensions will be completed in November. A Ministerial Decision will be adopted by December.
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]	NOT OBSERVED (see new MoU, section 2.8.4, Q1 2013) The Ministry of Labour will produce a report based on the activities of Health Committees by early 2013.
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.	OBSERVED
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.	OBSERVED The Social Security Funds already invest in government paper, through the Bank of Greece. Only a very small amount needed for liquidity is held in other forms.

Table A4 – Public sector modernisation

Public administration	
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.	OBSERVED AND ONGOING (see new commitment in new MoU 2.7.1.1, NOVEMBER 2012 to DECEMBER 2013) (i) observed [Cabinet Office Decision 10 August 2012]; (ii) ongoing; (iii) observed [horizontal structures have been established to all Ministries and General Directors have been placed in every Ministry].
A specific roadmap is created, translating all principles of coherence and efficiency at the central level into the decentralized regional/local level. [March 2012]	PARTIALLY OBSERVED (see new MoU, section 2.7.1.1.4 DECEMBER 2012 to DECEMBER 2013, and Annex 9.6.9, 2013) The Roadmap has identified next steps in the context of the public administration functional review and of the strengthening mechanisms for local budgets.
The on-going 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,	ONGOING (see new MoU annex 9.6.8) - Fiscal Measure The OECD report on social programmes has not yet been finalised nor agreed with the Greek authorities.

as well as on the need to keep a balance between achieving savings and protecting the most vulnerable.	Nonetheless, some of its findings were used to change policies on social programmes.
<i>Public sector wages and human resource management</i>	
<p>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.</p> <p>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.</p> <p>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]</p>	<p>OBSERVED AND ONGOING (see new MoU, section 2.7.1.1, NOVEMBER 2012 to JANUARY 2013)</p> <p>Progress made in collecting and cross-checking data for General Government estimates, aiming at creating a single database to monitor stocks and flows of staff across government entities. Publication of staffing plans to be made consistent. Monitoring of progress will be easier once database is in place. Revision to the intake rules for professional schools is considered within the broader discussion of budgetary savings.</p>
<p>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.</p>	<p>NOT OBSERVED (see new MoU, section 2.7.1.2, NOVEMBER 2012 to 2015)</p>
<p>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.</p>	<p>OBSERVED AND ONGOING</p> <p>Expert assessment completed. Concrete results to be identified.</p>

<p>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]</p>	<p>OBSERVED</p>
<p>Public procurement <i>Single Public Procurement Authority (SPPA)</i></p>	
<p>The Government issues decisions:</p> <ul style="list-style-type: none"> - 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] 	<p>NOT OBSERVED. PROGRESS MADE. (see new MoU 2.7.2.1.1, DECEMBER 2012)</p> <p>The decisions regarding the appointment of the members of the SPPA board, for the establishment of positions for the SPPA personnel, as well as the Presidential Decrees on the rules of operation of the SPAA (PD 122/2012; FEK A 215/5.11.2012) and on the organization of SPAA (PD 123/2012; FEK A 216/5.11.2012) have all been adopted. A draft Presidential Decree on the SPPA's financial regulation was submitted to the Commission services on 7 December 2012.</p>
<p>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]</p>	<p>OBSERVED</p> <p>The members of the Board have been appointed and 7 staff (5 lawyers, 2 engineers) have been moved to the Authority from various Greek public sector bodies (as of mid-September 2012). The SPPA is currently sharing the premises of the Greek Secretary General of Commerce and will be moved to a new building later in 2012. Also, as of mid-September, the SPPA had adopted 27 negative decisions against the adoption of a negotiated procedure without publication in the healthcare sector.</p>
<p>E-procurement</p>	
<p>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]</p>	<p>NOT OBSERVED, PROGRESS MADE (see new MoU 2.7.2.3.1, DECEMBER 2012)</p> <p>A timeline for the development of the National Electronic Public Procurement System was submitted to the Commission Services on 1 August 2012. However, it did not qualify as a detailed plan for the development of the e-procurement platform.</p> <p>According to the updated MoU, the Authorities will submit in December 2012 a plan for the development of the e-procurement platform and to gradually extend its use to all public sector bodies in Greece.</p>
<p>The Government presents a pilot version of the e-procurement system. [Q2-2012]</p>	<p>PARTIALLY OBSERVED (see new MoU 2.7.2.3.2, DECEMBER 2012/ 1st HALF 2013)</p> <p>The Government presented in October 2012 to the Commission services the software of the e-procurement platform. According to the new MoU, the platform will</p>

	be tested between December 2012 and June 2013 on a pilot basis.
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]	ONGOING. (see new MoU 2.7.2.3.2, JULY 2013) According to the Authorities' estimates, the e-procurement platform will be fully operational in July 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]	NOT RELEVANT YET (see new MoU, section 2.7.2.3.3.iii, Q4 2015)
<i>Efficiency of procedures</i>	
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]	OBSERVED The identified CPBs are the Health Procurement Committee (HPC) for health supplies and the General Secretariat of Commerce for supplies and services. Given the recent creation of the Single Public Procurement Authority (in April 2012), these CPBs are not yet coordinated by the Single Public Procurement Authority.
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]	NOT OBSERVED. PROGRESS MADE (see new MoU 2.7.2.2.2, DECEMBER 2012 & APRIL 2013) A set of five framework contracts covering office and health supplies and business services was submitted to the Commission services on 10 December 2012. They do not include, however, the obligation for ministries and central government bodies to source via these contracts. This requirement has been moved to April 2013 in the updated MoU.
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.	PARTIALLY OBSERVED (see new MoU 2.7.2.2.1, DECEMBER 2012) A note on CPBs was sent to the Commission in October 2012, and TFGR has presented expertise to the Government to prepare an action plan within the deadline set in the new MoU (December 2012).
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	PARTIALLY OBSERVED (see new MoU 2.7.2.2.4, JANUARY 2013) A Steering Committee has been set up to coordinate the secretary generals with public procurement responsibilities in Greece. The Committee is chaired by the Deputy Minister of Development. Meanwhile, the EC has outsourced a study to map public procurement legislation, which will be used in the context of the review of Greek public procurement legislation and will be presented in December 2012.

agreement with the European Commission. [Q2-2012]	The new MoU calls the government to agree with the Commission services on an action plan for the reform of the public procurement system by January 2013 and to submit the draft legislation by Q3 2012. The action plan will factor in the findings of the EC study on the Greek public procurement system.
Government presents drafts of the necessary legislative and organisational measures to implement the above-mentioned Action Plan to the European Commission. [Q4-2012]	NOT RELEVANT YET (see new MoU, section 2.7.2.2.5, Q3 2013)
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]	PARTIALLY OBSERVED (see new MoU, section 2.7.2.2.5, Q3 2013) The Greek government has submitted data on the Greek redress system to the Commission services, the last time, on 4 October 2012. The information needs to be supplemented with data from the Administrative Courts of Appeals, which have a critical role in the adjudication of actions/interim measures requests against the decisions of the contracting authorities. Looking forward, the review of the redress system will become part of the review of the public procurement legislation.
Statistics	
The on-going 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.	OBSERVED Law 4051/2012 Official Gazette 40/A/29.02.2012

Table A5 – Health sector

<i>To modernise the health care system</i>	
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	ONGOING (see new MoU, section 2.9, CONTINUOUS) In March Law 4052/2012 was adopted in Parliament bring additional important changes to the system in line with the MoU.

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.	ONGOING (see new MoU 2.9.2, CONTINUOUS) The implementation of the claw back mechanism has been reactivated and the Authorities have legislated contingency measures. To boost compulsory prescription by active substance and compulsory substitution of cheapest product, prior actions in March 2012, the Authorities have published a decree listing the exemptions to INN. The price and the positive lists have been published only and cost-sharing for medicines has been changed which will produce savings in 2012 and 2013.
<i>Governance</i>	
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.	OBSERVED AND ONGOING (see new MoU 2.9.1.a PA) Following a number of legislative steps since March 2012 (Law 4052/2012 and Omnibus Law November 2012), all health insurance schemes have now been legally merged into EOPYY. This will be followed by administrative adjustment processes to smoothen the merging.
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).	ONGOING (see new MoU, section 2.9.1.1, JANUARY 2013) Preparations have initiated.
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]	OBSERVED AND ONGOING (see new MoU, section 2.9.1.2., DECEMBER 2012 and 2013) Some reduction in the number of contracted doctors has been achieved and the number of EOPYY contracts is lower than the sum of the contracts of the four main funds prior to when they were merged into EOPYY. Currently the ratio of patients to EOPYY doctor is about 1600 patients per doctor. Importantly, EOPYY restricts the number of visits, therefore, independently of the number of doctors, EOPYY controls the total number of visits and therefore the expenditure.
Contributions paid by OGA members are progressively	ONGOING (see new MoU, section 2.9.3.a.vi, PA,

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.	2013) New legislation doubled all the contributions, though they remain much below those paid by members of other funds.
<i>Controlling pharmaceutical spending</i>	
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.	ONGOING (see new MoU, section 2.9.2, DECEMBER 2012) On top of the implementation of measures aimed at reducing price and quantity, the target is to be achieved by the implementation of the claw back mechanism.
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]	OBSERVED (see new commitment in MoU 2.9.2.1.1, Q4 2012) A ministerial decree was adopted to reduce the number of medicines exempted of co-payments. It defines and reduces the number of the disease categories that are in the two lowest co-payment categories and therefore the co-payment level for the medicines that are associated with the treatment of those diseases. All other medicines not related with the treatment of those diseases have the highest co-payment. In October, authorities have published a ministerial decree with further reductions in the number of medicines in the two lowest co-payment categories.
<i>Pricing of medicines</i>	
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]	OBSERVED AND ONGOING (see new MoU, section 2.9.2.3.a, PA, CONTINUOUS) The new price bulletin has been published. With the new price bulletin authorities expect a reduction of 12% in prices starting in Q4-2012. The list is updated every quarter.
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]	ONGOING (see new MoU 2.9.2.1.b, PA, and 2.9.2.2.2, CONTINUOUS) Following a number of legislative steps and a related decision by the High Court, the mechanism has been re-activated after a deadlock period due to pharmaceutical companies having initiated legal action on some aspects of the system. In addition, the Authorities have legislated contingency measures.
Starting from Q1-2012, the pharmacies' profit margins are readjusted and a regressive margin is introduced - <i>i.e.</i>	OBSERVED AND ONGOING (see new MoU, section 2.9.2.2.3, Q1 2013)

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.	Law 4052/2012 has been adopted by Parliament. Authorities have removed the 6, 7 and 8% of profit margin of pharmacies for medicines above 200 as in Law 4052/2012 by end of September. As a result only the 30 euro apply to medicines above 200 euro.
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.	ONGOING (see new MoU, section 2.9.2.2.3, Q1 2013)
Starting from Q1-2012, the wholesalers' profit margins are reduced to converge to 5 percent upper limit.	OBSERVED Law 4052/2012 has been adopted by Parliament.
<i>Prescribing and monitoring</i>	
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]	OBSERVED AND ONGOING (see new MoU, section 2.9.2.3.1 Q4 2012 and Q2 2013) Law 4052/2012 and respective Ministerial Decree have been adopted. Coverage of e-prescription stands at 90%+ of prescriptions of pharmaceuticals. The e-prescription system for referrals and diagnostic tests exists but its coverage is still limited and not yet integrated with the other e-prescription system. Authorities are working with Swedish authorities to improve the e-prescription system. Authorities will merge the e-diagnosis into the e-prescription system for medicines by mid-November.
- 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]	OBSERVED AND ONGOING (see new MoU, section 2.9.2.3.2, Q4 2012) IDIKA has developed a software - API - which is to link the pharmacies electronic system with the e-prescription system. With API, pharmacies only have to scan and introduce the dispensing medicine once for the medicine to be registered in the two systems. The system is being piloted in some pharmacies and will be rolled-out at the end of November. Authorities will fully implement this system by end 2012.
- continues publishing prescription guidelines/protocols for physicians. Starting with the guidelines for the most	OBSERVED AND ONGOING (see new MoU, section 2.9.2.3.3, CONTINUOUS)

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]	Law and ministerial decrees have been published. Guidelines exist and are being published and continue to be developed.
- 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]	OBSERVED AND ONGOING (see new MoU, section 2.9.2.3.4, Q2 2013) A link has recently been introduced in the e-prescription system. In addition, authorities are introducing rules in the e-prescription so that some specific medicines are only prescribed to the groups of patients for which they are therapeutically indicated.
- 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]	OBSERVED AND ONGOING (see new MoU, section 2.9.2.3.6, CONTINUOUS) EOPYY has now daily access to e-prescription data and are able to produce reports on e-prescription. Authorities have shared a very simple first report in early October.
- 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]	OBSERVED AND ONGOING (see new MoU, section 2.9.2.3.7, CONTINUOUS) Authorities have presented detailed information on e-prescription and prescription value and volume. They are working with Sweden to continue to improve monitoring and assessment of e-prescription data.
- 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]	OBSERVED AND ONGOING (see new MoU, section 2.9.2.3.8, QUARTERLY) Authorities are producing data and analysing it. Authorities have shared a very simple first report in early October.
- 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]	OBSERVED AND ONGOING (see new MoU, section 2.9.2.3.9, CONTINUOUS) The monitoring system is in place and feedback to doctors is in place.

- 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]	OBSERVED AND ONGOING (see new MoU, section 29.2.2.3.10 CONTINUOUS) According to the law, if doctors do not comply they can lose contract and will not be able to prescribe. Sanctions have been activated.
- continuously updates the positive list of reimbursed medicines using the reference price system developed by EOF [Q1-2012]	OBSERVED AND ONGOING (see new MoU 2.9.2.3.a, PA) The positive list was recently published. The number of medicines in the positive list has been reduced and aligned with the experience in other countries. Medicines have been moved to the negative list. In addition, a reference price for reimbursement has been introduced. Authorities expect the measure to result in significant savings. Relatedly, authorities will remove cost-ineffective packages from the list.
- 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]	OBSERVED
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]	OBSERVED (see new MoU 2.9.2.1.a, PA) Authorities have legislated contingency measures (entry fee to positive list) to deliver the target in 2012 and 2013.
In compliance with EU procurement rules, the Government conducts the necessary tendering procedures to implement a comprehensive and uniform health care information system (<i>e-health system</i>). [Q1-2012]	OBSERVED AND ONGOING (see new MoU, 2.9.5.3, CONTINUOUS) Tenders were launched but process not yet finalised.
<i>Increasing use of generic medicines</i>	
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,	OBSERVED AND ONGOING (see new MoU, section 2.9.2.4.1.i., QUARTERLY) Technical work has been done. The price bulletin, which includes a revision in the price of generics has been published. With the new price bulletin authorities expect a reduction of 12% in the prices of generics compared to

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]	the April list.
- 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]	OBSERVED AND ONGOING (see new MoU, section 2.9.2.4.1,ii QUARTERLY)
- 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]	NOT RELEVANT YET
- 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]	OBSERVED AND ONGOING On substance, the cost-sharing is lower for cheapest generics as Law 4052/2012 and ministerial decree indicate that only the cheapest medicine in each INN group would be reimbursed and for the others the patient would pay the price difference. In other words, the price of the cheapest generic is the reference price for reimbursement. Authorities have introduced an internal reference price system at ATC-4 level, together with the publication of the positive list in mid-November.
- 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]	OBSERVED AND ONGOING (see new MoU, section 2.9.2.4.1.v, CONTINUOUS) So far no new patent medicine has been introduced in the list.
- 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]	OBSERVED AND ONGOING (see new MoU 2.9.2.4.1.vi, QUARTERLY) The positive list has been published and a number of products have been moved to the negative list. A new positive list had been prepared but the authorities have decided to re-examine the proposal in order to reduce the number of medicines in the positive list and align it with the experience of other countries.
- making it compulsory for physicians to prescribe by international non-proprietary name for an active substance, rather than the brand name. [Q1-2012]	ONGOING (see new MoU 2.9.2.4.a, PA) Although this measure was legislated (law 4052/2012 and ministerial decree) in March 2012 as a prior action in the second adjustment programme, there was strong

	resistance from doctors and authorities to implement it. Recently, Authorities pledged to implement this measures and have now published the related ministerial decree listing the INN exemptions and requesting IDIKA to implement the INN system.
- 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]	ONGOING (see new MoU 2.9.2.4.b, PA) Legislated (law 4052/2012 and ministerial decree) in March 2012, the Authorities will now send a circular to all pharmacies to ensure proper implementation.
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]	ONGOING (see new commitment in new MoU 2.9.2.4.2, CONTINUOUS) Circular sent to all hospitals, Tenders have been launched.
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]	NOT OBSERVED (see new MoU, section 2.9.2.4.4, Q4 2012) There has been some initial work by EOF that was delivered to the MoH by mid-October.
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]	OBSERVED AND ONGOING (see new MoU, section 2.9.2.4.5, Q4 2012) However, in order to respect the timetable and deadlines set up by EU legislation, EOF needs additional human resources and IT.
<i>Pricing and use of diagnostic services</i>	
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]	ONGOING (see new MoU 2.9.3.a, iv, PA) MoH created a committee to revise prices further. This is urgent and necessary now in view of the emerging large deficit of EOPYY in 2012. Authorities have legislated in mid-November substantial increases in co-payments and revision of contractual arrangements with providers leading to substantial cuts in fees and prices.
The government starts publishing a quarterly report on the prescription and expenditure of diagnostic tests. [Q1-2012]	ONGOING (see new MoU, section 2.9.3.1, QUARTERLY) Authorities are producing data and analysing. A

2012]	preliminary draft of the report has been received early October, but it needs to be substantially improved.
<i>NHS (ESY) service provision</i>	
<p>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:</p> <ul style="list-style-type: none"> - 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. 	<p>OBSERVED AND ONGOING (see new commitment in MoU 2.9.4.1.1, 2013)</p> <p>[MINISTERIAL DECREE TO BE PUBLISHED]: the reduction in operational costs is more than 8% in 2012. Hospital reorganisation has started but slowly. Law 4052/2012 legislates several hospital mergers although implementation is due by January 2013. Authorities plan to reduce unnecessary (11000) beds. Minister has adopted the merger of two hospitals. The new hospital map will be published in the gazette in two days. Authorities will have to publish a ministerial decree by end November specifying the new organisational chart of the new 85 hospitals.</p>
A first annual report comparing hospitals performance on the basis of the defined set of benchmarking indicators will be published by end-March 2012.	<p>OBSERVED AND ONGOING (see new MoU, section 2.9.4.1.2, ANNUAL)</p> <p>Authorities are producing data and analysing. Authorities have provided a first draft report by end September. The structure and content of the report needs to be substantially improved.</p>
<i>Wages and human resource management in the health care sector</i>	
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]	<p>OBSERVED AND ONGOING (see new MoU, section 2.9.4.1.3, QUARTERLY)</p> <p>A first report has been submitted and will be updated annually.</p>
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]	OBSERVED
<i>Accounting and control</i>	

Internal controllers are assigned to all hospitals and all hospitals adopt commitment registers. [Q1-2012]	OBSERVED AND ONGOING (see new MoU, section 2.9.4.2.1 Q4 2012) Most but not all hospitals have been assigned internal controllers. A report on their activity should be submitted to the Commission by end-November.
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]	PARTIALLY OBSERVED (2.9.4.2.2, DECEMBER 2012) Authorities are producing data and analysing. Authorities have provided a first draft report by end September. The structure and content of the report needs to be substantially improved.
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]	OBSERVED AND ONGOING (see new MoU, section 2.9.2.3.8, QUARTERLY) Authorities are producing data and analysing. Authorities have provided a first draft report by end September. The structure and content of the report needs to be substantially improved.
<i>Hospital computerisation and monitoring system</i>	
The necessary tendering procedures are carried out by HDIKA to develop the full and integrated system of hospitals' IT systems. [Q1-2012]	OBSERVED AND ONGOING (see new MoU, section 2.9.5.3, CONTINUOUS) Final steps to awarding a contract should be finalised in coming months.
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]	ONGOING (see new MoU, section 2.9.4.2.3.i, CONTINUOUS) Only a minority of hospital have started the analytical cost accounting. Authorities will provide a note on the process for introducing analytical cost accounting by hospital.
- 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]	ONGOING (see new MoU, section 2.9.4.2.3.iv, Q4 2013) EPY now has a monitoring system applied to all hospitals - observe.net - but the coding process for medical devices is still ongoing.
- 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]	ONGOING (see new MoU, section 2.9.4.2.3.v, 4Q 2012) Authorities are considering concentrating the billing in one unit in EOPYY and how to bill the full cost of treatment (including personnel costs). They consider this a priority but have not provided a deadline for the full

	implementation of the measure.
- enforcing the collection of co-payments and implementing mechanisms that fight corruption and eliminate informal payments in hospitals. [Q2-2012]	ONGOING (see new MoU, section 2.9.4.2.3.vi, CONTINUOUS) Authorities have strengthening internal supervision and a special police has been created to look at ESY facilities. A note on recent developments will be submitted by end-November.
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]	ONGOING (see new MoU, section 2.9.4.2.4, Q4 2012) But not yet finalised, probably due to shortages of human resources in ELSTAT and not a priority.
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]	ONGOING (see new MoU, section 2.9.4.2.5, CONTINUOUS) There is already a web application ESY.net which is able to compile financial and activity data but some more work needs to be done to align it with DRGs which are still being developed. The first and important steps have been taken but the process needs further improvement.
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 EOPY 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]	ONGOING (see new MoU, section 2.9.4.2.7, CONTINUOUS) The government has developed a basic set of DRGs. Nevertheless, these need to be further improved and authorities are working with the Ministry of Health in Germany to develop full scale DRGs. This is a long process that will be monitored over the coming years.
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]	ONGOING (see new MoU, section 2.9.4.2.8, Q4 2012)
<i>Centralised procurement</i>	
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]	ONGOING: (see new MoU, section 2.9.5.1, CONTINUOUS) Several tenders have been launched for medical devices and medicines used in hospitals and can result in important savings.
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	NOT RELEVANT YET (see new MoU, section 2.9.5.2, Q4 2012)

to substantially reduce the price paid by EOPYY. [Q4-2012]	
Government puts in place the procurement monitoring mechanism. [Q1-2012]	OBSERVED EPY has developed observe.net.
<i>Independent task force of health policy experts</i>	
The Independent Task Force of Health Policy Experts, established as an advisory group, produces an annual report on the implementation of reforms. [Q4-2012]	NOT RELEVANT

Table A6 – Financial sector

<i>Assessment of capital needs</i>	
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, <i>inter alia</i> , 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.	OBSERVED The Bank of Greece has prepared a comprehensive and detailed assessment of capital needs for all banks. The increase in capital ratios to 9% and 10% will be delayed because of the changes in the programme disbursement schedule.
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.	OBSERVED The Bank of Greece has prepared a comprehensive and detailed assessment.
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.	OBSERVED The final report was delivered on 7 March 2012. A letter by Minister of Finance to the EC, the ECB and the IMF on 8 March 2012 has endorsed the study and its conclusions and committed to take a final decision choosing a specific course of action by end March. The

	bank has now been resolved.
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.	ONGOING (see new MoU, section 3.12, Q4 2012 to APRIL 2013) Delayed due to the changes in the programme disbursement schedule.
The Government will ensure that Greek banks have business autonomy both <i>de jure</i> and <i>de facto</i> . 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.	NOT OBSERVED. PROGRESS MADE (see new MoU, section 3.12, PA) Largely observed. The Ministerial decree delayed due to unexpected complexities.
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.	ONGOING (see new MoU, section 3.3.1, NOVEMBER 2012 to JUNE 2013)
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.	ONGOING (see new MoU, section 3.7.1, Q4 2013)
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	OBSERVED Capital adequacy, technical aspects and recapitalisation : Law 4051/2012 Official Gazette 40/A/29.02.2012 and law 4056/2012 Official Gazette 52/A/12.03.2012 Resolution: Law 4052/2012 Official Gazette

bank capital standards through regulation, and the Bank of Greece will introduce regulation to phase in the foreseen increases in Core Tier 1 requirements.	41/A/01.03.2012. Decision of the Bank of Greece General Council A GS2/2-20.02.2012
- 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.	OBSERVED
- 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.	ONGOING (see new MoU, section 3.1.2., Q4 to APRIL 2013)
- 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.	OBSERVED

<p>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.</p>	<p>OBSERVED</p>
<p>The Bank of Greece, stands ready to disburse adequate liquidity support in a timely manner. Adequate liquidity support 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.</p>	<p>OBSERVED</p>
<p><i>Hellenic Financial Stability Fund</i></p>	
<p>The Government will revise the legal framework to clarify that the HFSF shall have two departments, responsible for separate functions:</p> <ul style="list-style-type: none"> - 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. 	<p>OBSERVED Law 4051/2012 Official Gazette 40/A/29.02.2012</p>
<p>The Government will revise the HFSF's governance structure to include a General Council and an Executive Board:</p> <ul style="list-style-type: none"> - 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 	<p>OBSERVED Law 4051/2012 Official Gazette 40/A/29.02.2012 and Law 4056/2012 Official Gazette 52/A/12.02.2012</p>

<p>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.</p> <p>- 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.</p>	
<p>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.</p>	<p>ONGOING (see new MoU, section 3.4, Q1 2013)</p>
<p><i>Hellenic Deposit and Investment Guarantee Fund</i></p>	
<p>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.</p>	<p>OBSERVED</p> <p>Law 4051 Official Gazette 40/A/29.02.2012 and law 4056</p>
<p>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</p>	<p>NOT OBSERVED</p>

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.	ONGOING

Table A7- Growth enhancing structural reforms

Transport	
<i>Road</i>	
A report is submitted on the functioning of the regular passenger transport services (KTEL), presenting options for liberalisation. [Q1-2012]	OBSERVED [Report reviewed and discussed]
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.	OBSERVED [Government Gazette 249B, 13/02/2012].
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]	OBSERVED [Law 4070/2012].
<i>Ports</i>	
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]	OBSERVED AND ONGOING. (see new MoU, section 6.3.2, OCTOBER 2012 to MARCH 2013) Completed comprehensive background document for the national port strategy. Working document to be edited and finalized based on progress underway for the regulatory framework and the privatisation of small and large ports.
<i>Aviation</i>	
The Government submits a policy paper, indicating how regional airports will be merged into groups ensuring	OBSERVED AND ONGOING. (see new MoU, section 6.3.3, DECEMBER 2012 to MARCH 2013)

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]	Draft policy paper submitted, more information required on projections and regulatory framework.
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]	OBSERVED [Ministerial Decision FEK B 56/25.01.2012]. Interested companies have submitted applications and are waiting for new licences to be issued. TRAINOSE (rail operator) has already been licensed; STASY S.A. (urban transport subsidiary) was licensed early-October.
The Government establishes independent award authorities for passenger services by rail that can organise competitive tenders. Contracts concluded in 2014 or later will generally be 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]	NOT RELEVANT YET (see new MoU, section 6.3.4.4, JANUARY to APRIL 2013)
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]	OBSERVED Staff and assets have been transferred to ADMIE, the new electricity TSO in February 2012. The draft decision for the certification of ADMIE by RAE, the Greek energy regulator, was submitted to the European Commission in August 2012. The unbundling of electricity DSO has been completed by decision taken in PPC's general assembly of 29 March 2012. All necessary transfer of staff and assets to the electricity DSO, DEDDIE, have been done. No certification by RAE is required for the DSO under EU law.
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	NOT OBSERVED. PROGRESS MADE (see new MoU 6.1.1.1, NOVEMBER 2012) The Parliament has adopted legislation providing for the details of the ITO-option for gas TSO (Cfr. section J4 of the Law on the approval of the medium-term fiscal

regulator. [Q3-2012]	policy framework 2013-2016 and on urgent implementation measures for law 4046/2012 and for the medium-term fiscal policy framework 2013-2016, as amended). Following the approval by Parliament of the draft provisions, DESFA will apply before RAE for certification.
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.	NOT OBSERVED (see new MoU, section 6.1.1. and 6.1.2, NOVEMBER 2012 to Q1 2013) DEPA's privatisation was launched in February 2012, but halted due to political cycle. It is open whether DEPA will be privatised as a vertically integrated company or DEPA and DESFA, the Greek gas TSO, will be privatised separately. In any case, DESFA has not yet been unbundled from DEPA, so the condition has not been observed. The privatisation procedure for PPC has not started yet.
The Government undertakes that whichever the outcome of the privatisation process the gas industry structure will be fully compliant with Directive 2009/73/EC.	CONTINUOUS (see new MoU, section 6.1.2.2)
<i>Measures to increase competition on the generation of electricity</i>	
The Government finalises the remedies to ensure the access of third-parties to lignite-fired electricity generation. [Q1-2012]	OBSERVED The Greek authorities agreed in March 2012 with the Commission services on a list of measures to grant third parties access to lignite fired electricity generation.
The Government starts implementing the measures ensuring the access by third parties to lignite-fired electricity generation. [Q3-2012]	NOT RELEVANT ANYMORE This follows the ECJ judgements in cases T-169/08, PPC v Commission, and T-421/09, PPC v Commission, by which the General Court annulled the Commission decisions of 2008 and 2009 in case 38700 – (i.e., the Greek Lignite case).
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]	NOT RELEVANT ANYMORE This follows the ECJ judgements in cases T-169/08, PPC v Commission, and T-421/09, PPC v Commission, by which the General Court annulled the Commission decisions of 2008 and 2009 in case 38700 – (i.e., the Greek Lignite case).
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	NOT RELEVANT ANYMORE (see new MoU, section 6.1.2.1, NOVEMBER 2012)

frame provided for in the relevant Commission Decision and ii) not prevent the sale of lignite assets without a minimum price.	
<i>Regulated tariffs</i>	
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]	NOT OBSERVED (see new MoU, section 6.1.3.1,i December 2012) The increase in 2012 end user prices amounted to 3% and was below RAE's recommendation of an increase of 12%. Further increases of end user prices should, ideally, have taken place at the end of Q2-2012 to avoid a one-off sharp increase in prices for low voltage consumers once end user prices are removed in July 2013. The Government has announced that it will increase electricity low voltage end -user prices in January 2013.
The Government removes regulated tariffs for all but vulnerable consumers [Q2-2013]	NOT RELEVANT YET (see new MoU, section 6.1.3.1,iii Q2 2013)
<i>Renewables</i>	
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]	OBSERVED Greece has notified the transposition of Directive 2009/28/EC. The Progress Report submitted to the European Commission on 26/04/2012.
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]	PARTIALLY OBSERVED (see new MoU, section 6.1.5.4, Q4 2012) YPEKA has published a report on its website on options to reform renewable energy support schemes. The report was commissioned to a working group to assess the state of play of the RES framework and explores measures to remedy potential deficits, on the basis of which the government would define measures. The report benefited from the input of industry stakeholders as well as other experts in the field such as CRES. The report explores suggestions for improvement. However, YPEKA is not the formal author of the document. However, its findings will help /have helped the government elaborate its plan for reform (as required by the MoU) as well as measures adopted in August 2012 to stabilise the financial situation of the renewable energy support scheme (consisting of a reduction of FiT for Photovoltaic (PV) and for rooftop PV as well as an increase in the RES levy).
The Government pursues implementation of the renewable energy project 'Helios,' through legislation [Q1-2012], facilitation of licensing process [Q2-2012] and cooperation with other EU countries for the export of solar energy.	OBSERVED Completed by law 4062/2012, adopted on 29/03/2012.
<i>Other measures</i>	

<p>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]</p>	<p>OBSERVED</p> <p>The Ministry of Environment, Energy & Climate Change has communicated the actions taken to the European Commission (EC). The EC intends to close the infringement case as the grievances raised there are complied with, however, further work has to be done by the Greek authorities to fully comply with the Electricity Regulation.</p>
<p>The Government undertakes to:</p> <ul style="list-style-type: none"> - 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. 	<p>NOT RELEVANT ANYMORE</p>
<p>The Government undertakes to:</p> <ul style="list-style-type: none"> - 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] 	<p>NOT RELEVANT ANYMORE</p>
<p>Electronic communications</p>	
<p>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]</p>	<p>OBSERVED</p> <p>Ministerial Decision 13913/319/20.03.2012, GG B/862/20.03.2012</p>
<p>The Government adopts the provisions instituting EETT as a One-Stop Shop for the licensing of antennae and base stations. [end-February 2012]</p>	<p>OBSERVED</p> <p>Law 4053/2012, GG A44/07.03.2012</p>
<p>The Law transposing the 2009 Reform Package (<i>i.e.</i>, Directive 2009/140/EC and Directive 2009/136) is adopted by Parliament. [Q1-2012]</p>	<p>OBSERVED</p> <p>Law 4070/2012, GG A82/10.04.2012</p>
<p>Regarding the Digital Dividend, the Government (and/or EETT):</p> <ul style="list-style-type: none"> - 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 	<p>PARTIALLY OBSERVED. (see new MoU, section 6.2.1.v, MARCH 2013)</p> <p>The Greek authorities have requested a derogation from the deadline provided by Article 6(4) of the Radio Spectrum Policy Program (RSPP) and communicated to</p>

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]	the Commission services a draft ministerial decision with a tentative date for the switch off.
- 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].	OBSERVED The study by Analysis Mason (on the value of the digital dividend) was put on public consultation in March 2012. The strategy was presented on 5 April 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]	ONGOING (see new MoU 6.2.1.4, CONTINUOUS) Greece should continue its efforts to resolve any cross-border coordination problems as soon as possible. In the digital map put under public consultation (see MoU item below), the Digital Dividend band is free from any broadcasting.
- launches the consultation for the amendment of the frequency and broadcasting plans. [Q2-2012]	OBSERVED The public consultation for the broadcasting plan finished on 23 September 2012.
- amends the frequency and the broadcasting plans, depending on the outcome/actual state of play of international coordination. [Q3-2012]	NOT OBSERVED. PROGRESS MADE (see new MoU, section 6.2.1.i, NOVEMBER 2012)
- adopts necessary secondary legislation for the assignment of licenses for broadcasting and for the establishment of licensing procedures, antennae specifications, etc. [Q3-2012]	NOT OBSERVED. PROGRESS MADE (see new MoU, section 6.2.1.ii, MARCH 2013)
- launch the public consultation on the tender procedure for the assignment of the digital dividend to broadband. [Q4-2012]	NOT RELEVANT YET (see new MoU, section 6.2.1.iii, DECEMBER 2012) The new deadline may be amended according to the decision of the Commission on the request for derogation from the deadline provided by the Radio spectrum policy programme submitted by the Government in May 2012.
- proceed to the tender for the assignment of definitive rights of use for broadcasting transmission. [Q1-2013]	NOT RELEVANT YET (see new MoU, section 6.2.1.vi, MARCH 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]	NOT RELEVANT YET (see new MoU, section 6.2.1.vii, DECEMBER 2012) The new deadline may be amended according to the decision of the Commission on the request for derogation from the deadline provided by the Radio spectrum policy programme submitted by the government in May 2012.
R&D and innovation	
The Government pursues an up-to-date and in-depth evaluation of all R&D and on-going innovation actions,	OBSERVED

<p>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]</p>	
<p>Better regulation</p>	
<p>Legislation is adopted to improve regulatory governance [Q1-2012], covering in particular:</p> <ul style="list-style-type: none"> - 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. <p>On impact assessments, legislation provides that:</p> <ul style="list-style-type: none"> - 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 	<p>OBSERVED</p> <p>Cfr. Law No 4048 on regulatory governance: principles, procedures and tools of good law-making, published on the GG of 23 February 2012.</p>

<p>assessments; the independent authority also gives an opinion on progress made on the governments' better regulation agenda.</p> <ul style="list-style-type: none"> - 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. <p>Under no circumstances will this law impede the passing of urgent legislation during the duration of the programme.</p>	
<p>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]</p>	<p>OBSERVED</p> <p>The government will apply the Standard Cost Model to identify unnecessary administrative burdens. The OECD will assist the Government in delivering results. The technical assistance project will run over a 10 months' period and is expected to be completed in September 2013. The contract between the Greek government and the service provider (OECD) was signed in the second week of September 2012 and technical teams have started working in December 2012.</p>
<p><i>To raise the absorption rates of structural and cohesion funds</i></p>	
<p>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.</p>	<p>ONGOING (see new MoU, section 7.1. Q4 2012)</p> <p>The target for the first half of the year has not been observed.</p> <p>The Greek authorities have submitted payment of claims of EUR 732.62 million; EUR 200 million have been suspended from the claim (due to the development law and state aid clearance on infrastructure projects); EUR 167 million of realised expenses cannot be claimed (as it has exceeded the budget limit, until revision of OPs). This realised expenditure is pending approval by the EC services, for which the payment claim can go to EUR 1,099.62.</p>
<p>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 <i>de minimis</i> state aid measures co-financed by the structural funds in 2010 and in 2011. [Q1-2012]</p>	<p>OBSERVED</p>
<p>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]</p>	<p>PARTIALLY OBSERVED (see new MoU, section 7.5, Q1 2013)</p> <p>Legislation has only been adopted on the expropriation [Law 4070/2012]</p>

<p>The Government earmarks amounts to:</p> <ul style="list-style-type: none"> - 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] 	<p>OBSERVED</p> <p>Funding is ensured. The Ministry has asked all Managing Authorities to send payment requests for all unfinished projects. Managing authorities are submitting their requests and the Ministry has allocated the relevant funds.</p> <p>Ibid. Funding is ensured: the Ministry has asked all Managing Authorities to send payment requests for the implementation and completion of the 2000-06 cohesion-fund projects.</p> <p>The Ministry allocated relevant funds to cover the national contribution including non-eligible expenditure</p>
<p>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]</p>	<p>OBSERVED</p> <p>The Ministry identified the necessary amounts for the first allocation to the guarantee mechanism</p>
<p>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.</p>	<p>OBSERVED</p>
<p>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</p> <ul style="list-style-type: none"> 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] 	<p>OBSERVED</p> <ul style="list-style-type: none"> - Simplification of tax and social security of NSRF project beneficiaries - Law 4072 Official Gazette 86/A/11.04.2012 - Possibility of advance payment in co financed public projects - Law 4072 Official Gazette 86/A/11.04.2012 - Expropriations - Law 4070 Official Gazette 82/A/10.04.2012 - Financing of ineligible VAT - Common Ministerial Decision 26931 Official Gazette 1968/B/18.06.2012 - Abolishment of further specialisation of selection criteria for the Monitoring Committees - Circular 31695/13.07.2012 - Abolishment of non necessary steps in the procedure of non significant modification of a selection decision - Circular 31693/13.07.2012
<p>To accelerate the absorption of EU financing and following the increase in the EU co-financing rates, Government will, by Q1-2012:</p> <ul style="list-style-type: none"> - establish appropriate monitoring tools for priority projects. These projects should be operational by 2015 at the latest. 	<p>OBSERVED</p> <p>A detailed monitoring system for the priority projects has been adopted.</p>
<ul style="list-style-type: none"> - report to the Commission the final results of the activation or elimination of sleeping projects (i.e. projects already approved in the operational programmes 	<p>OBSERVED</p> <p>The Ministry reports to the Commission on the removal</p>

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.	of sleeping projects in NSRF OPs.
- 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.	OBSERVED New database – Monitoring Tools of Expropriations- was created after the adoption of Law 4070/2012 on expropriations. The database is an extension of the existing MIS database.

Table A8 – Education

<i>To upgrade the education system</i>	
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]	OBSERVED AND ONGOING (see new MoU, section 2.10.1 DECEMBER 2012; 2.10.2 MARCH 2013; 2.10.3 MARCH 2013) While the action plan has been improved, progress on implementation still needs proper monitoring through credible enforcement mechanisms. ADYP now operational, since recent appointment of its President.

Table A9 – Judicial system

<i>To reform the judicial system</i>	
Specifically, the Government submits the draft law addressing issues of fair trial and denial of justice to the Greek Parliament, which <i>i.a.</i> 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]	OBSERVED Law 4055/2012 on fair trial and denial of justice was adopted by the Hellenic Parliament on 6 March 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, <i>inter alia</i> , 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-	OBSERVED The Government has appointed nine Greek experts, who started operating on 10 April 2012. Two international experts have been appointed (with the assistance of the TFGR). The Ministry of Justice expects that a new draft Code of Civil Procedure will be ready by the end of 2013. The draft will then be submitted to the Parliament and voted following the fast track procedure for codified legislation.

<p>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]</p>	
<p>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.</p>	<p>PARTIALLY OBSERVED (see new MoU, Annex 9.4, CONTINUOUS)</p> <p>The MoJ has submitted statistical data on administrative and on civil courts. However, there is no information on recovery rates for tax cases and no breakdown according to case value.</p> <p>Statistical information can be found on the MoJ's website -the Authorities explained that courts cannot gather data on recovery rates, as they do not have information of what happens after a judge rules on the case. Data on recovery rates on tax / customs cases can be gathered by the Ministry of Finance.</p> <p>So far, the process of collecting data is based on manual contributions from judges, thus involving a time gap between collection and publication of such data. The development of e-justice applications is expected to improve the efficiency of court data compilation.</p> <p>Cooperation between ELSTAT (Hellenic Statistical Authority) and the MoJ on judicial statistics should also be improved, in particular as regards the special service in the Ministry of Justice dealing with statistics which has been set up.</p> <p>The taskforce in charge of designing a performance and accountability framework submitted its final report, which was passed to the EC/IMF/ECB during the technical meeting of 30 July 2012.</p>
<p>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]</p>	<p>OBSERVED</p> <p>The Ministry of Justice submitted the study to the Commission services on 14 September 2012.</p>
<p>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</p>	<p>NOT OBSERVED (see new MoU, section 5.2.7.3, DECEMBER 2013)</p> <p>No date has been fixed so far. The government only intends to consider the date for opening access by the end of 2013. However, this is contrary to the wording of</p>

that date. [Q1-2012]	the MoU and the Ministry's communication of 6 April 2012. The Ministry of Justice has shown reservations to the opening of mediation activities to non-lawyers, citing unsuccessful past experiences. According to the MoJ, the support of the legal profession (which would be lost if lawyers lost the exclusivity in mediation services) is critical to ensure a seamless development of mediation in Greece.
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 EUR1 million-) and takes remedial action in case of anticipated or actual deviations.	PARTIALLY OBSERVED. (see new MoU 5.2.3, CONTINUOUS) The update was presented on 5 July 2012. The Q2 2012 50% reduction target has not been met. Whilst at appeal court level the 50 per cent target has been reached in seven out of nine cases, at first instance level the average backlog reduction is 34 per cent (with 26 out of 30 courts having missed the 50 per cent reduction target). The Authorities attribute the slippage to the April-June 2012 electoral period, to the lawyers' strikes and above all, to the lack of administrative support staff for judges (with the ratio of administrative staff to judges being one of the lowest in the EU). The Authorities find it imperative to recruit 300 new staff (including secretaries, clerks, and IT specialists) promptly, to increase the productivity of judges.
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]	OBSERVED The concept paper was received on 16 July 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]	OBSERVED The Presidential Decree on the rationalisation and reorganisation of the magistrates' courts was published on the Government Gazette on 15 October 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]	OBSERVED Law 4055/2012 introduced court based mediation. The courts have appointed judges who will act as mediators. First indications from courts appear to be encouraging and show that the system has started working. Meanwhile, the MoJ has prepared an application to obtain funding to promote mediation under the operational programme Human Resource Development managed by the Ministry of Labour and Social Security. Initiatives fall under the following three categories: i) training activities for certified trainers; ii)

	awareness campaigns on mediation; iii) day events and seminars, involving businessmen and lawyers. These actions will be carried out throughout the next three years, with the first actions under ii) and iii) already envisaged for autumn 2012; action i) will start at a later stage.
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.	OBSERVED (see new MoU, section 5.2.3, CONTINUOUS) An updated version of the e-Justice action plan was submitted to the EC/IMF/ECB on 12 July 2012. The MoJ has expressed its commitment to develop e-Justice applications before end-2015 - the last year of the current National Strategic Reference Framework programming period. On e-filing, the MoJ has granted 500 signatures to date within the framework of the pilot project at the Athens Court of First Instance. The Athens Bar Association should increase efforts to promote e-signature and e-filing, and provide training to applicants.
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 study has not been sent to the Commission services to date.	NOT OBSERVED (see new MoU, section 5.2.4, OCTOBER 2012 and JANUARY 2013) The Ministry of Justice has requested an extension for the delivery of the external study of the backlog of non-tax cases in courts until the end of September and corresponding extensions for the implementation of measures linked to this study. The extension does not affect the originally agreed deadline of end-July 2013 to reduce the backlog of non-tax cases by at least 50 per cent. The submission of the study is cumulating delays.
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]	NOT OBSERVED (see new MoU, Annex 9.3, MAY 2013)
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]	NOT INITIATED / RELEVANT YET (see new MoU, section 5.2.7.2, SEPTEMBER 2013)
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	NOT INITIATED / RELEVANT YET (see new MoU, Annex 9.3, MARCH 2013)

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]	NOT INITIATED / RELEVANT YET (see new MoU, section 5.2.5, Q1 2013)
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]	NOT INITIATED / RELEVANT YET (see new MoU, section 5.2.8.4, Q2 2013)

Table A10 – Labour market

<i>To ensure a rapid adjustment of the labour market and strengthen labour market institutions</i>	
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.	OBSERVED AND ONGOING (see new MoU, section 4) Significant progress in the reduction of wage labour cost to date, with evidence of sizeable declines in wages in the private sector possibly to lead to a reduction of 15% in unit labour costs in the private sector by 2014. Major measures to fight undeclared work are still to be taken.
<i>Exceptional legislative measures on wage setting</i>	
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.	OBSERVED Law 4046/2012 Official Gazette 28/A/14.02.2012 A cabinet act Official Gazette 38/A/28.02.2012 Joint Ministerial Decision 3800/359/01.03.2012 Official Gazette 565/B/02.03.2012 Circular 4601/304/12.03.2012
<i>Reforms in the wage-setting system</i>	
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	ONGOING / INITIATED (see new MoU, section 4.1.a) This was done with the adoption of the Omnibus Law,

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.	which represents a delay compared with the deadline.
<i>Measures to foster the re-negotiation of collective contracts</i>	
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.	OBSERVED Law 4046/2012 Official Gazette 28/A/14.02.2012 Cabinet Act Official Gazette 38/A/28.02.2012 Circular 4601/304/12.03.2012
<i>Raising the potential of recent labour market reforms</i>	
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.	OBSERVED Law 4046/2012 Official Gazette 28/A/14.02.2012 Cabinet Act Official Gazette 38/A/28.02.2012 Circular 4601/304/12.03.2012
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.	NOT RELEVANT ANYMORE Assessment delayed. Authorities have contacted ILO for the undertaking of the assessment of OMED. However, issue is now less urgent as Arbitration is very little used since laws have been changed in February 2012.
<i>Legacy issues and special labour conditions</i>	
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.	OBSERVED Law 4046/2012 Official Gazette 28/A/14.02.2012 Cabinet Act Official Gazette 38/A/28.02.2012 Circular 4601/304/12.03.2012
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	NOT OBSERVED (see new MoU, section 4.3.3-4, Q2 to Q4 2013) Results of the studies should be published by Q2 2013 and measures taken by Q4-2013.

for these companies in a fiscally-neutral manner [Q3-2012].	
<i>Non-wage labour costs, fighting undeclared work and social contribution evasion</i>	
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.	PARTIALLY OBSERVED AND ONGOING (see new MoU, section 4.3.1-2, Q4 2013) Law 4046/2012 closed OEK and OEE and Cabinet Act 6/2012 of 28.02.2012 specified that there will not be any new programmes subsidies by OEK and OEE. Existing programmes were shifted to OAED. Social contribution rates were reduced by 1.1 percentage point with adoption of the November 2012 Omnibus Law. The cut of the remaining 3.9 percentage points will be taken within a broader reform of social contributions that should be prepared in 2013 and phased in as of 2014.
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].	INITIATED (see new MoU, section 4.4.b, PA) The authorities have agreed with the ILO on this assessment. Assessment has started and should be ready by end Q4-2012, meaning the original deadline was missed.
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.	PARTIALLY OBSERVED (see new MoU, section 2.3.3.5 MARCH 2014) An action plan was just finalised and is expected to be confirmed soon through a circular (should lead to an assessment of 'observed' for the action plan). The unification of tax and social contributions collection is not expected to take place before 2014. The unification of the collection of taxes and social contributions of the largest tax debtors for large tax debtors was not unified by March 2012 as previously agreed.
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]	NOT OBSERVED No progress on Labour Card, which may be less relevant looking forward, as there are many practical problems and concerned reactions with this initiative. Payment of wages, withheld taxes and social contributions by electronic means expected to be made compulsory soon.

Table A11 – Professions

<i>Regulated professions</i>	
<i>Implementation of Chapter A of Law 3919/2011</i>	
<p>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:</p> <ul style="list-style-type: none"> - 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; 	<p>OBSERVED (see new MoU, Annex 9.2.1, PA) Cfr. section L3 of the Law on the approval of the medium-term fiscal policy framework 2013-2016 and on urgent implementation measures for law 4046/2012 and for the medium-term fiscal policy framework 2013-2016.</p>
<ul style="list-style-type: none"> - stevedores (loaders for land operations at central markets); 	<p>OBSERVED (see new MoU, Annex 9.2.1, PA) Cfr. section K7 of the Law on the approval of the medium-term fiscal policy framework 2013-2016 and on urgent implementation measures for law 4046/2012 and for the medium-term fiscal policy framework 2013-2016, as amended.</p>
<ul style="list-style-type: none"> - sworn-in valuers; 	<p>OBSERVED (see new MoU, Annex 9.2.1, PA) Cfr. section E6 of the Law on the approval of the medium-term fiscal policy framework 2013-2016 and on urgent implementation measures for law 4046/2012 and for the medium-term fiscal policy framework 2013-2016.</p>
<ul style="list-style-type: none"> - accountants and tax consultants; 	<p>OBSERVED (see new MoU, Annex 9.2.1, PA) Cfr. section H5 of the Law on the approval of the medium-term fiscal policy framework 2013-2016 and on urgent implementation measures for law 4046/2012 and for the medium-term fiscal policy framework 2013-2016, as amended.</p>
<ul style="list-style-type: none"> - actuaries; 	<p>OBSERVED (see new Commitments in new MoU, Annex 9.2.1, PA) Cfr. Circular ADA B4PPH-X1F However, interpretative circulars should eventually be confirmed by the adoption of formal amendments to the sector specific legislation. Moreover, in its opinion no. 14/VI/2012, the Hellenic Competition Commission recommended to review the regulatory framework governing the examination process so as to prevent the Hellenic Actuarial Society (HAS) from determining indirectly the number of successful candidates in the examinations in the inters of the incumbents. Draft</p>

	legislation accommodating the opinion of the Hellenic Competition Commission was submitted to the Commission services on 12 September 2012 and is expected to be adopted in January 2013.
- temporary employment companies;	OBSERVED (see new MoU, Annex 9.2.1, PA) Cfr. section K8 of the Law on the approval of the medium-term fiscal policy framework 2013-2016 and on urgent implementation measures for law 4046/2012 and for the medium-term fiscal policy framework 2013-2016.
- private labour consultancy offices;	OBSERVED (see new MoU, Annex 9.2.1, PA) Cfr. section K9 of the Law on the approval of the medium-term fiscal policy framework 2013-2016 and on urgent implementation measures for law 4046/2012 and for the medium-term fiscal policy framework 2013-2016.
- tourist guides;	OBSERVED (see new Commitments in new MoU, Annex 9.2.1, PA) Cfr. section N1 of the Law on the approval of the medium-term fiscal policy framework 2013-2016 and on urgent implementation measures for law 4046/2012 and for the medium-term fiscal policy framework 2013-2016, as amended.
- real-estate brokers.	OBSERVED (see new Commitments in new MoU, Annex 9.2.1, PA) Cfr. Arts. 198-204 of law 4072/2012 (Business Friendly Greece law) as amended by section H1.11-13 of the Law on the approval of the medium-term fiscal policy framework 2013-2016 and on urgent implementation measures for law 4046/2012 and for the medium-term fiscal policy framework 2013-2016.
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.	OBSERVED (see new MoU, 6.5.1.3, CONTINUOUS) A progress report was submitted by the MoF on 6 July 2012. The report updates the list of regulated professions/ economic activities falling under law 3919/2011. In addition, the progress report includes a timeline for the revision of the regulatory framework of regulated professions of high economic importance.
For professions where reinstatement of restrictions is	NOT OBSERVED. PROGRESS MADE (see new

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.	MoU, section 6.5.1.2, DECEMBER 2012) Draft legislation reintroducing justified restrictions in specific regulated professions (following the opinion of the Hellenic Competition Commission on whether these restrictions are justified and proportionate) was submitted to the Commission services on 12 September 2012. The authorities have announced that they will include provisions in that piece of legislation to increase transparency in professional bodies -see below- and to empower the Ministry of Finance to review legislation on regulated professions coming from other ministries before it is enacted.
<i>Measures for regulated professions falling under chapter B of law 3919/2011</i>	
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: - the annual accounts of the professional association. - the remuneration of the members of the Governing Board broken down by function. - 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. - statistical and aggregate data relating to sanctions imposed, always in accordance with the legislation on personal data protection. - 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. - any change in the professional codes of conduct, if available. - the rules regarding incompatibility and any situation characterised by a conflict of interests involving the members of the Governing Boards.	PARTIALLY OBSERVED (see new MoU, section 6.5.1.4, DECEMBER 2012) The MoJ has introduced some transparency requirement for lawyers and the former Ministry of Infrastructure has done the same for engineers. However, for the legal profession it has not been specified what information should be provided by the Bar association and for the engineers, the transparency requirements do not cover all the items listed in the Memorandum. In any case, the transparency requirement, covering all professional associations, will be included in the legislation prepared by the government to reintroduce justified restrictions (see MoU requirement above).
<i>Additional measures on regulated professions</i>	
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]	OBSERVED. (see new MoU Annex 9.2.1, PA) Cfr. section J1 of the Law on the approval of the medium-term fiscal policy framework 2013-2016 and on urgent implementation measures for law 4046/2012 and for the medium-term fiscal policy framework 2013-2016, as amended.
- 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	NOT OBSERVED (see new MoU, section 6.5.1.5, NOVEMBER 2012) There is a draft Presidential Decree ready for the Minister of Justice's signature. However, its signature is

'reference amount'). [Q1-2012]	cumulating delays.
- 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]	OBSERVED
- The Government identifies ways of decoupling taxation, social contributions, distribute funds (if applicable) and payments to the professional associations from legal fees. [April 2012]	PARTIALLY OBSERVED (see new MoU, section 6.5.1.5, DECEMBER 2012) For lawyer's court appearances, this requirement would be fulfilled if the PD setting prepaid amounts for each procedural act or court appearances (see above) was enacted. Regarding the fees for contracts, the situation remains unchanged. For engineers, legislation has been passed de-linking the payment of contributions to the Technical Chamber of Greece from legal fees (see section H6.4 of the Law on the approval of the medium-term fiscal policy framework 2013-2016 and on urgent implementation measures for law 4046/2012 and for the medium-term fiscal policy framework 2013-2016. In the context of the tax reform, taxation will be de-linked from legal fees / reference amounts.
- 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]	NOT OBSERVED (see new MoU, section 6.5.1.5, DECEMBER 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]	PARTIALLY OBSERVED (see new MoU, section 6.5.1.6.i, NOVEMBER 2012) The Government has submitted information regarding the engineering profession. The information on other relevant professions, such as the legal profession, is missing.
- 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]	NOT OBSERVED (see new MoU, section 6.5.1.6.ii, Q1 2013)
<i>Reform of the Code of Lawyers</i>	
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	NOT OBSERVED (see new MoU 6.5.1.7.ii, NOVEMBER 2012) The submission of the draft code of lawyers to the EC services is cumulating delays.

is adopted by end-June 2012.	
<p>Before end-June 2012, legislation is adopted to:</p> <ul style="list-style-type: none"> - 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. 	<p>OBSERVED (see new MoU 6.5.1.7.i, PA)</p> <p>Cfr. section M1.8. a-c of the Law on the approval of the medium-term fiscal policy framework 2013-2016 and on urgent implementation measures for law 4046/2012 and for the medium-term fiscal policy framework 2013-2016, as amended.</p>
<i>Recognition of professional qualifications</i>	
<p>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:</p> <ul style="list-style-type: none"> - keeps updating the information on the number of pending applications for the recognition of professional qualifications, and sends it to the European Commission. 	<p>OBSERVED (see new MoU, section 6.5.2.2, CONTINUOUS on a quarterly basis)</p>
<ul style="list-style-type: none"> - 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. 	<p>OBSERVED (see new MoU 6.5.2.3, NOVEMBER 2012)</p> <p>Cfr. section I.16 of the Law on the approval of the medium-term fiscal policy framework 2013-2016 and on urgent implementation measures for law 4046/2012 and for the medium-term fiscal policy framework 2013-2016, as amended.</p> <p>However, the Commission services will assess the exclusion provided for in Art. 4.3 of PD 38/2010 affecting higher educational institution professor posts, researchers and special scientific personnel, before deciding whether further legislative action is needed.</p>
<i>Services Directive</i>	
<p>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 (cfr. the section on business environment). The Government also adopts changes to the remaining sectoral regulation, ensuring full compliance with the directive.</p>	<p>OBSERVED (see new Commitments in new MoU, Annex 9.2.1, PA)</p> <p>Cfr. Arts. 98-115 of law 4052/2012) on private employment agencies, which remove the restrictions referred to in the MoU.</p>

<p>In particular, the following pending regulations are adopted by Q1-2012:</p> <ul style="list-style-type: none"> - 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. 	
<ul style="list-style-type: none"> - Law on real estate agents. 	<p>OBSERVED (see new Commitments in new MoU, Annex 9.2.1, PA) Cfr. Arts. 197-204 of law 4072/2012; see comments above.</p>
<ul style="list-style-type: none"> - Presidential Decree abolishing the economic test for the opening of slaughter houses. 	<p>OBSERVED (cfr. PD 8/2012, FEK 11A/31.1.2012)</p>
<p>The Government carries out a proportionality analysis of the restrictions applied on outdoor / ambulant trade for social policy criteria. [Q1-2012]</p>	<p>OBSERVED (see new MoU 6.4.2, DECEMBER 2012) A study was submitted on 10 October 2012. Whilst it described the regulation on outdoor trade in Greece, it did not qualify as a proportionality analysis. The study was re-submitted on 13 December 2012, meeting the requirements.</p>
<p>The Government also ensures:</p> <ul style="list-style-type: none"> - 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] 	<p>NOT OBSERVED. PROGRESS MADE (see new MoU, section 6.5.3, DECEMBER 2012) Whilst the IT infrastructure supporting the PSC is ready, there are some procedures missing in areas such as the technical professions, for which, the new legislative framework is currently being revised. The completion of all procedures needed for the recognition of professional qualifications is pending (given requirements to submit original certificates to the Ministry of Education). These missing actions are expected to be completed before the end of the year.</p>

Table A12 – Business environment

<i>To improve the business environment and enhance competition in open markets</i>	
<i>Studies on price flexibility</i>	
<p>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]</p>	<p>OBSERVED Whilst there has not been a submission of an action plan on retail <i>per se</i> by the Greek government, the Ministry of Development has been monitoring the implementation of the recommendations issued in the study on the Greek retail sector by McKinsey. In addition, on wholesale, the Ministry of Development submitted a study to the Commission services in April 2012.</p>

Business environment

Package of reform measures to improve the business environment

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]	OBSERVED Cfr. Chapter 6 -Arts. 34 to 42 of law 4072/2012 "the Business Friendly Greece" law.
- 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]	OBSERVED Cfr. Art.232 of law 4072/2012 "the Business Friendly Greece" law. However, the law delays the implementation of this provision for 6 months, which means that <i>de facto</i> , the obligation to publish company data on newspapers will cease in 2013 (as companies normally publish their financial data in the first semester of each year).
- 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]	OBSERVED. (see new MoU 6.4, PA) Cfr. Art. 248.8 of law 4072/2012 "the Business Friendly Greece" law.
- 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]	OBSERVED (see new MoU, section 6.4, PA) Cfr. section H3 of the Law on the approval of the medium-term fiscal policy framework 2013-2016 and on urgent implementation measures for law 4046/2012 and for the medium-term fiscal policy framework 2013-2016.
- 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]	PARTIALLY OBSERVED (see new MoU, section 6.4.3, FEBRUARY 2013) (Cfr. MD A2-493 of 11 April 2012). The new MD provides that companies falling under its scope must submit data on the sales in 2011 broken down by the code of the product, merchandise or service to the Market Surveillance Agency at the Ministry of Development, Competitiveness and Shipping. Those companies must determine, after the closing of any subsequent financial year, their accounting data on the sales of the last closed financial year broken down by code of the product, merchandise or service if requested by the Special Secretary of the Market Surveillance Agency. The Commission services are concerned about potential competition policy concerns from the dissemination / publication of collected data to companies which are in competition with each other (retailers, producers). The concerns should be accommodated in the on-going review of the Code of Market regulations which was notified in mid-October to the EC.

- 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]	OBSERVED Cfr. Art. 37 of law 4062/2012
- 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]	OBSERVED Cfr. Art. 185 of Law 4070/2012
- repeal Art. 12.2 of Law 3853/2010, providing that draft model company statutes 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]	OBSERVED. (see new MoU 5.1.2.1.iii, DECEMBER 2012) Cfr. section H1.10 of the Law on the approval of the medium-term fiscal policy framework 2013-2016 and on urgent implementation measures for law 4046/2012 and for the medium-term fiscal policy framework 2013-2016.
- 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]	OBSERVED
- 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]	OBSERVED (see new MoU 5.1.1.2.i, NOVEMBER 2012) The Authorities have implemented this measure in the 2013 fiscal budget (Law 4093/2012, Θ.1.2a and b).
- 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]	OBSERVED
- cease to earmark the non-reciprocating charge calculated on the fuel price in favour of Mutual Distribution Fund of the Oil-Pump	OBSERVED (see new MoU 5.1.1.2.ii, NOVEMBER 2012) The Authorities have implemented this measure in the

Operators of Liquid Fuel. Government allocates the aforementioned amounts to the 2013 State budget. [Q2-2012]	2013 fiscal budget (Law 4093/2012, IA14 / 4a)..
<i>Implementation of law 3982/2011 on the fast track licensing procedure for technical professions, manufacturing activities and business parks and other provisions</i>	
The Government: - Issues the Joint Ministerial Decision of degrees of nuisance provided for in Art. 20.9 of 3982/2011. [March 2012]	OBSERVED The Joint Ministerial Decision was published on the Government Gazette FEK B: 1048/4-4-2012
- Issues the Joint Ministerial Decision on standardised environmental terms for industrial activities provided for in Art. 36.1 of Law 3982/2011. [March 2012]	OBSERVED The Joint Ministerial Decision published on the Government Gazette FEK B: 1275/11-4-2012
- 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]	OBSERVED (see new MoU 5.1.2.3.i, DECEMBER 2012) The PDs for industry technicians (PD 115 / FEK A 200/ 17-10-2012), plumbers (PD 112/ FEK A 197/17-10-2012), liquid and gaseous fuel technicians (PD 114/ FEK A 199/17-10-2012) and machine operators (PD 114/ FEK A ' 199/17-10-2012) have been published in the Government's Gazette.
- Issues the Presidential Decrees on preconditions for obtaining a licence for electricians provided for in Art. 4.4 of Law 3982/2011. [May 2012]	NOT OBSERVED. PROGRESS MADE (see new MoU 5.1.2.3.ii, FEBRUARY 2012) The PD on electricians has been sent to the Council of State for comments. The EC provided written comments on the draft PD for electricians in the first half of October and on 3 December 2012. Further adjustments are needed to simplify the conditions for licensing of electricians.
- Issues the Presidential Decree on Certified Inspectors provided for in Art. 27.4 of law 3982/2011. [Q2-2012]	OBSERVED (see new MoU 5.1.2.3.iii, FEBRUARY 2012) Cfr. PD126/2012, FEK 227/16.11.2012
- Issues the Joint Ministerial Decision on the process of licencing business parks provided for in Art. 46.6 of law 3982/2011. [March 2012]	OBSERVED The Joint Ministerial Decision was published on the Government Gazette FEK B: 583/2-3-2012.
<i>Implementation of Law 4014/2011 on environmental licensing of projects and activities</i>	
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]	OBSERVED Cfr. Government Gazette no 2703/B/05.10.12
The Government: - Issues the Ministerial Decision provided for i) in Art.	NOT OBSERVED. PROGRESS MADE (see new MoU 5.1.2.4, Q4- 2012 - Q1 2013)

<p>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;</p> <p>The Government:</p> <ul style="list-style-type: none"> - Issues the Ministerial Decision provided for in Art. 2.13 of Law 4014/2011 to further specify the procedure and specific criteria for environmental licensing. [Q2-2012] 	<p>The Standard Environmental Commitments (SEC) for industrial activities are completed and published on the Government Gazette no 1275/B/12.</p> <p>The SEC for mobile telephony antennas, are completed and published on the Government Gazette no 1510/B/12.</p> <p>The SEC for projects and activities of category 6, (i.e. tourist activities, buildings, urban development projects) and category 10 (Renewable Energy Sources) are expected to be completed in December 2012. All of the above categories represent the 75% of total activities regulated by Standard Environmental Conditions (SEC). The remaining 25% (such as mines, infrastructure projects, poultry facilities etc.) are expected to be completed before end-March 2013.</p> <p>The MD provided for in Art. 2.13 of law 4014/2012 is expected to be completed before the end of 2012.</p>
<p><i>Business-Friendly Greece</i></p> <p>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]</p>	<p>OBSERVED</p> <p>The plan can be found on http://www.mindev.gov.gr/?page_id=6506</p>
<p>The Government implements the Business-Friendly Greece Action plan. [Q1-2012] The plan includes measures, among others, in order to:</p> <ul style="list-style-type: none"> - 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. 	<p>OBSERVED</p>
<p><i>Land registry and spatial planning</i></p> <p>The Government accelerates the completion of the land registry, with a view to:</p> <ul style="list-style-type: none"> - tendering out all remaining rights (ca. 15 million) and 	<p>NOT RELEVANT YET (see new MoU, section 5.1.2.7.iii, DECEMBER 2012 to 2015)</p>

<p>awarding cadastral projects for 7 million rights. [Q4-2012]</p> <ul style="list-style-type: none"> - 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. 	
<p>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]</p>	<p>NOT RELEVANT YET (see new MoU, section 5.1.2.7.ii, DECEMBER 2012 to DECEMBER 2013)</p>
<p>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].</p>	<p>PARTIALLY OBSERVED (see new MoU, section 5.1.2.7.i, JUNE 2013) Q2 deadline completed.</p>
<p><i>Other measures to improve the business environment</i></p>	
<p>- <i>Quasi fiscal charges</i>: 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]</p>	<p>OBSERVED (see new MoU 5.1.1.1, NOVEMBER 2012) The updated list of quasi fiscal charges with the additional requested information was submitted to the Commission services in November 2012.</p>
<p>- <i>Market regulations</i>: 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.</p>	<p>OBSERVED (see new Commitment in new MoU 6.4.3, FEBRUARY 2013) The draft code of market regulations has been submitted to the Commission services in October 2012 following the procedure provided for in Directive 98/34.</p>
<p>- <i>Screening of business restricting regulations</i>: 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,</p>	<p>NOT OBSERVED (see new MoU 5.1.3, DECEMBER 2012 to SEPTEMBER 2013) The application of the OECD Toolkit project has started in December 2012.</p>

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.	
- <i>Planning reform</i> : 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]	NOT RELEVANT ANYMORE
- <i>Development of an integrated and simplified process for export and customs formalities</i> . 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.	PARTIALLY OBSERVED (see new MoU 5.1.2.5, OCTOBER 2012 to SEPTEMBER 2013) ICISnet was launched in April 2012, enabling the submission of electronic declarations for exports. The tool needs improvements, however: i) some ICT issues prevent the system from being fully operational; ii) the tool does not resolve the bureaucracy of the customs, as the percentage of physical documentary/controls is still very high, and given that the Greek customs still request original documents to be shown during the controls; iii) not all functionalities of the tool are in place: the attachment of scanned documents or payments on line (both to avoid physical presence of operators in the customs offices) are expected to be ready by end Q2 2013. Meanwhile, the Authorities have published the National Trade Facilitation Strategy in October 2012 which proposes concrete actions and timing for reducing time of exports by 50% and costs by 20% in 2015. The Authorities should proceed with the appointment of the steering committee for the Trade Facilitation Strategy.
- <i>Security stocks of crude oil and petroleum products</i> : 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]	NOT RELEVANT YET (see new MoU 6.1.7.1, Q4 2012)
- An <i>ex post</i> 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]	NOT RELEVANT ANYMORE

Table A13 – Reform Monitoring and Technical Assistance

Actions in the Memorandum of Understanding on specific policy conditionality	
<p>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.</p>	<p>ONGOING Completion of the notice and collected 170 applications. Ongoing selection of the Evaluation Committee of the candidates.</p>
<p>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.</p>	<p>ONGOING Several projects are benefiting from technical assistance (more details in the Commission's Task Force for Greece second quarterly report).</p>
<p>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.</p>	<p>ONGOING</p>
<p>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.</p>	<p>OBSERVED AND ONGOING (see new MoU, section 2.5.2) Segregated account set up in Spring 2012. Constitutional changes not yet accomplished</p>

Annex 2: Macroeconomic forecast

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

<i>Annual % change</i>	2010	2011	2012	2013	2014	2015	2016
1. Private consumption expenditure	-6.2	-7.7	-7.7	-6.9	-1.6	1.3	2.3
2. Government consumption expenditure	-8.7	-5.2	-6.2	-7.2	-3.1	-1.9	-3.0
3. Gross fixed capital formation	-15.0	-19.6	-14.4	-3.3	5.7	8.3	12.1
4. Final domestic demand	-8.2	-9.3	-8.4	-6.5	-0.8	1.8	3.0
5. Change in inventories + net acquisitions of valuables	-0.3	0.3	0.0	0.0	0.0	0.0	0.0
6. Domestic demand	-7.0	-8.7	-8.7	-6.5	-0.8	1.8	3.0
7. Exports of goods and services	5.2	0.3	0.8	2.7	4.8	5.3	4.8
7a. - of which goods	7.6	4.0	0.8	2.7	4.8	5.0	4.8
7b. - of which services	3.2	-3.0	0.8	2.7	4.8	5.5	4.8
8. Final demand	-5.2	-7.2	-7.0	-4.6	0.4	2.6	3.4
9. Imports of goods and services	-6.2	-7.4	-10.0	-6.0	-0.5	1.4	2.4
9a. - of which goods	-9.3	-6.4	-10.0	-6.0	-0.5	1.4	2.4
9b. - of which services	6.9	-10.9	-10.0	-6.0	-0.5	1.2	2.4
10. Gross domestic product at market prices	-4.9	-7.1	-6.0	-4.2	0.6	2.9	3.7
<i>Contribution to change in GDP</i>							
11. Final domestic demand	-9.8	-10.1	-9.0	-6.7	-0.8	1.8	3.0
12. Change in inventories + net acq. of valuables	1.6	0.6	-0.3	0.0	0.0	0.0	0.0
13. External balance of goods and services	3.1	2.4	3.3	2.5	1.5	1.1	0.7

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

<i>Annual % change</i>	2011	2012	2013	2014	2015	2016
1. Private consumption expenditure	-4.6	-6.7	-7.6	-2.0	1.6	3.5
2. Government consumption expenditure	-11.0	-8.9	-9.6	-4.4	-3.5	-3.0
3. Gross fixed capital formation	-19.4	-13.6	-4.3	6.2	9.7	13.3
4. Final domestic demand	-8.1	-8.0	-7.5	-1.3	2.1	4.1
5. Change in inventories + net acquisition of valuables						
6. Domestic demand	-7.1	-8.8	-7.5	-1.3	2.1	4.1
7. Exports of goods and services	5.7	3.9	2.6	5.8	6.3	5.6
7a. - of which, goods	12.6	3.9	2.6	5.8	6.0	5.6
7a. - of which, services	-0.4	3.9	2.6	5.8	6.6	5.6
8. Final demand	-5.0	-6.4	-5.4	0.3	3.1	4.5
9. Imports of goods and services	-1.3	-6.3	-5.4	0.7	2.4	3.5
9a. - of which goods	0.7	-6.3	-5.4	0.7	2.4	3.4
9a. - of which, services	-8.8	-6.3	-5.4	0.5	2.2	3.8
10. Gross domestic product at market prices	-6.1	-6.5	-5.4	0.2	3.3	4.8
11. Gross national income	-6.2	-5.7	-5.5	-0.3	3.8	5.3
12. Compensation of employees	-9.0	-13.1	-8.8	-0.3	1.3	4.2
13. Gross operating surplus and mixed income	-4.8	-2.7	-2.1	0.4	3.7	4.0
14. Gross value added at basic prices	-6.5	-6.8	-4.6	0.1	2.9	4.0
14a. - of which, labour costs, including self-employed	-8.8	-14.2	-8.8	0.2	1.9	4.8
15. Taxes net of subsidies	-5.7	-2.9	-9.7	1.7	6.6	10.5
16. - taxes on products	-5.7	-2.8	-9.5	1.8	6.5	10.3
17. - subsidies on products	-7.9	2.6	2.6	2.6	2.6	2.6
20. Gross domestic product at market prices	-6.1	-6.5	-5.4	0.2	3.3	4.8

Table A3: COSTS AND PRICES

<i>% change in implicit price deflator</i>	2011	2012	2013	2014	2015	2016
1. Private consumption expenditure	3.4	1.1	-0.8	-0.4	0.3	1.1
2. Government consumption expenditure	-6.2	-2.9	-2.6	-1.3	-1.6	0.0
3. Gross fixed capital formation	0.3	0.9	-1.0	0.4	1.3	1.1
3a. - of which, construction	-0.1	0.0	-1.0	0.4	1.4	1.2
3b. - of which, equipment	0.4	2.0	-1.0	0.5	1.3	1.0
4. Final domestic demand	1.3	0.4	-1.1	-0.5	0.3	1.1
5. Domestic demand	1.7	-0.1	-1.1	-0.5	0.3	1.1
6. Exports of goods and services	5.4	3.1	-0.1	1.0	1.0	0.8
6a. - of which, goods	8.2	3.1	-0.1	1.0	1.0	0.8
6b. - of which, services	2.6	3.1	-0.1	1.0	1.0	0.8
7. Final demand	2.4	0.6	-0.8	0.0	0.5	1.0
8. Imports of goods and services	6.6	4.1	0.6	1.2	1.0	1.1
8a. - of which, goods	7.6	4.1	0.6	1.2	1.0	1.0
8b. - of which, services	2.4	4.1	0.6	1.0	1.0	1.4
9. Gross domestic product at market prices	1.0	-0.5	-1.2	-0.4	0.4	1.1
10. Terms of trade of goods and services	-1.1	-1.0	-0.7	-0.2	0.0	-0.3
10a. - of which, terms of trade of goods	0.6	-1.0	-0.7	-0.2	0.0	-0.2
10b. - of which, terms of trade of services	0.3	-1.0	-0.7	0.0	0.0	-0.6
11. HICP	3.1	1.1	-0.8	-0.4	0.6	1.1
11a. - at constant taxes	1.2	0.2	-1.3	-0.6	0.5	1.1

Table A4: LABOUR MARKET AND LABOUR COST

<i>Annual % change</i>	2011	2012	2013	2014	2015	2016
1. Gross value added at 1995 basic prices	-6.6	-6.0	-4.0	0.6	2.9	3.7
2. Employment ('000)	-5.6	-7.9	-2.1	1.4	2.0	3.0
3. GVA per occupied person	-1.0	2.1	-1.9	-0.8	0.9	0.7
4. Compensation of employees (per employee)	-3.4	-6.8	-6.8	-1.2	-0.1	1.7
5. Unit labour costs (1995=100)	-2.4	-8.7	-5.0	-0.4	-1.0	1.0
6. Total population	-0.1	0.1	0.1	0.1	0.1	0.1
7. Population of working age (15-64 years)	-0.2	-0.3	-0.5	-0.5	-0.5	-0.3
8. Total labour force	-0.3	-0.8	-1.6	-0.9	-0.1	-0.3
9. Total employment	-5.6	-7.9	-2.1	1.4	2.0	3.0
9(a). - of which, employees	-5.8	-6.8	-2.2	0.9	1.5	2.4
9(b). - of which, self-employed	-5.3	-10.0	-1.9	2.4	3.1	4.1
10. Unemployment	39.5	35.0	0.2	-8.7	-8.0	-14.0
10a. Calculated unemployment rate (%)	16.5	22.4	22.8	21.0	19.4	16.7

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

<i>levels</i>	2010	2011	2012	2013	2014	2015	2016
1. Private consumption expenditure	163.1	155.6	145.2	134.1	131.3	133.5	138.2
2. Government consumption expenditure	40.7	36.2	33.0	29.8	28.5	27.5	26.7
3. Gross fixed capital formation	39.2	31.6	27.3	26.1	27.7	30.4	34.5
4. Final domestic demand (1+2+3)	243.0	223.4	205.5	190.0	187.6	191.5	199.4
5. Change in inventories + net acquisition of valuables as % of GDP	-0.2	2.0	0.0	0.0	0.0	0.0	0.0
6. Domestic demand (4+5)	242.8	225.4	205.5	190.0	187.6	191.5	199.4
7. Exports of goods and services	49.4	52.2	54.3	55.7	59.0	62.7	66.2
7a. - of which, goods	23.3	26.3	27.3	28.0	29.7	31.5	33.2
7a. - of which, services	26.1	26.0	27.0	27.7	29.3	31.2	33.0
8. Final demand (6+7)	292.2	277.7	259.8	245.7	246.6	254.2	265.6
9. Imports of goods and services	70.0	69.1	64.8	61.2	61.6	63.1	65.3
9a. - of which goods	55.1	55.5	52.0	49.2	49.6	50.7	52.5
9a. - of which, services	14.9	13.6	12.7	12.0	12.1	12.4	12.8
10. Gross domestic product at market prices (8-9)	222.2	208.5	195.0	184.5	185.0	191.1	200.3
11. - of which, external balance of goods and services	-26.5	-20.6	-16.9	-10.5	-5.5	-2.7	-0.4
12. Balance of primary income with rest of the world	-6.2	-6.0	-4.2	-4.2	-5.1	-4.4	-3.7
13. Gross national income at market prices (10+12)	216.0	202.5	190.9	180.3	179.9	186.6	196.6
14. Compensation of employees	80.5	73.3	63.7	58.0	57.8	58.6	61.1
15. Gross operating surplus and mixed income	117.1	111.4	108.4	106.1	106.5	110.5	114.9
16. Gross value added at basic prices	195.2	183.1	170.4	162.2	162.3	166.9	173.7
16a. - of which, labour costs, including self-employed	122.2	111.4	95.7	87.3	87.4	89.1	93.3
17. Taxes net of subsidies (18-19)	26.93	25.39	24.7	22.3	22.7	24.2	26.7
18. - taxes on products	27.4	25.8	25.1	22.7	23.1	24.6	27.1
19. - subsidies on products	0.4	0.4	0.4	0.4	0.4	0.4	0.5
20. Gross domestic product at market prices (16 + 17)	222.2	208.5	195.0	184.5	185.0	191.1	200.3

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

<i>levels</i>	2010	2011	2012	2013	2014	2015	2016
1. Gross value added at 1995 basic prices	171.5	160.2	150.6	144.6	145.5	149.7	155.2
2. Employment ('000)	4711.7	4446.8	4095.5	4009.5	4065.6	4146.9	4271.3
3. GVA per occupied person (1:2)	36.4	36.0	36.8	36.1	35.8	36.1	36.3
4. Compensation of employees (per employee)	25.9	25.1	23.4	21.8	21.5	21.5	21.8
5. Unit labour costs (4:3) (1995=100)	71.2	69.5	63.5	60.4	60.1	59.5	60.1
6. Total population	11307.6	11290.9	11302.2	11313.5	11324.8	11336.2	11347.5
7. Population of working age (15-64 years)	7522.4	7507.4	7484.9	7447.5	7410.2	7373.2	7351.0
8. Total labour force	5340.4	5323.7	5279.3	5195.7	5148.6	5143.3	5128.2
9. Calculated activity rate (%) (8:7)	71.0	70.9	70.5	69.8	69.5	69.8	69.8
10. Total employment	4762.7	4446.8	4095.5	4009.5	4065.6	4146.9	4271.3
11. Total employment	4762.7	4446.8	4095.5	4009.5	4065.6	4146.9	4271.3
11(a). - of which, employees	3103.6	2924.6	2725.3	2665.7	2689.7	2728.7	2794.9
11(b). - of which, self-employed	1659.0	1522.2	1370.1	1343.8	1375.9	1418.2	1476.4
12. Calculated employment rate (11:7)	62.6	59.2	54.7	53.8	54.9	56.2	58.1
13. Unemployment (8 - 11)	628.7	876.9	1183.8	1186.2	1083.0	996.3	856.9
13a. Calculated unemployment rate (%) (13:8)	11.8	16.5	22.4	22.8	21.0	19.4	16.7

Table B3: INCOME AND EXPENDITURE OF HOUSEHOLDS

levels	2010	2011	2012	2013	2014	2015	2016
1. Compensation of employees	81.7	73.1	63.5	57.9	57.7	58.5	60.9
1a. - of which, gross wages and salaries	64.1	58.1	50.4	46.0	45.8	46.4	48.4
2. Non-labour income, net	77.3	75.6	77.5	78.6	80.3	83.7	87.1
3. Current transfers received	52.1	51.2	49.8	44.5	43.4	43.8	44.8
4. Current taxes on income and wealth	11.2	11.5	13.2	13.2	13.5	13.8	14.0
5. Current transfers paid	35.1	32.6	30.3	29.3	29.5	30.0	31.7
6. Gross disposable income (1+2+3-4-5)	164.9	155.9	147.3	138.5	138.5	142.2	147.1
8. Adjusted gross disposable income (6+7)	164.9	155.9	147.3	138.5	138.5	142.2	147.1
9. Real adjusted gross disposable income	141.7	129.6	121.1	114.8	115.3	118.0	120.7
10. Final consumption expenditure	163.1	155.6	145.2	134.1	131.3	133.5	138.2
11. Gross saving (8-10)	1.8	0.3	2.1	4.4	7.1	8.7	9.0
12. Saving rate (%) (11:8)	1.1	0.2	1.4	3.2	5.2	6.1	6.1
13. Gross capital formation	15.9	13.5	9.6	7.0	7.3	6.3	7.9
14. Other capital expenditure, net	-1.1	-1.0	-0.8	-0.7	-0.6	-0.5	-0.4
15. Net lending (+) or net borrowing (-) (11-13-14)	-13.0	-12.2	-6.6	-1.9	0.4	2.9	1.5
<i>15a. p.m. 15 as % of GDP</i>	<i>-5.9</i>	<i>-5.8</i>	<i>-3.4</i>	<i>-1.0</i>	<i>0.2</i>	<i>1.5</i>	<i>0.7</i>

C1: FISCAL ACCOUNTS AND FORECAST

	2010	2011	2012	2013	2014	2015	2016
<i>Levels (in EUR billion)</i>							
Total revenue	90.2	88.2	85.0	79.2	79.7	80.2	83.3
Indirect taxes	27.3	26.6	25.1	24.0	23.9	24.4	26.0
Direct taxes	17.5	18.0	19.7	17.3	18.1	18.4	19.0
Social contributions	29.8	27.5	24.2	23.4	23.7	24.3	25.4
Sales	6.1	5.3	5.4	5.1	5.2	5.3	5.5
Other current resources	4.9	5.8	5.5	4.7	4.5	4.6	4.9
Capital transfers received	4.6	5.0	5.0	4.8	4.3	3.1	2.6
Total expenditure	114.0	107.9	97.9	87.7	86.1	87.2	88.4
Intermediate consumption	13.7	9.9	8.7	8.1	7.2	7.2	7.2
Compensation of employees	27.8	25.9	23.7	22.1	21.7	21.5	21.4
Social transfers other than in kind	47.2	47.2	45.1	39.1	38.5	39.1	39.8
Interest	12.9	14.9	10.0	8.5	9.2	10.0	10.2
Subsidies	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other current expenditure	3.4	2.6	2.7	2.4	2.3	2.3	2.5
Gross fixed capital formation	5.0	3.4	3.7	3.5	3.2	3.2	3.2
Other capital expenditure	3.9	3.9	3.9	3.9	3.9	3.9	3.9
<i>Measures to be identified</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>2.8</i>	<i>3.8</i>
Primary balance	-10.9	-4.8	-2.9	0.0	2.8	5.7	9.0
General Government balance	-23.7	-19.7	-12.9	-8.5	-6.4	-4.2	-1.2
<i>% of GDP</i>							
Total revenue	40.6	42.3	43.6	42.9	43.1	42.0	41.6
Indirect taxes	12.3	12.8	12.9	13.0	12.9	12.8	13.0
Direct taxes	7.9	8.7	10.1	9.4	9.8	9.7	9.5
Social contributions	13.4	13.2	12.4	12.7	12.8	12.7	12.7
Sales	2.7	2.6	2.8	2.7	2.8	2.8	2.7
Other current resources	2.2	2.8	2.8	2.5	2.4	2.4	2.4
Capital transfers received	2.1	2.4	2.6	2.6	2.3	1.6	1.3
Total expenditure	51.3	51.7	50.2	47.5	46.5	45.7	44.1
Intermediate consumption	6.2	4.7	4.5	4.4	3.9	3.8	3.6
Compensation of employees	12.5	12.4	12.2	12.0	11.8	11.3	10.7
Social transfers other than in kind	21.3	22.6	23.1	21.2	20.8	20.5	19.9
Interest	5.8	7.1	5.1	4.6	5.0	5.2	5.1
Subsidies	0.1	0.1	0.1	0.1	0.1	0.1	0.0
Other current expenditure	1.5	1.2	1.4	1.3	1.2	1.2	1.2
Gross fixed capital formation	2.3	1.6	1.9	1.9	1.7	1.7	1.6
Other capital expenditure	1.7	1.9	2.0	2.1	2.1	2.0	1.9
<i>Measures to be identified</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>1.5</i>	<i>1.9</i>
Primary balance	-4.9	-2.3	-1.5	0.0	1.5	3.0	4.5
General Government balance	-10.7	-9.4	-6.6	-4.6	-3.5	-2.2	-0.6

C2: GOVERNMENT DEBT

	2010	2011	2012	2013	2014	2015	2016
	<i>levels (EUR billion)</i>						
Debt	328.6	355.8	312.3	320.5	320.9	322.0	320.0
Change in debt	29.1	27.2	-43.5	8.2	0.5	1.1	-2.1
Government deficit (+ is a deficit)	23.7	19.7	12.9	8.5	6.4	4.2	1.2
Stock-flow adjustment	5.3	7.5	-56.4	-0.3	-5.9	-3.1	-3.3
	<i>% GDP</i>						
Debt	147.9	170.6	160.1	173.7	173.5	168.6	159.8
Change in the ratio	18.6	22.7	-10.5	13.6	-0.2	-4.9	-8.8
<i>Contributions:</i>							
Primary balance (+ is a deficit)	4.9	2.3	1.5	0.0	-1.5	-3.0	-4.5
“Snow-ball” effect	11.3	16.8	16.9	13.7	4.5	-0.3	-2.7
Stock-flow adjustment	2.4	3.6	-28.9	-0.2	-3.2	-1.6	-1.6

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GREECE—LETTER OF INTENT

Athens, 7 December 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 2013-16. 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.

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

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 and March 2012. These policies place strong emphasis on restoring growth and ensuring an equitable fiscal adjustment:

- The government has adopted an ambitious fiscal programme for 2013–16. We have already adopted: (i) a 2013 budget and a revised medium-term fiscal programme; and (ii) an implementation bill containing the fiscal measures for 2013-14. Our revised fiscal programme targets the 4½ percent of GDP primary surplus target by 2016, two years later than foreseen previously. The smoother path will help to moderate the impact of fiscal adjustment on the economy.
- We have also agreed to a number of safeguards for the delivery of fiscal commitments. These include stronger budgetary and monitoring requirements, with a wider role for the Ministry of Finance, automatic expenditure cuts when the fiscal performance deviates from established targets, fiscal rules for the general government, notably for line Ministries, state owned enterprises and local governments among others, a corrective mechanism on the primary surplus if privatisation proceeds fall short of targets, and changes in the governance

of privatisation if the sale of assets is not in line with plans. A revenue rule for the general government has been agreed, according to which at least 30% of windfall revenues will be devoted to debt repayment while up to 70% could be used the following year by the Government to support temporary policies aiming to boost growth and social cohesion automatically, conditional to the achievement of the fiscal targets.

- Strengthening fiscal institutions is a crucial part of our reform programme. The government has already strengthened the capacity of the Tax Revenue Administration, simplified tax accounting procedures, and taken measures to secure tighter control over general government spending. These measures will help improve payment of taxes and prevent future accumulation of arrears. Further reforms in this area are planned in order to boost revenue collection, which is crucial for achieving equitable fiscal consolidation. Progress in this area is of paramount importance.
- To restore competitiveness and growth, our policies aim to accelerate the implementation of deep structural reforms in the labour, product and service markets. We have already taken a number of steps to help liberalize key product and service markets, restarted the privatization process, and reduced non-wage labor costs. These reforms will strengthen competitiveness, help catalyze much-needed investment, and protect real household income. Further reforms are planned throughout 2013-16 which will bring about long-lasting changes in the economy and will boost growth.
- We are strengthening the banking system, to further underpin the recovery. We have finalized the banking sector recapitalization framework, and introduced reforms to strengthen governance. These actions should strengthen depositor confidence and support renewed bank lending. We will proceed with the recapitalization of banks, in order to enable them to start lending again. This, together with the clearance of arrears in accordance with the framework agreed with the European Commission, the IMF and the ECB, is much needed for growth over the medium term.

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

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.

On this basis, we request the disbursement of the amount of EUR 43.7 billion, as agreed in the Eurogroup of 27 November 2012, stemming out of the financing arrangements by the EFSF supporting the Second Adjustment Program for Greece.

This letter is being copied to Ms Lagarde.

Antonis Samaras

Prime Minister

Yannis Stournaras

Minister of Finance

George Provopoulos

Governor of the Bank of Greece

I. GREECE—MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

A. Strategy and Outlook

1. **Greece has made progress since the onset of the crisis in 2010, but continues to face three crucial challenges:**

- **Restoring growth.** Greece is in its fifth year of recession, with unemployment reaching unprecedented levels, particularly among youth. Restoring growth and bringing jobs back requires a deep restructuring of the economy, to shift the engine of growth from consumption to exports and to investment in the tradables sector.
- **Securing fiscal sustainability.** Despite the adjustment we have undertaken so far, further efforts are needed to restore fiscal sustainability. These will have to spread the adjustment burden fairly across the Greek population. Achieving a sustainable level of debt within the eurozone is vital to reduce vulnerabilities and protect Greek citizens from even-deeper cuts that would otherwise prove necessary.
- **Securing the financial system.** The deep recession combined with the recent public debt restructuring has taken a toll on banks' capital. Recapitalization of the banking system is needed to strengthen depositor confidence and restart bank lending.

2. **The short term economic outlook remains difficult, but the adjustment process is now moving faster.** The recession has turned out to be deeper than envisaged under the program, while slow progress in structural reforms has not sufficiently addressed price rigidities. However, our external deficit is projected to shrink at a faster pace than expected, and competitiveness gains, measured by unit labor costs, are also expected to come at a faster pace.

3. **Against this backdrop, we have adapted policies in the program to better help achieve our goals and in particular to more rapidly stabilize the economy:**

- **We have made it a priority to implement structural reforms designed to reduce prices and encourage employment.** Product market reforms have been front-loaded to increase competition, help reduce prices and thus help protect real household incomes. Privatization will also move forward at an accelerated rate to facilitate new private sector investment. Non-wage labor costs will be reduced, to support hiring and lessen pressure for nominal wage cuts.
- **We will make a renewed near-term push to correct Greece's poor business environment.** When confidence returns, the government bureaucracy must not stand in the way of new investment and the jobs that this would bring. Accordingly, licensing reforms will be fully implemented, export procedures simplified, and the administrative burden of Greece's complex tax system will be simplified.

- **The government has programmed more time for fiscal adjustment, to help smooth the recession.** By taking an extra two years to reach our fiscal targets, we expect the pace of fiscal consolidation to drop from 3 to 1½ percent of GDP per year. This will limit the negative growth impacts in 2013-14, when the economy needs to find a firmer footing, while still preserving a good adjustment pace.
- **Several initiatives will help support demand in the near-term.** Increased absorption of EU structural funds will help to sustain public investment, while new loans from the EIB to banks will help support new lending to small and medium enterprises (SMEs). The program provides resources to gradually clear government arrears, and we expect this to help improve liquidity in the corporate sector. And to complement our work to recapitalize banks, we will introduce measures to help banks efficiently work out debts with truly distressed borrowers.
- **We are enhancing our social safety net to help cushion those who are most deeply affected by Greece's recession.** We will leverage available EU structural funds to strengthen job training initiatives, and increase internal resources available for unemployment insurance.

4. **Our European partners have supported our revised policy framework with additional financing, on terms consistent with restoring Greece's debt sustainability.** Our additional financing needs will be covered via a package that provides for lower interest rates, deferred interest and longer maturities on loans, and higher fiscal transfers (the commitment by Member States to pass on to Greece an amount equivalent to the income on the SMP portfolio of the National Central Banks as from budget year 2013). They have also agreed to finance a voluntary debt buyback from the private sector.

5. **With our revised policies we expect to be able to stabilize the economy and start a recovery in the next 12-18 months.** Output would still contract by over 6 percent in 2012, and about 4¼ percent next year, before starting to recover, on a quarter-over-quarter basis, toward end-2013 or early-2014. Moderate inflation in 2012 would give way to mild deflation in 2013. The current account would be broadly in balance by 2014. But to meet or, hopefully, exceed these projections, we recognize the critical importance of strong and timely program implementation, to support a return of confidence.

6. **Greece has a positive outlook over the medium term.** Growth is projected to accelerate once the envisaged fiscal adjustment advances and structural reforms translate into improved competitiveness. Over the medium term, inflation in Greece is expected to remain below levels in our trading partners and our competitiveness gap should close. This should help deliver a current account surplus around 2017. Against this macro backdrop, and given our financing arrangements, we expect public debt to fall to 124 percent of GDP by 2020, and to substantially below 110 percent of GDP by 2022. We also expect the reliance of our banking system on the Eurosystem to gradually decline.

B. Structural reforms

7. **The government is determined to reinvigorate structural reforms to strengthen the basis for economic growth.** In particular, we are committed to comprehensively liberalize product and service markets by removing unnecessary restrictions and barriers to entry that currently impede competition and downward price adjustment. We also continue to recognize the importance of ambitious business environment reforms to remove barriers to investment. In addition, with the unemployment rate unacceptably high, we are determined to implement fully recent labor market reforms and to take further steps to improve the functioning of the labor market and facilitate employment creation.

8. **As a matter of priority, we will accelerate liberalization of product and service markets.** Citizens have made significant sacrifices by accepting lower wages and benefits. Productions costs in the economy have declined, but output prices have not dropped commensurately. To deliver more efficiency and productivity across the economy, and higher competitiveness, we will adopt a package of liberalization measures as a **prior action** for the review (Annexes I.1-I.2):

- **Retail market.** We will repeal unnecessary restrictions, deriving mainly from sanitary, labor, and transport regulations. These changes will allow a wider class of goods to be sold by retailers, and reduce retailers' operating costs. This in turn should help contribute to lower prices and more choice for consumers.
- **Fuel market.** To allow downward adjustment of prices, legal changes will, inter alia, allow small fuel retailers to import fuel without needing to construct large fuel storage facilities; and permit independent retailers to buy directly from refineries and to transport their own fuel. Taxes on diesel and heating oil will be equalized. We will guard against smuggling and fraud by introducing new control mechanisms in fuel distribution and retailing.
- **Transportation services.** To reduce transportation prices and strengthen the competitiveness of our tourism sector, we will: (i) remove restrictions on the rental of pickup trucks and vans, chauffeur services; and (ii) allow shuttle services by hotels and tour agencies using small vehicles (less than 12 seats) and tour packages for small vans and off-terrain vehicles.
- **Regulated professions** (Annex I.2). Our review of earlier efforts has revealed areas where further and more ambitious efforts are needed. We will focus on eliminating inconsistencies between specific legislation and the 2011 law (3919/2011) on professions, minimum fees for services, and mandatory use of services in selected professions. We will also tackle a new group of 8 professions and activities of economic importance. These will include: custom brokers, stevedores in ports, tourist agencies, and private education establishments. As a general principle, the

government is committed not to extend new reserved activities to specific professions.

- **We have also defined several next steps:**

- We remain committed to liberalizing all regulated professions by end-2012 per the 2011 law (3919/2011) on professions (EFF **structural benchmark**). To confirm our progress in this area, by July 2013 we will complete a study of the 20 largest professions examining the degree to which they have been liberalized, including results with respect to new entrants and price changes.
- We will complete a new round of liberalization of transportation services by end-February 2013, with the aim to strengthen the competitiveness of our tourism sector. We will address restrictions affecting airports, seaports, domestic ferry services (in particular covering labor arrangements and routing), and inter-urban travel. These processes have been launched in October 2012.
- Finally, prices of a number of key goods and services are high in Greece compared to other EU countries, particularly those for construction materials (including cement and steel). Accordingly, using the OECD toolkit and with the help of the Hellenic Competition Commission and other regulators, the government will screen the restrictions in these sectors, and also in the important food processing and tourism sectors. We will prepare by end-June 2013 an action plan to promote competition and facilitate price flexibility in these sectors.

9. **The government will also accelerate improvements in Greece's business environment.** While Greece has passed much legislation in this area, our overall ranking in Doing Business Indicators remains unacceptably low. Our priorities include:

- **Licensing and regulation.** The government will focus in the following three areas. First, by end-December 2012 we will further simplify procedures for establishing companies, including by allowing the use of model company statutes, streamlining background checks on company founders, and reducing the minimum capital requirements of new companies in line with best EU practices. Second, we will publish during Q4 2012 a national trade facilitation strategy with time-bound steps to simplify pre-customs and customs procedures and to increase working shifts (Athens airport and Piraeus port will shift to 24/7 by end-March 2013). Third, by Q1 2013 we will complete the legal framework for the implementation of licensing laws, especially on manufacturing activities and environmental projects and activities. For the latter we will certify bodies to issue establishment and operating licenses and to lay down the procedures and criteria for licensing.
- **Judicial reform.** We will continue with measures to reduce case backlog and improve the efficiency of the judicial system. We will develop by end-January 2013

an action plan with specific measures to reduce the non-tax case backlog. Every quarter, starting from end-December 2012, we will publish a report on progress in backlog reduction, and update the work plan to reduce the tax case backlog (with priority on cases exceeding €1 million). Separately, to inform our efforts to streamline the judicial process, a paper outlining the main proposals for amendments to the Code of Civil Procedure will be prepared by end-March 2013.

- **Next steps.** With assistance from the OECD we will screen legislation in a number of areas (including the agriculture, energy, fisheries, and pharmaceutical sectors, as well as public procurement) with a view to reduce the administrative burden. On the basis of the findings of these reviews, we will propose by end-September 2013 the needed amendments to our legal framework. We will also, by end-September 2013, produce a comprehensive list of nuisance taxes and levies, and approve a plan to incorporate them into the central government budget (along with the associated spending), and to eliminate the majority of them in a budget neutral way in the 2014 budget (**structural benchmark**).

10. **The government intends to build on recent labor market reforms to further improve the functioning of the labor market and encourage job creation:** The labor reforms adopted in February 2012 under the program have already helped to lower unit labor costs. The government will sustain the reforms and apply them uniformly across the sectors to which they apply. However, the minimum wage system in Greece remains complex and delinked from broader labor market conditions, while non-wage labor costs remain excessive, contributing to pressure for excess nominal wage declines and placing barriers in front of employment creation. We have specified measures to tackle these issues, and the next steps towards a stronger labor framework for Greece:

- **As a prior action for the review (Annex II), the government has established a timetable to reform Greece's minimum wage.** Under the new framework, the government will put in place a minimum wage mechanism adopted by parliament following a proposal by the government (to be made after consultation with social partners and other stakeholders and independent experts). The system will become effective by end-March 2013. At this point, the statutory minimum wage and maturity allowances will be set equal to the levels agreed at program approval in March 2012 and frozen at these levels. There will be no other allowances. Collective agreements will remain free to set higher wages than the statutory level set by the government, and free to set allowances of various types, but these will be binding only for the signatories of the agreements. By Q1 2014 the government will assess whether the mechanism is sufficient to address unemployment and improve competitiveness, and whether it is simple enough to be effectively administered by companies.
- **To reduce non-wage labor costs, we will take a number of actions:**

- **Tax wedge.** By November 30, 2013, as a new program **structural benchmark**, we will adopt legislation reforming the system of social security contributions to: (i) broaden the base for contributions; (ii) simplify the contribution schedule across the various funds; (iii) shift funding away from nuisance taxes and onto contributions; and (iv) reduce contribution rates by an average of 5 percentage points (from the rates prevailing on September 30, 2012). The reforms will be phased in on January 1, in 2014, 2015, and 2016 and will be revenue neutral and preserve the actuarial balance of the various funds. As an intermediate step, by end-September 2013 we will complete actuarial studies of possible changes and propose an action plan.
- **Other non-wage labor costs.** As a **prior action** for the review, the government has adopted legislation to reduce other non-wage labor costs. The changes will bring Greece closer to EU partners, and include (Annex II): (i) greater efficiency of labor arrangements within the overall 40 hour weekly limit on working time (covering the maximum number of workdays, working hours, and shift and leave restrictions); (ii) a reduction in administrative burden (related to extensive reporting and preapproval requirements of work arrangements); and (iii) lower dismissal costs (with grandfathering for existing workers, subject to a cap).
- **We will work to strengthen the safety net for those who become unemployed.** As discussed below in the fiscal policy section, the government is enhancing unemployment benefits to help mitigate any short-term impact that labor market reforms may have. We will also work to improve the effectiveness of our training and job-matching programs, focusing on the young and the long-term unemployed (and better leverage any available structural funds to this end).
- **Next steps.** As a general principle, we are committed to address any remaining features of our labor market that fall short of best European practices. As a first step, an independent assessment of the labor inspectorate will be completed by end-2012, with a particular focus on effective and efficient control procedures to fight undeclared work. The government will use this as an input to help specify an action plan to implement procedures to more effectively detect cases of undeclared work, and to eliminate activities that increase administrative costs for firms without serving a justifiable public policy objective.

11. **In light of the deep problems we have had to date with fully implementing structural reforms, the government will strengthen its management and monitoring mechanisms in this area.** We will fully staff the directorate of planning, management, and monitoring of reforms at the Office of the Prime Minister and publish on a quarterly basis monitoring indicators for each reform initiative on the government's website.

C. Privatization

12. **It is a priority of the government to restart and invigorate Greece's privatization program.** Greece has been too slow to date in achieving the benefits this can bring. Shifting government assets to the private sector should improve efficiency and reduce prices and catalyze needed investment. It will also help to cover budget financing needs, reduce public debt, and improve market sentiment. The program in this area covers the identification of assets, their transfer to the Privatization Fund, measures to overcome obstacles to sales, and measures to strengthen the institutions executing the work.

13. **We have made progress in specifying assets for privatization** (Appendix II). The list includes state enterprises and concessions in gaming, utilities, and infrastructure, and will also contain bank assets either in possession of the government or to be acquired during the recapitalization process. These assets have an estimated value of €26 billion. Further, we have screened 81,000 real estate properties with an estimated value of €20-28 billion. An updated privatization plan has been presented to parliament in the context of the 2012–16 MTFS.

14. **The government has taken steps to restart the sales process.** Implementation of selected steps defined in the bullets below will be a **prior action** for the review (see Annex III for details):

- **Transfer of assets.** The Privatization Fund (HRADF) will be given full and direct ownership of the non-real estate assets included in Annex III. It will also be given full and direct ownership of the real estate assets Kassiopi, and Afantou, the 28 government buildings that will be sold and leased back, and Astir Vouliagmenis. All line ministries and other relevant entities will provide their property registry to the General Secretariat for Public Property.
- **Legal framework.** To enable transactions to proceed without further delays, we will: (i) remove restrictions to private ownership and control of firms; and (ii) initiate the process to obtain the zoning and land planning permits (ESCHADA) for two real estate projects (Afantou and Kassiopi). As a general principle, upon privatization of each object, we will amend all statutory provisions (including on labor relations) to fully align them with private sector law.
- **Advisors.** We will appoint all the necessary advisors to prepare the assets that are in the privatization plan for 2012-13.
- **Tender process.** Government stakes in OPAP, the state lottery, and IBC have been put up for tender.

15. **We expect significant further progress in the period ahead:** We will establish regulatory frameworks for water companies (December 2012), airports (January 2013), the

State Lottery and for ports (April 2013). Furthermore, Egnatia Motorways will be put to tender by March 2013; and we will fully identify and describe 40 new real estate assets that comprise the privatization projects for real estate lots 2 and 3. These 40 real estate assets will be transferred to the HRADF by March 2013. We will fully identify and describe all the remaining assets in the pool of 3150 assets that have been preselected and pre-valued by the HRADF. We will transfer full and direct ownership of all commercially viable assets amongst these to the HRADF by end-2013, targeting 250 transfers per quarter beginning in Q1 2013. There will be no transfer or withholding of any real estate assets to entities other than the HRADF, including municipalities and the recently established pension fund SPV, or other dedicated legal entities, without prior consultation and agreement with the HRADF and the EC/ECB/IMF, or until such time as the assets necessary to supply the privatization plan have been secured.

16. **The government is committed to insulate the privatization process from political pressures.** The government will take appropriate steps, including changes in existing legislation and/or in the composition of the Board, to safeguard and strengthen the independence and the functioning of the HRADF, if targets for the sale of assets are missed substantially for two consecutive quarters. To ensure that the HRADF is accountable in its role we will enhance the transparency of its operations. To this end the HRADF will publish: (i) a semi-annual update of the Asset Development Plan, which will include a Portfolio Overview, with a description of the assets it manages for privatization a timeline of planned tenders and targeted total receipts for the current and next year; and (ii) quarterly reports on its steps to facilitate privatizations, and financial accounts (including a profit and loss statement, a cash flow statement, and a balance sheet), no later than 60 days after the conclusion of every calendar quarter.

17. **We have adjusted our targets for privatization proceeds to reflect recent delays and the general deterioration of Greek asset prices.** We expect it to take more time (beyond 2020) to realize the full amount of proceeds of €50 billion, but we will proceed as quickly as possible. We expect, cumulatively (from June 2011), at least €5.9 billion through 2014, €10.5 billion through 2016, and €25.6 billion through 2020. In line with these cash targets, we will refrain from selling assets in exchange for government bonds. We will continue to monitor progress via quarterly indicative revenue targets, and via a performance criterion for end-September 2013. In the sixth review under the program, we will take stock of our progress through a special focus on privatization.

D. Financial Sector Policies

18. **It is an overarching objective of the government to ensure a viable and well-capitalized banking sector.** This is a necessity to underpin Greece's medium-term recovery. Our strategy is to recapitalize banks while maintaining protection of depositors as a policy objective, minimizing fiscal costs, and keeping the banks under private ownership and management to the extent possible. Our strategy comprises four key pillars: (i)

recapitalization of viable banks; (ii) orderly resolution of nonviable banks; (iii) restructuring of banks; and (iv) strengthening governance, supervision and regulation.

19. **We have now finalized our framework for recapitalizing banks**

- **Strategic assessment of the banking sector.** The BoG completed this in March 2012, assisted by an international consultancy firm. The study assessed the viability of the banks based on quantitative and qualitative criteria. This study identified four core banks accounting for about 75 percent of banking sector assets.
- **Capital needs.** By end 2012, we will align our capital metrics to the minimum core tier I ratio of 9 percent of risk-weighted assets set out in the EBA recommendation on capital buffers. Banks will also have to meet the requirements we have set under Pillar II (to maintain a 7 percent core tier 1 capital ratio under a 3 year adverse stress scenario). To this end, the BoG has, as a **prior action**, informed all banks of their individual capital needs and has requested that they finalize the capital raising process by end April 2013. These capital needs account for the impact of PSI, the valuation losses on new Greek government bonds, and results of a stress test exercise with a 3-year horizon (which took into account BlackRock credit loss projections and banks' future pre-provisioning results). The BoG will publish a detailed report on individual banks' capital needs, the recapitalization process, and the methodology followed by end December 2012.
- **Capitalization process.** The legal framework for the recapitalization has been put into place (**prior action**). The recapitalization process will involve three broad steps:
 - First, the HFSF will provide sufficient funds in the form of bridge capital to bring the core banks up to the minimum level of 9 percent CT1 under Pillar 1 before end-2012. The HFSF will also issue a commitment letter to subscribe to 100 percent of the remaining capital needs.
 - In the second step, by end January 2013, the HFSF will subscribe to 100 percent of any convertible instruments that the banks will decide to issue.
 - In the third stage, by end April 2013, the core banks will complete the rights issue and any shares not subscribed by the private sector will be acquired by the HFSF subscription to the common equity; all four core banks will meet the capital requirements set by the Bank of Greece (**structural benchmark**).

Current or new shareholders will have control of the core banks, provided they are deemed fit and proper as already envisaged in the regulatory framework, and have subscribed no less than 10 percent of the capital to be raised by way of common shares. While existing shareholders will be diluted during the recapitalization process, they or new investors will be allowed to participate in the rights issuance

and, should the above 10 percent threshold of private sector participation be reached, will receive warrants to acquire the remaining shares from the HFSF within five years.

- **Subsidiaries have been recapitalized by their parent banks.** Agreements have been reached on the acquisition of Emporiki and Geniki by Alpha Bank and Piraeus Bank, respectively, with a view to achieve further consolidation of the banking system while protecting the public sector from potential losses. We expect to approve these acquisitions subsequent to the completion of the due diligence process. These acquisitions will not require injection of additional public funds.
- **The recapitalization strategy for remaining undercapitalized non-core banks has also been finalized.** Our strategic assessment shows that these institutions are less suitable candidates for public money. These banks must be fully capitalized by end-April 2013. They may also merge with other banks if they can demonstrate a credible business plan, meet recapitalization needs by April 2013 and address all viability challenges.

20. **We will complete the resolution of undercapitalized banks by June 2013 and establish a framework to manage the assets of banks under liquidation:**

- **State-owned banks.** ATE bank was resolved in July 2012 through a promptly conducted Purchase and Assumption (P&A) transaction with Piraeus Bank. The final resolution cost will be defined by an external audit of the transferred assets and liabilities. Additionally, Piraeus Bank has presented to the EC a restructuring plan to demonstrate that the new integrated bank will enhance its viability and cost-efficiency. Regarding Hellenic Postal Bank, we have initiated its orderly resolution with the aim to do so via a P&A transaction to be completed no later than end-January 2013 (**structural benchmark**). Finally, we will complete Nea Proton's restructuring by mid-May 2013 in an open bid process under the sponsorship of the HFSF.
- **Other undercapitalized non-core banks.** If the shareholders or new investors are unable to support these institutions as required above by end-April 2013 we plan to complete the resolution of these institutions no later than end June 2013 via P&A transactions with well capitalized banks, or, as a second best, the establishment of a bridge bank (**structural benchmark**). To prevent market distortions and unsound banking activities, the BoG has placed all undercapitalized non-core banks under enhanced supervision.
- **We will ensure that the assets of banks under liquidation are managed on the basis of best international practices.** This includes the bad assets of banks that are resolved as part of the restructuring process. To this end, by end-February 2013 the

BoG will publish an assessment report prepared by an international expert regarding policies and procedures required to ensure effective bank asset management and recovery. The report will identify the areas that could require further strengthening to maximize loan collection and help reduce bank resolution costs.

21. **We are developing a strategy to address the on-going challenges for the cooperative banks.** By end-February 2013 the BoG will complete its assessment of this sector and issue a final report. Based on this report, by end-May 2013, we will set out a comprehensive strategy to implement its recommendations.

22. **We have reviewed our estimate of resources needed to fully recapitalize the Greek banking system.** Based on the strategy laid out above, we estimate that the funds required will still amount to €50 billion, which is fully accounted for in updated estimates of program financing. We will take no fiscal policy actions to increase this burden (and in particular, no dividends will accrue or be paid to the government on preference shares until the banks are profitable). A one-time €550 million fee, to be received from banks in 2012 in return for the provision of bridge capital, will be earmarked to the HFSF and placed in the HFSF intermediate account.

23. **The government of Greece has established a framework to ensure continued restructuring and strengthening of the banking system after the recapitalization process is complete:**

- **Banks that receive state-aid will need to provide clear and realistic business plans for their restructuring:**
 - **Operational restructuring.** Following the recapitalization of the core and non-core banks, all institutions should update their restructuring plans and submit them for validation by the EC. These should be finalized by end-June 2013; however, banks that acquire other institutions through P&A transactions sponsored by the HFSF will have until end-July 2013 to submit such revised plans (**structural benchmark**). The restructuring plans should take into consideration the updated macroeconomic framework set out in the most recent program review. The HFSF will monitor banks' adherence to their restructuring plans and report on a semi-annual basis to the EC/ECB on progress.
 - **NPL resolution.** The HFSF will request that banks assess, by June 2013 whether their established frameworks and policies to deal with troubled assets are effective. International work-out specialists should be invited to assist in the process.
 - **Funding.** As part of the new restructuring plans, banks will set out their intentions to broaden their funding base and reduce over time their reliance on emergency liquidity provided by the central bank. The BoG, following the

procedures and rules of the Eurosystem, will stand ready to continue disbursing adequate and appropriate emergency liquidity support in a timely manner if needed.

- **We will strengthen the insolvency framework.** In consultation with the EC/ECB/IMF staff, we will by end-December 2012, on the basis of best international practices, review the insolvency framework for households and SMEs as well as the framework for out of court negotiations between banks and troubled borrowers and prepare an assessment identifying areas for improvement. The aim will be to achieve predictable, equitable and transparent allocation of risks among all interested parties and maximizing value for the economy in general. By end-February 2013, we will revise, with technical support of international experts, the existing framework to facilitate workouts with over- indebted household borrowers that preserves bank solvency and credit discipline, avoids the use of fiscal resources to protect private borrowers and minimizes moral hazard by targeting borrowers that are in real need. We will refrain from supporting any initiative that may undermine the payment culture in Greece.
- **Follow up stress testing.** To ensure that the system remains sufficiently well-capitalized, the BoG will, by end-December 2013, conduct a new stress test exercise, based on end-June 2013 data, using a methodology determined in consultation with the EC/ECB/IMF staff (we propose to shift the existing **structural benchmark** on this action to this new date).

24. We are committed to ensure that the financial system operates with maximum safeguards to ensure stability and continued viability:

- **The HFSF will complete the due diligence of core banks.** This will, inter alia, focus on a review of governance including loans to related parties, asset quality, and risk concentration, and any findings of interest to the supervisor will be communicated to the BoG (**prior action**). The BoG will address these promptly, including via removal of board members and managers, and/or suspension of private shareholders (which would prevent them from participating in bank recapitalization framework). By end-March 2013 banks will submit to the BoG plans to address identified operational governance weaknesses with clear timetables for full implementation by end-December 2013.
- **Monitoring trustees will be appointed in all banks under restructuring to submit quarterly reports on governance and operations, as well as ad-hoc reports as needed.** The monitoring trustee will work under the direction of the EC, within the terms of reference agreed with the EC/ECB/IMF staff and will liaise closely with the EC/ECB observers at the HFSF and share their report with the HFSF. In line with the EU state aid rules the trustees will be responsible for

overseeing the implementation of restructuring plans. This includes, *inter alia*, verifying proper governance and the use of commercial-basis criteria in key policy decisions even in the absence of an approved restructuring plan. The monitoring trustees will closely follow the banks' operations and shall have permanent access to Board meeting minutes, and be observers at the executive committees and other critical committees, including risk management and internal audit functions. These trustees shall be a respected international auditing or consulting firm (that will include the participation of overseas based partners and managers) which needs to be endorsed by the EC on the basis of its competence, its independence from the banks and the absence of any potential conflict of interest. We will agree a terms of reference with the EC/ECB/IMF staff and communicate this to the banks with instructions for the trustees to begin work no later than mid-January 2013 (**prior action**).

- **We will ensure adequate reporting of HFSF operations, and enhance the EC and ECB observers' access to information at the HFSF.** Starting at end-January 2013, the HFSF will initiate semi-annual public reporting on its main activities. As a **prior action**, we will amend HFSF by-laws to clearly stipulate that the HFSF Board, including the observers, must be informed of all decisions of the core banks having an impact on the HFSF's rights as a shareholder/investor. This information, as soon as received by and through the senior executive of the HFSF, is to be provided a minimum 1 day in advance of any meeting by the HFSF Board that discusses the bank's decisions.
- **We will ensure arms length governance of core banks' business activities.** By end-March 2013, the HFSF will publish relationship frameworks with each bank on the basis of best international practices, with a view to define the responsibilities of bank managers and board members and the role of HFSF as a shareholder, to ensure the core banks are run on a commercial basis. A draft for discussion based on international best practices will be developed with the EC, ECB, and IMF staff by end-January 2013.

25. **With a view of adapting the supervision of the Greek banking sector to the changed banking environment we are taking important steps:**

- **Updating the supervisory model.** The BoG will complete a review of its supervisory approach in light of the new challenges ahead, by end-June 2013, with technical support provided by a banking supervision expert. Key enhancements will include: (i) the refocusing of our off-site analytical capacity to assess the business models of the core banks and be able to monitor and critically analyze the implementation of their business plans and the direction that banks may be taking; (ii) updating onsite supervisory procedures and prudential regulation in light of the findings of the ongoing reviews; and (iii) an action plan to monitor credit risk

concentration, in line with best practices, such as enhancing the monitoring of large business groups (including those related to bank owners) by end-July 2013.

- **Standardizing asset quality disclosure.** To enhance information available on banks' asset quality, provisioning and income recognition, the BoG and Hellenic Capital Markets Commission will issue guidelines in accordance with their respective competencies, in order to align banks' disclosure practices to international best practices. This is particularly relevant regarding the accounting for provisioning and reporting of restructured loans. By end-August 2013 with the assistance of a leading consulting firm, such practices will be benchmarked against those followed by top European institutions and will be reflected in banks' end-2013 financial statements.
- **Undertaking a Basel Core Principles (BCP) assessment.** We will request the IMF to undertake a stand-alone assessment by end-2014. The BoG will prepare in advance (by end-June 2014) a self-assessment of compliance with the BCP with the support of independent experts.
- **Clarifying competencies and responsibilities.** We will develop and publish a memorandum of understanding governing the relationship of the HFSF as a shareholder and the BoG's role regarding the oversight of banks that have received state aid.

E. Fiscal Policy

26. **The government is determined to bring the fiscal deficit to a sustainable position in a socially balanced and fair manner.** We remain committed to achieve a general government primary surplus of 4½ percent of GDP in the medium term, and to implement the EU fiscal compact thereafter. However, the deeper-than-expected recession calls for reconsidering the pace of fiscal consolidation, and by extension the phasing of fiscal measures. As anticipated in the EFF, we have specified our adjustment strategy.

27. **Our fiscal adjustment path has been extended to help soften the impact of the recession.** Our revised targets for the general government primary balance involve a deficit of 1½ percent of GDP in 2012, and an evenly-paced improvement in the primary balance thereafter—by 1½ percent of GDP each year to 2016. In nominal terms, we expect the overall balance to improve from a deficit of €13.8 billion in 2012, to a deficit of €8.9 billion in 2013, to an endpoint deficit of €1.3 billion in 2016. The pace of fiscal adjustment would be sped up to the extent that our privatization targets are missed and we have less available financing (by half of the privatization shortfall, up to €1 billion in additional adjustment per year).

28. **The new adjustment path, and different macroeconomic background, has implications for the amount and phasing of needed measures.** Needed measures now

amount to €13½ billion during 2013-14, comprising €3 billion to replace previously agreed measures where yields are declining, and €10½ billion in net new measures. Taking into account a cyclical rebound, and depending on our success with improving government efficiency, we could need €2-4 billion in measures to close the gap during 2015-16. The figure for 2013-14 is larger than what we expected at the time of program approval, reflecting the longer and deeper recession, as well as delays in implementing earlier measures, and health spending pressures. Without the extension of the fiscal adjustment period, the measures needed for 2013-14 would have amounted to an estimated €20 billion (including €13 billion in 2013).

29. Our adjustment strategy targets known structural problems in the operations of the general government :

- First and foremost we need to **improve revenue collections** to ensure the adjustment burden is shared fairly across the Greek population. Thus the government has adopted a far-reaching tax administration reform strategy, which we are already implementing, and which is explained in detail in the next section. We will aim for revenue gains from this source of 1½ percent of GDP, the full effects of which are expected to materialize gradually through 2016.
- Secondly, the strategy focuses on **improving government efficiency**. We have already reduced central government operating expenditures over the last 2 years, but there remains some scope to cut further and to reduce waste, particularly in the health sector. There also remain inefficiencies in the outer reaches of the general government—the extra-budgetary funds, local governments and state enterprises that have not fully caught up with the adjustment effort. This process of rooting out inefficiency will involve adjustments to the high level of government employment.
- Third, the strategy aims at **reductions in spending items that grew disproportionately prior to the crisis**. Despite the measures taken already, the share of pensions in GDP remains high by European standards. We need to reduce it to a level that Greece can afford to finance internally, but we need to avoid cuts that would bear disproportionately on the most vulnerable. Further, most social transfers are not targeted to the poorest segments of the society. We will refocus them and increase their effectiveness in alleviating poverty.
- Fourth, we intend to establish **a more efficient tax system**. We need to broaden the base by closing loopholes and adjusting allowances in a way that raises revenue while making the tax system more fair and equitable. We expect this effort to also help our tax collection efforts, by preventing under-reporting.

30. Building on this strategy, our adjustment package through 2014 focuses mainly on permanent spending reductions. In 2013, we need to take €9.2 billion of measures, and

we recognize that the reduction of the wage bill, pensions and social transfers contained in this package (€6 billion) is essential to its credibility. Passage of the 2013 budget and updated MTFS will be a **prior action** for the review, and adoption of package of fiscal measures, drawn from the areas listed in the following bullets, will as also be a **prior action** for the review (see Annex V for a detailed description of the measures):

- **Public sector wage bill.** We aim to reduce the wage bill by €1.5 billion from 2011 to 2014:
 - **Public sector employee compensation.** We will adjust the wage grid for special regimes, with effect from August 1, 2012. We will also adopt legislation to align the wage grid of parliamentary staff with the new wage grid for state employees. Finally, we will reduce labor costs associated with elected positions, and eliminate seasonal bonuses and suspend the payment of performance bonuses in the public sector.
 - **Public administration reform.** To achieve a leaner more efficient state, we have initiated a rigorous evaluation of administrative structures and personnel. We will combine this assessment with mobility, attrition, reduction of temporary contracts, disciplinary procedures, and mandatory redundancies. This should help reduce the public sector workforce by 150,000 by 2015, relative to the end-2010 level, while allowing room to hire staff with critical skills to support specialized government operations. The key building blocks for this include:
 - **A rigorous assessment.** The Ministry of Administrative Reform will complete a functional review for government ministries by January 2013, and individual staff performance assessments by end-2013. This reform process will be extended to extra-budgetary funds and regional and local administrations in 2013. This will identify entities to be merged or closed, staff that are redundant, staff that are not fully qualified for their positions, and open positions where new staff are needed.
 - **Mobility and exits.** Entity closures and cancelation of redundant positions will be pursued, and all affected employees will be either transferred to a mobility scheme or dismissed. Concerning those transferred to a mobility scheme, affected employees will be provided with one year of reduced pay. Our target is to place 27,000 in this scheme by end-2013. If they fail to find a new position in the public sector, they will be required to transition to the private sector. To facilitate renewal of the public sector workforce we expect a large share of those entering this program to ultimately transition to the private sector notably via mandatory exits. We expect to complete staffing plans for line Ministries by end-February 2013, and will use these plans to identify redundant positions and employees, and on this basis set quarterly

targets for mandatory exits through end-2014 (proposed as a new program **structural benchmark**).

- **Hiring controls and plans.** To ensure that our efforts to redeploy and reduce personnel are effective, we will take steps to optimize hiring. We will limit automatic sources of hiring, by limiting intake into public service academies by 30 percent, removing job guarantees for private sector teachers, and by putting a sunset clause to existing lists of eligible graduates. We will keep our staffing plans up to date to inform about critical skill requirements. If we are unable to meet our personnel reduction targets, notwithstanding our hiring controls, we will increase targeted redundancies.
- **Pension reform.** Although the recent pension reform addressed long-run issues, short-term pressures remain high, with pensions still increasing as a share of per capita GDP. We therefore will take the following measures effective January 1, 2013, which will yield €5 billion during 2013-14: (i) introduce actuarially-fair rules for lump-sum pensions; (ii) introduce a progressive reduction in monthly pension incomes above €1000; (iii) eliminate seasonal bonuses for supplementary and main pensions; and (iv) reduce pension increases due to automatic wage promotion for those indexed to wages of special regimes. In addition we will increase the statutory retirement age to 67 and postpone retirement eligibility by 2 years in all other cases including early retirement. As a supporting step, to allow identification of pensioners' total pension income, we will finalize the national registry of pensions, and sanction funds that do not deliver the required information to this.
- **Better targeting of social spending.** Our reform agenda is expected to yield net savings of 0.6 percent of GDP:
 - **Health spending.** We will continue to reduce public pharmaceutical spending towards 1 percent of GDP, in line with other EU countries. To this end, we will activate the claw-back mechanism that maintains outpatient pharmaceutical spending within budget limits. For 2013, we will: (i) revise co-payments; (ii) restrict entry of non-generic drugs into the positive list and expand over-the-counter products; (iii) further reduce the price of off-patent and generic drugs; (iv) reduce average profit margins of pharmacists to 15 percent; (v) reduce hospitals' operational spending (and merge underutilized facilities); (vi) increase contributions by farmers for their healthcare; and (vii) revise the benefit package offered by EOPYY.
 - **Other social benefit programs.** Based on technical assistance advice, we intend to introduce a well designed income-tested system that will reduce spending by 0.2 percent of GDP. Specific measures include: (i) replacing various untargeted family benefits and allowances with one means-tested family benefit program;

(ii) reducing special and seasonal unemployment benefits for certain professions and geographic areas; and (iii) increasing the age eligibility and income-testing of social solidarity supplements.

- **Improvements in efficiency.** Within the central government, we expect to realize savings from reductions of grants to political parties, rationalization of the operating expenditures of social security funds, cuts in lower priority investments, and a general rationalization of the educational system (especially for tertiary institutions). These will yield savings close to €0.7 billion. We have also cut transfers to public entities outside the general government, alongside their efforts to reduce wasteful investment spending. For local governments, a reduction of €0.2 billion is planned, for extra-budgetary funds, €0.3 billion, and for state enterprises €0.3 billion. These cuts will be supported by stronger fiscal frameworks (discussed below). Finally, to contain contingent risks in the energy sector, we will take measures including raising a solidarity contribution on renewable energy providers and, as a follow up, introduce incentives for cost control of new contracts such as requiring a deposit for existing contracts yet to be connected, and an annual fee on production licenses.
- **Revenue increasing reforms.** Changes will cover both direct and indirect taxes:
 - We will enact a reform of the personal, capital, and corporate income taxation regimes by end-December 2012 (meeting a program **structural benchmark**, with delay). The reform will target higher collections from individuals and entities that have paid a disproportionately low share of the tax burden. To this end, we will broaden the income tax base by abolishing selected tax deductions, allowances, and exemptions. We will shift taxation of the self-employed, farmers, and proprietorships to the corporate tax regime, and increase the fixed charge on companies and the self-employed. We will simplify the PIT rate structure to 3 statutory rates, while introducing a standard tax credit to preserve its progressivity. Finally, we will rationalize the capital income tax to replace the now-diverse levies on capital income with a single flat rate (except for rental income where there will be two rates, and deposit interest, the rate for which will be set lower). These measures, and others, will be designed to yield a net total amount of €1.9 billion in revenues.
 - Several reforms of indirect taxes are designed to yield €0.9 billion in revenues, including a reduction in the diesel excise subsidy for farmers; a reduction in tax refunds to farmers; an increase in the excise for liquid petroleum gas; and an equalization of the excise on heating oil with that of diesel fuel; restructuring of the taxation of cigarettes in line with EU best practices; and the introduction of a tax on gross gaming receipts. We will consult with the EC/ECB/IMF on any proposed changes in tax rates or bases.

31. To help cushion the impact of our fiscal adjustment on the most vulnerable, we have strengthened social spending programs. Support for the unemployed will be increased by €55 million by 2014, through two new programs (now being piloted): (i) an income-tested benefit scheme that targets long-term unemployed and provides income payable for a year; and (ii) a minimum income guarantee scheme targeting families in areas with difficult socioeconomic profiles. We will also expand our job-training and job matching programs, to be financed where possible by better leveraging available EU structural funds.

32. We have specified a strategy to fully achieve our 4½ percent of GDP primary surplus target by 2016. We expect revenues to revive once the economy enters its recovery phase, and we anticipate gains from stronger revenue administration (as noted above). Our drive to improve government efficiency will also continue, and we expect to achieve savings from a series of additional spending reforms designed to eliminate government waste (including increasing revenues of state-owned enterprises, contracting out local government services, further restructuring and streamlining of the public administration, and eliminating ineligible pension and social benefits recipients through data cross-checks). To the extent that a fiscal gap remains, there are several strategies that we could pursue to close this, including improving revenue by broadening the tax base through further reduction in exemptions and deductions; extending measures that are expiring; and targeted cuts in current expenditure. There are also opportunities to refocus the investment program for more effective support to growth. We will specify concrete plans for 2015 no later than end-August 2013, when we will formulate a detailed fiscal program for 2014-2015 consistent with a primary surplus for 3 percent by 2015.

33. We are committed to deliver our fiscal targets, but stand ready to adjust if we over or under-perform, or if cyclical conditions change. Following a decision on the final details of the planned direct tax reforms, we will review the fiscal outlook for 2014 and agree with the EC/ECB/IMF on measures needed to close any residual gap for 2014, in the context of the second review of the program. If in future our tax administration reforms, government restructuring, or other fiscal reforms do not deliver the expected dividends and our fiscal targets are thus missed or at risk, we will impose expenditure cuts (with a focus on categories of spending where arrears would not arise). In the event of over-performance that is projected to be sustained, we would adjust our budgetary ceilings, with a particular focus on helping low-income earners, and supporting Greece's recovery. In this event, we would use at least 30 percent of the windfall to make our intermediate deficit targets more ambitious to achieve our medium term fiscal objective earlier and accelerate debt reduction.

F. Fiscal Institutional Reforms

34. Strengthening fiscal institutions is a crucial part of the government's reform program. Chronic nonpayment of taxes has eroded the fairness of the system, forced high tax rates and additional expenditure rationalization. Meanwhile, the public sector has failed

to pay its bills and tax refunds on time, driving up procurement costs and damaging corporate sector liquidity. The reform efforts undertaken to date have yielded only limited results, and we are committed to boosting them, while recognizing that it will inevitably take time for benefits to be fully realized.

35. **We are committed to markedly reduce tax evasion.** To help accomplish this, we intend to build an independent revenue administration with a modern operating structure and methods. The bullets that follow describe our reform program in more detail. Implementing selected key reforms drawn from these various initiatives will be a **prior action** for the review (see Annex VI for the details of these upfront reforms).

- **We will appoint a new Secretary General of the tax administration in December 2012.** We will pass legislation to define the role and qualifications of the Secretary General. Concerning qualifications, this will be a person with senior management experience, expertise in tax matters, and an impeccable reputation (including a strong tax compliance history). We will also pass interim legislation, and the Minister of Finance will use this to delegate decision making powers to the Secretary General. These powers will include the competence to make operational decisions, direct and control local offices, manage human resources, replace underperforming senior managers, manage the budget of the tax administration, and manage all information with due confidentiality.
- **Establishment of independence.** Legislation to establish the new semi-autonomous tax agency will be adopted by parliament by end-February 2013 (**structural benchmark**). This will specify the degree of autonomy, legal powers of the head of the administration, governance framework, the relationship framework with other agencies (including the Financial Intelligence Unit (FIU)), the framework for the receipt and use of information by the tax administration (including controls against sharing confidential operational information with the Minister of Finance), accountability, and initial staffing of the organization. The agency will become fully operational in March 2014.
- **Establishment of key functional units.** We will make fully operational key enforcement areas, by: (i) transferring 100 experienced auditors to the large taxpayer unit; and (ii) by establishing one permanent functional unit, with at most two locations, responsible for high-wealth individuals (and permanently transferring 50 experienced auditors to it). We will also strengthen collection functions by establishing specialist debt management units in larger local tax offices and allocating at least 10 percent of local staff to this function by end-2012.
- **Consolidation of tax administration operations.** We will close and merge 150 small local tax offices by end-March 2013. By end-June 2013, about 120 functioning offices will remain. The full list of offices to be closed will be published by end-

December. We will then centralize and focus audit, filing enforcement, and debt management for small and medium taxpayers in the largest tax offices and on a regional basis. The remaining office network will be customer service centers, with no audit and enforcement functions.

- **Simplifying procedures and record keeping.** We will repeal the Code of Books and Records and adopt a simpler set of accounting and record keeping rules. To reduce the costs of administration and compliance, by end-June 2013 we will also adopt a new Tax Procedures Code and simplify income tax legislation (**structural benchmark**). The new code will collect all procedural provisions from the income, VAT, and excise tax laws, and elsewhere; incorporate procedural reforms in all major administrative areas that are necessary to support modern tax administration (e.g., tax filing, audit and penalties, enforcement powers and debt collection); and incorporate a new streamlined administrative dispute resolution process. The simplification will aim to remove ambiguities and excessive cross-references to make it more accessible to taxpayers, and will at the same time adjust numerous aspects of the income tax law (e.g., thin capitalization; EBITDA provisions) to reduce the potential for erosion of the corporate tax base.
- **Upgrading personnel.** We will increase the number of staff devoted to audit by 2,000 by June 2013, by: (i) hiring 200 externally by end-March 2013; and (ii) by admitting staff with audit experience and selecting other qualified staff following interviews. Candidates will, on a selective basis, be subjected to an audit of their assets. The head of the tax administration, once appointed, will set appropriate performance targets for the formal grading of all auditors and staff more generally, and introduce twice-yearly performance assessments. Temporary annual contracts will provide for auditor staff to be terminated upon failure to achieve the targets. A Ministerial decision, to be issued in January 2013, will establish appointment and end of tenure procedures for heads of departments, quarterly performance targets, and reporting and assessment procedures.
- **Introduction of an effective anti-corruption framework.** We will pass legislation to overhaul personnel management (including procedures for rotation of managers in critical offices). By January 2013, we will adopt a code of conduct for the tax administration (including rules about conflicts of interests and declaration of interests), and a system to facilitate transparency and reporting of misconduct, protect whistle blowers, and centralize the decision on disciplinary actions in the internal affairs unit. By end-March 2013, we will define measures to ensure continuous monitoring of the implementation of the code of conduct. The government will publish an anti-corruption plan for the entire public administration during Q1 2013, which will also cover in more detail the specific actions for the tax administration.

- **Improvements in operating procedures.** To allow us to focus our resources where they will yield the greatest dividends and facilitate a risk based approach to auditing, we will legislate by February 2013 the removal of the requirement that all tax declarations for the previous 10 years must be audited (while retaining the right to continue to audit earlier years and the discretion to audit any amount of declarations from these earlier years). We will remove any barriers to using modern audit methods (including barriers to the use of indirect evidence based on presumptive instruments). We will also expand the sources of third party information used in assessments. The tax and AML laws will be revised by February 2013 to: (i) enable the central authority in charge of revenue administration to be informed of all the cases sent by the FIU to local tax offices and to the Corps for the Prosecution of Financial Crime; and (ii) to provide that relevant information on large cases of failure to pay confirmed debt shall be transmitted to the FIU.
- **Fiscal identification number.** By June 2013, we will require that all Ministries which have a fiscal relationship with taxpayers utilize their identification number for financial transactions with them. Looking further ahead, by June 2014 we will introduce a central agency to consolidate and link all of the different identification numbers now employed across various government agencies.
- **Accountability to the public:** We will launch an easily accessible website by Q1 2013 which will publicize, on a monthly basis, information enabling the public to be informed about the tax debt assessed and recovered. It will include summary statistics on key performance indicators, including on tax evasion cases sent to the FIU and to prosecution by the tax administration.

36. **Parallel to our work with the revenue administration we will work to improve the collection of social security contributions.** We have finalized a reform plan to modernize collections, with a focus on boosting revenue and recovery, overhauling business processes, performance standards, and inter-agency relationships, and improving the reporting of information that is needed for validating payments and administering benefits. The plan also defines phases for consolidating collections, and integrating them into the tax administration in the long term once its organization and governance have been strengthened. We have established a working group between the Ministry of Labor and the Ministry of Finance to advance the reform. As a first step, by Q1 2013, we will also review penalties and sanctions to ensure that they sufficiently deter evasion and fraud.

37. **The government will not introduce any new amnesties or incentive schemes to collect tax arrears or social contributions or extend existing schemes.** In this context, the PIT installment scheme introduced in 2012 will remain a one-off arrangement to smooth out the liquidity impact on households of the recently introduced PIT and solidarity charge measures, and we will not extend the deadline for the existing social security amnesty. However, we will rationalize debt installment arrangements, including those applying to

settlement of tax audits, by tightening the criteria to better reflect ability to pay and targeting only taxpayers under temporary financial stress, but with a good compliance history and reasonable prospects of business viability.

38. **The government is determined to secure tighter control over all general government spending and to prevent the accumulation of arrears.** Our strategy focuses on improved budgeting, stricter controls on expenditure commitments, and better fiscal reporting and monitoring:

- **Budgeting.** To further streamline and strengthen the preparation process, we will issue a circular by end-February 2013 regulating the calendar, deadlines, and the role of all institutions in formulating the next MTFS (2014–17) and the 2014 budget;. We will also modify the organic budget law to introduce, by August 2013: (i) three year binding expenditure ceilings on a permanent basis as part of the rolling MTFS; and (ii) a provision freezing ex-ante 10 percent of discretionary appropriations per budget line (to be released in the second half of the year conditional upon meeting the fiscal targets). Finally, to ensure independent oversight of the budget process, we will operationalize the parliamentary budget office.
- **Fiscal framework.** We will further develop our fiscal framework to: (i) introduce and make operational a domestic stability pact for local governments; and (ii) establish a system to agree with state-owned enterprises (within the general government definition) on monthly budget targets and on sanctions for non-observance of targets. We will adopt the necessary legislation by end-2012.
- **Spending controls.** Establishing commitment-based spending controls remains a key milestone toward preventing overspending and accumulation of domestic arrears at different levels of general government. To this end:
 - **Commitment registers.** As a **prior action** for the review, we will ensure that EOPYY reports from its commitment register through the e-portal for at least two consecutive months (retroactive reports included). By end-2012, we will ensure that commitment registers will be in operation in 90 percent of general government entities (with all commitments recorded into the register at the moment they are made, and all columns of the register complete and reconciled). By March 2013, we will also expand the scope of data captured by the General Accounting Office's e-portal to include the whole expenditure cycle. The Ministry of Finance will continue to monitor the effectiveness of the commitment registers by conducting targeted inspections in the public entities covered by the system.
 - **General Directorates of Financial Services (GDFS).** We have issued a joint circular to implement GDFS in all line ministries and thus unify all financial

services functions under the recently appointed accounting officer. Moreover, by end-2012 a Ministerial Decision will specify the financial authority and powers of accounting officers in discharging their responsibilities. Thus by end-2012 all line ministries will have established a well-structured and functional GDFS responsible for managing and supervising all financial functions, including: preparation of the ministry's MTFS and budget proposals; consolidation of budgets of supervised entities; and monitoring and reporting of the ministry's budget execution.

- **Fiscal reporting.** We remain committed to further improving the quality of fiscal reports. In this regard: (i) we have established a new Social Budget Monitoring Committee to improve the fiscal surveillance of the social security and health sectors, which has begun monthly monitoring of the social budget against fixed quarterly targets. By January 2013 the committee will introduce a comprehensive budget monitoring framework, including improved reporting and control systems of EOPYY and hospital budgets; and (ii) by end-March 2013 we will verify and validate the quality of the detailed fiscal data collected from a recent pilot project before expanding it to all significant general government entities.

39. **The government will clear domestic arrears as quickly as feasible to help improve liquidity.** The conditions which a government unit must meet to allow funds for arrears clearance to be disbursed will include: for expenditure arrears (i) verification of arrears claims by an audit unit external to the relevant government unit; (ii) establishment by the unit of a fully functioning commitment register; and (iii) reporting of at least three months of consistent data on commitments, payments, and arrears; and, for tax refunds, verification of claims by the audit unit of the Ministry of Finance (the Directorate of Revenue Policy). We will ensure that subvented agencies which meet these conditions can clear their arrears even if their parent agency does not meet the conditions. We will ensure that arrears do not delay the execution of the pharmaceutical spending clawback. Once we achieve the clearance of all verified arrears, we will at that point commence a targeted audit of general government entities' accounts payable, to verify whether arrears remain and to identify any entities that did not properly comply with the conditions set for clearing arrears (completion of the audit will be a **structural benchmark** for end-December 2013).

40. **We will strengthen monitoring of off-balance sheet activities.** We will establish by June 2013 a system for monthly financial reporting by state-owned enterprises (SOE) currently outside the general government. Furthermore, we will set conditions under which the right of such SOEs to receive any new general government transfers or loans will be contingent on the adoption of structural measures to restore financial soundness, including through spending cuts and fee increases in consultation with the supervising ministry and the MoF.

41. **We will continue to monitor implementation of our fiscal institutional reforms via quantified indicators.** We propose two new **structural benchmarks** for end-June and end-December 2013 covering achievement of revenue administration indicators, including audit targets. We also propose two new **structural benchmark** for end-June 2013 and end-December 2013 covering achievement of public financial management indicators, including implementation of spending controls across line entities. The attached Technical Memorandum of Understanding provides details on the quantity targets. In the fifth review of the program, we will focus on overall progress with revenue administration reforms.

Table 1a. Greece: Quarterly Performance Criteria and Indicative Targets for Q1-Q3 2012.

	2012					
	Mar-12		Jun-12		Sep-12	
	Progr. 1/	Actual	Progr. 1/	Actual	Progr. 1/	Actual
Performance criteria						
1. Floor on the modified general government primary cash balance	-2.5	1.0	-6.0	-2.9	-6.3	-2.0
2. Ceiling on state budget primary spending	13.9	13.3	29.2	26.8	44.4	38.3
3. Ceiling on the overall stock of central government debt	340	289.9	340.0	308	340	308
4. Ceiling on the new guarantees granted by the central government	0.0	0.0	0.0	0.2	0.0	0.2
5. Ceiling on the accumulation of new external payments arrears on external debt contracted or guaranteed by general government 2/	0.0	0.0	0.0	0.0	0.0	0.0
6. Net change in the stock of domestic arrears (narrow definition) 3/	0.0	0.5	0.0	0.7	0.0	0.9
Indicative targets						
7. Net change in the stock of domestic arrears of the general government 3/	0.0	0.6	0.0	0.7	0.0	1.3
8. Floor on privatization receipts	0.03	0.00	0.03	0.00	1.20	0.00

1/ Cumulatively from January 1, 2012 (unless otherwise indicated).

2/ Applies on a continuous basis from program approval.

3/ Titles in the EFF were "Ceiling on the accumulation of new domestic arrears by hospitals and line ministries" and "Ceiling on the accumulation of new domestic arrears by the General Government", respectively. They have been changed in line with the proposed modifications to the QPCs.

Table 1b. Greece: Quarterly Performance Criteria and Indicative Targets for Q4 2012 – Q4 2016.

	2012	2013				2014	2015	2016
	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Dec-14	Dec-15	Dec-16
	Progr. 1/	Progr. 1/	Progr. 1/	Progr. 1/	Progr. 1/	Progr. 1/ 2/	Progr. 1/ 2/	Progr. 1/ 2/
Performance criteria								
1. Floor on the modified general government primary cash balance	-5.8	0.0	-2.6	-3.6	-5.9	3.0	4.9	7.2
2. Ceiling on state budget primary spending	58.8	14.4	29.0	37.4	61.9	52.2	50.3	50.6
3. Ceiling on the overall stock of central government debt	340	347	347	347	347
4. Ceiling on the new guarantees granted by the central government 4/	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
5. Ceiling on the accumulation of new external payments arrears on external debt contracted or guaranteed by general government 3/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
6. Net change in the stock of domestic arrears (narrow definition) 4/	-0.5	-1.2	-1.7	-2.4	-3.5	0.0	0.0	0.0
Indicative targets								
7. Net change in the stock of domestic arrears of the general government 4/	-2.0	-3.5	-5.0	-6.5	-8.0	0.0	0.0	0.0
8. Floor on privatization receipts 5/	3.20	0.1	1.1	1.8	2.5	4.3	6.3	8.2

1/ Cumulatively from January 1 of the target's year unless otherwise indicated.

2/ Indicative targets.

3/ Applied on a continuous basis

4/ Cumulative from October 1, 2012.

5/ After 2012, calculated on a cumulative basis from January 1, 2013.

Table 2. Greece: Structural Benchmarks under the EFF

Measure	Macro critical relevance	Status
End-March 2012		
1. A ministerial decree shall be issued to provide the technical details of the banks' recapitalization framework	To strengthen financial sector	Completed with delay as prior action for 1 st review
2. Bank of Greece to complete a strategic assessment of banks' business plans	To strengthen financial sector	Completed with delay
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 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	Pending
4. Government to complete the review of social spending programs to identify 1 percent of GDP in savings, while at the same time making proposals to strengthen safety net.	To help achieve medium-term fiscal targets	Completed with delay
5. Government to complete the reviews of public administration to identify 1 percent of GDP in savings	To help achieve medium-term fiscal targets	Completed with delay
6. Government to meet quarterly performance indicators for revenue administration	To improve tax collection	Not observed
7. Government to meet quarterly performance indicators public financial management.	To contain arrears	Not observed
End-September 2012		
8. Government to complete the strategy for strengthening social security collections	To improve social security collections	Completed with delay
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	Not observed

Table 3. Greece: Prior Actions

Measure	Macro critical relevance	Status
Structural		
1. Government to take measures to liberalize key product and service markets (Annexes I.1-I.2).	To strengthen competitiveness and promote employment.	Complete
2. Government to adopt measures to enhance labor markets including by establishing a timetable to overhaul the setting of minimum wage, and by reducing labor market exit costs and non-wage costs (Annex II).		Complete
3. Government to adopt steps to strengthen the institutional framework for privatization, transfer ownership of assets to the Privatization Fund balance sheet, and eliminate legal obstacles for privatization (Annex III).		Complete
Financial		
4. Government and Bank of Greece to communicate capital needs to banks, and request that they finalize the process by end-April 2013.	Maintain financial sector stability.	Complete
5. Government and Bank of Greece to finalize the design of the program for bank recapitalization and resolution and communicate this to banks.		Complete
6. HFSF to take steps to strengthen governance in the financial system (Annex IV).		Complete
Fiscal		
7. Government to adopt and publish the 2013 budget and the medium-term fiscal strategy (2013-16)	To help restore fiscal sustainability.	Complete
8. Government to enact and implement measures needed to reach the 2014fiscal deficit targets (Annex V).		Pending
9. Government to implement measures to strengthen the tax administration (Annex VI).		Complete
10. EOPYY to report, using commitment registers, 2 consecutive months of fiscal data.		Complete

Table 4. Greece: Existing and Proposed Structural Benchmarks

Measure	Status/Macro relevance
End-December 2012 1. Government to meet quantified quarterly performance indicators for revenue administration 2. Government to meet quantified quarterly performance indicators for public financial management 3. 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" End-January 2013 4. TT bank to be resolved with the transfer of its good assets, all deposits and ECB/ELA financing to a core bank (via P&A), and weak assets to be left in a bad bank (¶20). [Proposed]	<ul style="list-style-type: none"> • Status not available • Status not available • Status not available • Financial stability
End-February 2013 5. Adopt a law establishing a new semi-autonomous tax agency, which will specify the degree of autonomy, the governance framework, accountability, and initial staffing of the organization (¶30). [Proposed] 6. Government to complete staffing plans for line Ministries and utilize these to identify redundant positions and employees, and on this basis to set quarterly targets for mandatory exits through end-2014. (¶30). [Proposed]	<ul style="list-style-type: none"> • Fiscal sustainability (revenue)
End-April 2013 7. All 4 core banks to meet the capital requirements set by the Bank of Greece. (¶19). [Proposed]	<ul style="list-style-type: none"> • Financial stability
End-June 2013 8. Government to meet quarterly performance indicators for revenue administration (¶41). [Proposed] 9. Government to meet quarterly performance indicators for public financial management (¶41). [Proposed] 10. Adopt a new Tax Procedures Code to harmonize, simplify and modernize tax procedures (¶35). [Proposed]	<ul style="list-style-type: none"> • Fiscal sustainability (revenue) • Fiscal sustainability (budget) • Fiscal sustainability (revenue)

11. Complete resolution of all undercapitalized or insolvent non-core banks (¶20). [Proposed]	<ul style="list-style-type: none"> • Financial stability
End-July 2013	
12. Banks to update their restructuring plans and submit them for validation by DG-Competition (¶23). [Proposed]	<ul style="list-style-type: none"> • Financial stability
End-September 2013	
13. Ministry of Finance to produce a comprehensive list of nuisance taxes and levies, and eliminate them or transfer them (and the associated spending) to the central government budget (¶9). [Proposed]	<ul style="list-style-type: none"> • Growth/competitiveness (business environment)
End-November 2013	
14. Adopt legislation to reform the system of social security contributions to: (i) broaden the contribution base; (ii) simplify the contribution schedule across the various funds; (iii) shift funding away from nuisance taxes and onto contributions; and (iv) reduce contribution rates by 4 percentage points. The reforms will be fully phased in by January 1, 2015 and will be revenue neutral and preserve the actuarial balance of the various funds (¶10). [Proposed].	<ul style="list-style-type: none"> • Growth/competitiveness (business environment)
End-December 2013	
15. Government to meet quarterly performance indicators for revenue administration (¶41). [Proposed]	<ul style="list-style-type: none"> • Fiscal sustainability (revenue)
16. Government to meet quarterly performance indicators for public financial management (¶41). [Proposed]	<ul style="list-style-type: none"> • Fiscal sustainability (budget)
17. Bank of Greece to complete a follow-up stress test for all banks based on end-June 2013 data, using a methodology designed in consultation with the EC, ECB, and the IMF, and to update banks' capital needs on this basis (¶23). [Re-phased from end-June].	<ul style="list-style-type: none"> • Financial stability
18. Ministry of Finance to complete a targeted audit of general government accounts payable, to verify whether any arrears remain, and to review compliance with the conditions set for clearing arrears (¶39). [Proposed].	<ul style="list-style-type: none"> • Fiscal sustainability (debt)

Annex I.1: Product Market Actions

Fuel market

- Allow independent gas stations to own and operate tanker trucks above 8 tons, and use any tanker size to pick up (imported) fuels, provided that safety standards for the transportation of fuel are respected.
- Allow gas stations to hire a public use tanker for fuel transportation without needing to qualify for their own private use tankers.
- Issue technical specification and set the timetable for the implementation of the input-output measurement system in all fuel stations—with a deadline for Athens and Thessaloniki region of March 2013, other large cities by September 2013, and the rest of the country by March 2014.
- Issue the implementing MD on GPS systems in fuel trucks, to be effective end- 2012.

Retail market

- Allow sale in supermarkets of pre-packaged food products, including meat, seafood, cheese and charcuterie.
- Allow sale in grocery stores of non-food products, including infant milk, tobacco, newspapers, and magazines.
- Allow mixed shops to sell goods other than food, subject to hygiene and food safety standards.
- Eliminate all restrictions on minimum space requirements for sale of food products
- Allow a delink of the working hours of all employees in establishments (as defined in Law 1037/1971 and related implementing legislation) from opening hours of the establishment.
- Adjust the law to clarify that shift breaks are allowed in all retail establishments (including those with continuous working schedule).

Transportation

- Remove restrictions on rental of pickup trucks and vans and chauffeur services.
- Allow shuttle services by hotels and tour agencies using small vehicles (less than 12 seats) and tour packages for small vans and off-terrain vehicles

Annex I.2 Regulated Professions Actions

Liberalization of professions/economic activities covered in previous reviews:

- Stevedores for land operations: Repeal fixed fees for loading/unloading services; remove the Stevedore Work Regulatory Committee from acting as licensing authority.
- Sworn-in valuers: Eliminate minimum fees, the numerus clausus, and the nationality requirement; allow legal entities to practice the profession; and open areas reserved in exclusivity to sworn-in valuers.
- Accountants and tax consultants: Clarify that professional identity cards (IDs) will be issued automatically within 3 months; and clarify that SAEP is responsible for the recognition of professional qualifications.
- Temporary employment agencies: Abolish the requirement for minimum number of employees. Allow the provision of consulting and training activities.
- Private labor consultancy offices: Allow employees other than the Director to carry out mediation activities; and eliminate the requirement for minimum office space and technical equipment.
- Lawyers. Repeal: mandatory involvement of a lawyer for real estate transactions with immediate effect for the seller, and from 31-12-2013 for the buyer, with a unique thresholds of €80,000; involvement of a lawyer for contracts for exchange of real estate or gratuitous transactions; the scale of minimum monthly amounts due to private sector lawyers for services rendered with a fixed periodic fee, without prejudice to fee regulations for trainee lawyers and the private minimum wage provided in law 4046/2012.
- Real estate brokers: drop the probationary period for real estate brokers.
- Tourist guides: open the profession to holders of related university degrees.
- Actuaries: discontinue current practice of Hellenic Actuarial Society to determine indirectly the number of successful candidates in the examinations.

Remove the following restrictions on the following professions/businesses:

- Stevedores at ports: simplify authorization procedures, repeal fixed fees for loading and unloading services; and allow stevedores to be employed under private sector law.
- Customs brokers: repeal minimum fees; lift geographical restrictions, nationality requirements, and age limit; allow legal persons to represent others at customs, allow all natural and legal persons to complete custom formalities without employing services of a custom broker; and remove the need to renew the custom broker license every year.
- Kiosks and cantinas in public buildings: remove restrictions for licenses in favor of particular groups.
- Tourist offices: eliminate prior authorization scheme, minimum office space requirements, and reduce the amount of required bank guarantees.
- Private education establishments: Remove restrictions to private education consistent with the opinion 20/VI/2012 of the Hellenic Competition Commission.
- Private providers of primary care services: Amend sector specific law to eliminate inconsistencies with the 2011 law on professions.
- Press distribution agencies: Remove prior authorization scheme; and expand the number of economic activities carried out.
- Energy inspectors: remove minimum fees, amend sector specific law to repeal minimum fees for energy inspection services, and simplify licensing.

Annex II: Labor Market Actions

<p>Setting of minimum wage</p> <ul style="list-style-type: none"> • The government will establish a timetable to reform Greece's minimum wage. Under the new framework: <ul style="list-style-type: none"> ➤ The basic minimum wage and the maturity allowances currently set in the national general collective agreement will be replaced by a minimum wage mechanism adopted by parliament following a proposal by the government (to be made after consultation with social partners and other stakeholders and independent experts) ➤ The system will become effective by end-March 2013. At this point, the statutory minimum wage and maturity allowances will be set equal to the levels agreed at EFF program approval in February 2012 and frozen at these levels. There will be no other allowances. ➤ The general-national, sectoral, and individual company labor collective agreements will remain free to set higher wages than the statutory level set by the government, and free to set allowances of various types, but these will be binding only for the signatories of the agreements. ➤ By Q1 2014 the government will assess whether the mechanism is sufficient to address unemployment and improve competitiveness, and whether it is simple enough to be effectively administered by companies.
<p>Non-wage labor costs</p> <ul style="list-style-type: none"> • Concerning dismissal costs, the government will enact legislation to reduce the notification period to 4 months and cap minimum statutory severance pay at 12 months (while preserving the existing link between tenure and minimum severance for tenures below the cap). If the cap has already been surpassed on the date of the reform the amount accrued will be grandfathered, but with the minimum amount beyond 12 months subject to a cap of €2,000 per month. In addition, to secure equal and fair treatment for all employees and occupations, in those where severance costs set by law are in excess of the rule just described, the compensation for severance will be aligned with the rule just described. • The Ministry of Labor will issue a Ministerial decree to reduce administrative burdens by: (i) eliminating the requirement for ex-ante submission of work schedules to labor inspectorates; (ii) removing preapproval by labor inspectorates of overtime work, itinerary books, the work book of daily employment of construction workers, and applications for leave segmentation (except in the case of preapprovals for underage workers). • The government will increase work efficiency, within the overall limits of the work week (40 hours) by: (i) applying the general rules on the number of maximum workdays to sectors not now covered by the general rules; (ii) resetting the minimum daily rest to 11 hours; (iii) allowing the consecutive two week leave requirement to be taken anytime during the year in seasonal sectors.

Annex III. Privatization-Related Actions

Strengthen institutional framework for privatization
<ul style="list-style-type: none"> • Government to present an updated privatization plan to Parliament with the 2012-16 MTFS. • HRADF to publish a semi-annual update of the Asset Development Plan, which will include a portfolio overview with a description of the privatization assets, a timeline of planned tenders and targeted total receipts for the current and next year. • Amend paragraph 3 article 16 of the Articles of Association of the HRADF in order to stipulate that the “due cause” required for substituting members of the Board of Directors is defined in particular by the undue suspension or by the intentional compromising of the objectives of the HRADF with acts or omissions of its Board members. • Amend Law 3986/2011 to require publication of quarterly reports of the HRADF on activities and financial accounts, including a detailed profit and loss statement, cash flow statement, and balance sheet, within 60 days of the end of each quarter.
Transfer ownership of assets to the Privatization Fund
<ul style="list-style-type: none"> • Transfer to the portfolio of privatization assets of the HRADF the full and direct ownership (shares or concession rights) of: Egnatia Motorways the regional ports of Elefsina, Lavrio, Igoumenitsa, Alexandropoulos, Volos, Kavala, Corfu, Patras, Heraklion, and Rafina). • Sign contract between the HRADF and MoF for the use of the voting rights for ELVO. • Issue an Inter-Ministerial Decision that secures that the proceeds of the sales of the Digital Dividends’ Rights are transferred to the HRADF. • Line ministries/government entities to provide the General Secretariat of Public Property with full access to the inventory of all real estate assets owned by the State.
Eliminate legal obstacles for sale of assets
<ul style="list-style-type: none"> • Amend/repeal statutory provisions of companies that diverge from private company law (PPC, OLP and OLTH port authorities, HELPE, EYATH and EYDAP, ports, etc.), including any restrictions on voting rights of private shareholders. • Launch ESCHADA process (issue environmental study) for Afantou and Kassiopi.
Advisors/Tenders
<ul style="list-style-type: none"> • Launch tender for the appointment of advisors, consistent with existing procurement rules, for EAS, ELVO, South Kavala Natural Gas, Trainose.

Annex IV. Actions to Strengthen Financial Sector Governance

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| <ul style="list-style-type: none">• The HFSF will complete a due diligence of core banks. This will include a review of governance, such as loans to related parties, asset quality, and risk concentration and any findings of interest to the supervisor will be communicated to the BoG. |
| <ul style="list-style-type: none">• Communicate a terms of reference for bank monitoring trustees to the banks, with instructions for the trustees to begin work no later than mid-January 2013. |
| <ul style="list-style-type: none">• Amend HFSF by-laws to clearly stipulate that the HFSF Board, including the observers, must be informed of all decisions of the core banks having an impact on the HFSF's rights as a shareholder/investor. This information, as soon as received by and through the senior executive of the HFSF, is to be provided a minimum 1 day in advance of any meeting by the HFSF Board that discusses the bank's decisions. |

Annex V. Fiscal Measures

Public sector wage bill:

- Adopt legislation to effectively reduce monthly wages of employees under special wage regimes (excluding Christmas, Easter and summer bonuses), effective August 1, 2012, with the following marginal reduction schedule: 2 percent for wages below €1000; 10 percent for €1000-1500; 20 percent for €1500-2500; 30 percent for €2500-4000; and 35 percent for wages above €4000.
- Adopt legislation to reduce the State wage bill by €56 million in 2013 and additional €27 million in 2014, including by further reducing fixed-term hires by 10 percent relative to the baseline (€38 million in 2013, €25 million in 2014), rationalizing the allowances of Members of Parliament, and their staff (€2 million in 2013), reducing the wage bill for consultant doctors (by €11 million in 2013), and introducing a hiring freeze at the Ministry of Citizen Protection.
- Adopt legislation to introduce a new wage grid for parliamentary staff, yielding savings of €14 million in 2013.
- Adopt legislation to eliminate the public sector seasonal bonuses of employees at the state and local governments, and at legal entities of public and private law, to produce savings of €431 million in 2013.
- Place 2,000 civil service employees into the mobility and exit scheme, by abolishing positions of certain categories of employees, addressing disciplinary cases (including via outright dismissals), and by abolishing positions associated with closed/merged entities.
- Adopt legislation to abolish all exemptions from the public sector wage grid reform introduced in 2011, excluding HFSF and HRADF, with savings of €8 million in 2013.
- Adopt legislation to suspend, through 2016, the fiscal bonus of public sector employees, saving €78 million in 2013.
- Adopt legislation to suspend, through 2016, the performance bonus of public sector employees, saving €214 million in 2013.
- Adopt legislation that: (i) permit the mandatory depositions of teachers from one region to another; (ii) merge school units; and (iii) move administrative staff from the rest of public sector to the Ministry of Education. Upon adoption of the legislation, issue a decision from the joint ministerial committee to reduce the number of non-permanent teaching staff annually to 2,000 teachers with 10 month contracts.
- Issue a decision from the joint ministerial committee to reduce the limit on the number of non-permanent teachers by 90 percent in university and technical colleges (under the implementation of the plan "Athena").
- Issue a Joint Ministerial Decision to introduce a hiring freeze in the Ministry of Education.
- Adopt legislation to reduce the local government wage bill with savings of €50 million (to take effect in January 2013)
- Extend the 1:5 hiring rule for the general government through 2016.
- Adopt legislation to align the wage grid for all state-owned enterprises in Chapter A Entities of Private law with the new wage grid for state employees, effective January 1, 2013.
- Adopt legislation that provides mandatory staff transfers (horizontally and vertically) within the general government and from one location in the country to another;
- Issue MD to permanently reduce the annual intake into academies by 30 percent, and remove the job guarantee for private teachers. Adopt legislation that all hiring offers from ASEP expire after three years

if the actual hiring has not taken place.

- Repeal the provision that provides a full pension to government employees with 20 years of service in case of layoff without losing their social security contributions.

Pensions

- Increase the retirement age by 2 years, with effect as of January 1, 2013. The increase will be applied to the statutory retirement age (and any other retirement age for special groups). This increase will not affect the fulfillment of the full pension entitlement at 40 years.
- Reduce, as of January 1, 2013, new lump-sum benefits covering the period back to 2010 by 23 percent on average for different categories of public employees eligible for lump-sum benefits.
- Ministry of Finance and the Ministry of Labor to issue a Joint Ministerial Decision to introduce a pension register by December 2012. The JMD will require that SSFs submit pension data to the entity managing the register by the 10th of each month to aggregate each pensioner's main and supplementary pensions, and note that payments to funds will be withheld for non-compliance with data submission requirements.
- Adopt legislation to implement, using the pension register, the following pension reductions as of January 1, 2013: reduce the overall monthly pension incomes (main and supplementary pensions) per pensioner between €1000-1500 by 5 percent; €1500-2000 by 10 percent; €2000-3000 by 15 percent and above €3000 by 20 percent (respecting a no re-ranking rule). For retirees formally under special wage regimes, issue a circular applying a cut in their pensions equivalent to the cuts to wages in special wage regimes.
- Further rationalize pensions by: (i) eliminating all seasonal bonuses of supplementary and main pensions (except for the severely disabled); (ii) means-testing pensions for unmarried daughters that were entitled to a pension before the 3865/2010 Law and reducing their pension up to twice the minimum pension; (iii) eliminating special pension benefits of trade unionists; (iv) reducing pensions of elected staff, aiming to achieve savings of €31 million in 2013; and (v) using completed cross-checks to abolish ineligible pension benefits in 2013.

Social benefits

- Introduce a length of residence in Greece criterion for the provision of pension benefits for uninsured individuals, aiming to achieve savings (net of income taxes and social security contributions) of €19 million in 2013 and additional €19 million in 2014.
- Adopt legislation to replace existing family benefits with a targeted benefit; and eliminate income tax allowances on 2013 income with the aim of achieving an annual saving of €202 million in 2013, and a further €177 million in 2014.
- Issue a Ministerial Decision to restructure the transportation reimbursement scheme for selected categories of patients to equalize the benefits to the 2009 level to save €20 million.
- Adopt legislation to reduce unemployment benefits targeted to specific geographical areas to achieve savings of €20 million in 2013.
- Adopt legislation to eliminate the special benefits given to people unemployed because of mergers, to generate annual savings of about €10 million starting from 2013.
- Adopt legislation to target assistance pensions provided by EKAS to persons above 64 years, as to generate savings of €114 million starting from 2014.
- Adopt legislation to close two programs for the economic support of farmers, to achieve savings of €25 million in 2013.

- Adopt legislation introducing new social programs, including:
 - Benefits equal to €200 per month payable for up to 12 months to long-term unemployed who exhaust the full length of unemployment benefit (12 months), provided they do not qualify for other training schemes and have family taxable income up to €10,000, with expenditure cap of €35 million.
 - A Minimum Income Guarantee scheme applied in two pilot areas of the country with different socioeconomic profiles, with an expenditure cap of €20 million starting in 2014.

Health

- In order to reduce outpatient pharmaceutical spending the government will:
 - Take measures to ensure that the outpatient pharmaceutical expenditure does not exceed €2.88 billion in 2012 (in commitment terms, net of the structural rebates and of the claw-back). Either: (i) activate and collect the proceeds through the first semester of 2012 from the automatic claw-back mechanism; or (ii) impose the entry-fee onto the positive list; or (iii) apply across-the-board price cuts.
 - Set, through a Ministerial decree, a new semi-annual claw-back threshold for 2013, consistent with an annual ceiling of €2.44 billion for outpatient pharmaceutical spending, including VAT.
 - Repeal the current provisions of the law which hamper the collection of the rebate from pharmacies in case of delays in payments on the part of EOPYY effective January 1, 2012.
 - Issue a Ministerial Decree to revise the co-payment structure for medicines to exempt from co-payment a restricted number of medicines related to specific therapeutic treatments.
 - Issue a price bulletin to reduce the price of patented medicines, based on the three EU countries with the lowest prices and re-price medicines now cheaper than €10, including implementing a 10 percent price reduction in the prices of generics and a 5 percent reduction in the prices of off-patent medicines and issue the quarterly price list update.
 - Amend the law to extend the application of the 5 percent rebate on pharmaceutical companies (which exists for hospital medicines) to the products sold in EOPYY pharmacies. (Legislation adopted by Q4-2012).
 - Update and publish the positive list of reimbursed medicines to reimburse only the cost effective medicines, especially for chronic diseases, by moving medicines from the positive to the negative and OTC lists and introducing the internal reference price system developed by EOF.
- Modify the form for e-prescriptions to make it compulsory for physicians to prescribe by the international non-proprietary name for an active substance. Brand name prescription is only allowed in limited cases, not exceeding 15% of overall prescriptions per doctor. A Ministerial Decision defines the exceptions to INN prescriptions with narrow therapeutic index and known sensitivities of the patient according to international best practices .
- Issue a circular to ensure implementation of the ministerial decision requiring that pharmacies substitute prescribed medicines by the lowest-priced product of the same active substance in the reference category by pharmacies (compulsory "generic substitution").
- To improve the current financial situation of EOPYY, adopt legislation with immediate effect to:
 - Restrict the benefit package by delisting selected services, establishing utilization caps, and reducing reimbursement prices to save €180 million in 2013;
 - Increase cost-sharing for private care services to at least 30 percent.
 - Negotiate price-volume discount agreements with private health care providers, to generate savings of

<p>at least €70 million in 2013;</p> <ul style="list-style-type: none"> ➤ Revise the fees for and number of diagnostic and physiotherapy services contracted by EOPYY to private providers with the aim of reducing related costs by at least €80 million in 2013. ➤ Introduce a reference price system for reimbursement of medical devices ➤ Introduce legislation to increase the contributions paid by OGA members to €25 per month. ➤ Implement higher copayments for in-patient hospital care and for each prescription and realize savings of €115 million in 2014.
<p>2013-14 budget ceilings:</p> <ul style="list-style-type: none"> • Set an expenditure ceiling on “operational and other” spending of line ministries (excluding defense, health, and education) so as to reduce it by €203 million in 2013 and an additional €129 million in 2014 relative to the 2013 baseline of €[3.7] billion. • Reduce subsidies to extrabudgetary funds outside the general government and domestic ferry boats by €32 million in 2013 and additional €66 million in 2014, relative to the 2013 baseline of €[393] million. • Set a ceiling to reduce operational costs at higher educational institutions, athletic (federations, sports centers) and cultural (theaters, museums, festivals) institutions to achieve savings of €86 million in 2013 and €37 million in 2014. • Reduce investment spending by €150 million in 2013 and an additional €150 million in 2014. • Set a ceiling on state transfers to SOEs, to save €250 million in 2013 and additional €123 million in 2014. Set a ceiling on transfers to STASY to generate savings of €22 million and €5 million in 2013 and 2014, respectively. • Reduce the transfer of Central Autonomous Funds from the State to local governments by €10 million in 2013 and additional €50 million in 2014 compared to the baseline of €2,563 million in 2013 and €2,669 million in 2014. • Reduce transfers from the SATA (account for collective decision for local governments) by €40 million in 2013 and additional €110 million in 2014 compared to the baseline of €330 million in 2013 and €330 million in 2014. • Adopt legislation to amend the spending ceiling of the Green Fund to 2.5 percent of the stock of deposits it holds at the end of the previous year.
<p>General government and contingent liabilities:</p> <ul style="list-style-type: none"> • To address contingent fiscal liabilities in the energy sector, pass legislation to (i) introduce a special solidarity surcharge on producer turnover yielding €250 million a year (effective July 1, 2012, as discussed with the industry); (ii) conclude the Power Purchase Agreement for a photo voltaic station at the price in force at the time that station is put into operation, yielding an average of €150 million a year; and (iii) adjust the RES Special Levy every six months, beginning on 1 January 2013, to eliminate the RES Account debt by December 2014.
<p>Revenue reforms</p> <p>Adopt legislation that:</p> <ul style="list-style-type: none"> ➤ Reduces the diesel excise duty subsidy provided to farmers by €130 million from a baseline subsidy of €163 million (the rate is reduced from 95 percent to 80 percent of the tax amount);

- Increases the fee for law suits so as to raise an additional €50 million per year.
- Reforms tobacco excise taxation by raising the per unit tax to €80 per 1,000 pieces and reducing the ad valorem tax to 20 percent, while minimum tax is raised to €115 per 1,000 pieces. Rolled tobacco tax will be set at €153/kg .
- Mandates signing an MOU between the government and owners of the merchant fleet to ensure payment of tonnage tax aimed at raising €80 million in 2013 and €140 million each year in 2014-16 per year.
- Equalizes the social security earnings ceiling for contributions by raising the ceiling for employees first employed before 1993 to that of employees first employed after 1993, which is €5,543 per month.
- Increase the excise tax on LPG from €200/t to €330/t.
- Imposes a 30 percent tax on OPAP's gross gaming revenue for each existing game and a 10 percent withholding tax on player's winnings from the same games—sufficient to raise at least €222 million, and €88 million above the baseline, respectively, per year starting in 2013.
- Reduce the VAT refund for farmers to 6 percent of turnover.
- Submit with the tax reform bill a luxury goods tax effective 2014 with an annual yield of €110 million.

Annex VI. Tax Administration Actions

Independence of the tax administration
<ul style="list-style-type: none">• Adopt legislation to define the role and qualifications of the Secretary General. This should be a person with senior management experience, expertise in tax matters, and an impeccable reputation (including a strong tax compliance history)• Adopt interim legislation to enable the delegation of powers from the Minister of Finance to the new Secretary General.
Support of core functions
<ul style="list-style-type: none">• Increase the audit capacity of the large taxpayer unit by transferring 100 auditor staff to it.• Establish a unit responsible for high-wealth individuals and transfer 50 auditor staff to it.
Anti-corruption strategy
<ul style="list-style-type: none">• Adopt legislation to implement a simpler set of accounting and record keeping rules and repeal the Code of Books and Records.• Adopt legislation to overhaul personnel management (covering procedures for rotation of managers in critical tax offices)

Appendix I. Access and Phasing under the Extended Arrangement, 2012-16

Review	Availability Date	Action	Purchase		Total disbursements
			Millions of SDRs	Percent of quota	Billions of Euro 1/
	March 15, 2012	Board approval of EA	1,399.1	127.0	1.6
First and Second Reviews	August 31, 2012	Observance of end-December 2012 performance criteria, completion of first and second reviews	2,798.2	254.0	3.3
Third Review	February 28, 2013	Observance of end-December 2012 performance criteria, completion of third review	1,506.8	136.8	1.8
Fourth Review	May 31, 2013	Observance of end-March 2013 performance criteria, completion of fourth review	1,506.8	136.8	1.8
Fifth Review	August 31, 2013	Observance of end-June 2013 performance criteria, completion of fourth review	1,506.8	136.8	1.8
Sixth Review	November 30, 2013	Observance of end-September 2013 performance criteria, completion of fifth review	1,506.8	136.8	1.8
Seventh Review	February 28, 2014	Observance of end-December 2013 performance criteria, completion of sixth review	1,506.8	136.8	1.8
Eighth Review	May 31, 2014	Observance of end-March 2014 performance criteria, completion of seventh review	1,506.8	136.8	1.8
Ninth Review	August 31, 2014	Observance of end-June 2014 performance criteria, completion of eighth review	1,506.8	136.8	1.8
Tenth Review	November 30, 2014	Observance of end-September 2014 performance criteria, completion of ninth review	1,506.8	136.8	1.8
Eleventh Review	February 15, 2015	Observance of end-December 2014 performance criteria, completion of tenth review	1,506.8	136.8	1.8
Twelfth Review	May 31, 2015	Observance of end-March 2015 performance criteria, completion of eleventh review	1,506.8	136.8	1.8
Thirteenth Review	August 31, 2015	Observance of end-June 2015 performance criteria, completion of twelfth review	1,506.8	136.8	1.8
Fourteenth Review	November 30, 2015	Observance of end-September 2015 performance criteria, completion of thirteenth review	1,506.8	136.8	1.8
Fifteenth Review	February 29, 2016	Observance of end-December 2015 performance criteria, completion of fifteenth review	1,506.8	136.8	1.8
Total			23,785.3	2,158.8	28.0

Source: IMF staff projections.

Appendix II. Privatization Program

Greece--Hellenic Asset Development Fund: Projects Under Development 2012-14

Launch of Tender	Project	Intermediate Steps
I. State-owned enterprise/share sale		
2012 Q1	Public Gas (DEPA)	Modification of statutory provision at time of privatisation.
Q1	Public Gas (DESFA)	State aid clearance (January 2013).
Q4	Football Prognostics Organization (OPAP)	VLT regulation issuance and notification to EU (December 2012). Law on new tax provisions for state aid clearance (December 2012).
2013 Q1	Horserace Betting Organization (ODIE)	Pending state aid clearance-, adopt legislation for granting new license and subsequent liquidation of the company (January 2013).
Q1	Hellenic Post (ELTA)	Ministerial decisions to (i) determine content of universal service, (ii) compensation mechanism for USP drafted and prenoted to DGComp.
Q1	Hellenic Vehicle Industry (ELVO)	Transaction structure to be determined and agreed (February 2013).
Q1	Thessaloniki Water (EYATH)	Establish regulatory framework (December 2012). Establish pricing policy and amend the license (May 2013).
Q1	Mining and Metallurgical Company (LARCO)	Law for establishing a new company (January 2013).
Q1	Hellenic Defense Systems (EAS)	Identify EAS assets for privatisation (December 2012).
Q2	Hellenic Petroleum (HELPE)	Following divestment of DEPA.
Q2	Athens Water (EYDAP)	Establish regulatory framework (Dec 2012); pricing policy and amend license (September 2013); settlement of receivables from the State (Sept 2013).
Q2	Athens Airport (AIA)	Re-approach Hochtief Airports (December 2012).
Q2	Railways (Trainose)	Remaining problems in Trainose will be resolved (February 2013). Trainose will then be transferred to the HRADF (March 2013).
Q3	Public Power Corporation (PPC)	MoEnergy issues the Energy Policy Objectives and a restructuring plan is fully identified (December 2012).
Pending court decision	Casino Mont Parnes	Pending legal action for the recovery of the state aid taken by the Ministry of Tourism (December 2012)
II. Concessions		
n.a.	Hellenic Motorways	Negotiations for the restart of projects currently in progress; ratification of reset agreement by Parliament (January 2013). Subject to final negotiations.
2011 Q4	State Lottery	Binding offers (December 2012). Submission to Court of Auditors (December 2012).
2013 Q1	Egnatia Odos	Launch tender process depends on: a) agreement/finalisation with Ministry of Dev on characteristics of concession and conclusion of business plan, b) decision on tolling policy/toll collection system, c) treatment of Piraeus loan granted to Egnatia Odos SA, and d) reset of the 4 Motorway
Q1	Small ports and marinas	Resolve issues related to urban zoning (December 2012).
Q1	Regional airports	National Airports Policy defined. Establish regulatory framework (January 2013).
Q2	Thessaloniki Port (OLTH)	State aid clearance (March 2013). Establish regulatory framework (April 2013).
Q2	Piraeus Port (OLP)	State aid clearance (March 2013). Establish regulatory framework (April 2013).
Q2	Large regional ports	State aid clearance (March 2013). Establish regulatory framework (April 2013).
Q3	South Kavala Gas Storage	Decision on the best exploitation option (December 2012).
Q4	Digital Dividend	Adopt necessary secondary legislation for the assignment of licenses for broadcasting and for the establishment of licensing procedures (March 2013)
III. Real Estate		
2011 Q4	Hellenikon 1	Transfer of Hellenikon SA ownership to HRADF (Pending decision: December 2012). Launch Phase B of tender process (December 2012).
2012 Q1	IBC	Get approval from Court of Audit (December 2012) and issue PD for ESCHADA (January 2013).
Q1	Cassiopi	Declassification of Naval outpost (December 2012).
Q1	Lot 1 (Afantou)	All intermediate steps have been fulfilled.
	Sale/repo 28 buildings	All intermediate steps have been fulfilled.
2013 Q1	Astir Vouliagmenis	Negotiations ongoing with NBG. ESCHADA (Zoning and land permit) to be submitted (January 2013). Process led by NBG.
Q1	Real Estate lot 2	40 properties to be identified (December 2012) and transferred to HRADF (March 2013).
Q4	Real Estate lot 3	At least 1,000 real estate properties to be transferred to HRADF (December 2013).
IV. Banks		
2015-2020	3-4 banks	Bank privatization will take place upon their stabilization and when market conditions permit.

Source: HRADF.

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 is 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 of Understanding.

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.

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

GREECE

Memorandum of Understanding on Specific Economic Policy Conditionality

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1 Achieving sound public finances

The fiscal adjustment path has been extended by two years to take into account the deeper-than-expected economic recession.

The two-year extension of the adjustment period will mitigate the impact on the economy, while securing a sustainable fiscal position. Under the revised adjustment path the primary balance targets have been set at 0%, 1.5%, 3% and 4.5% of GDP for the four-year period 2013-2016, respectively.

The extension of the adjustment period should not be seen as a way to reduce the effort, thereby weakening the credibility of the programme. To the contrary, the fiscal efforts needed to achieve the target remain very large in 2013-14, and heavily frontloaded. Although the primary balance is only expected to improve by 1.5% of GDP per year, the cyclical adjusted primary balance (CAPB) is expected to increase by at least 2% of GDP in 2013, as the economic recovery is not expected to materialise until the end of 2013. Hence, even if the improvement in the nominal primary balance target is less ambitious than in March, the deeper recession means that the adjustment effort is equally strong.

The measures needed to reach the revised primary balance targets in the central macroeconomic scenario amount to EUR 9.2 billion and EUR 13.4 billion in 2013-14, respectively. The revised path for the primary balance means that the general government budget balance will fall below 3% of GDP in 2016, two years later than originally envisaged.

Fiscal consolidation

The adjustment path towards the correction of the excessive deficit shall aim to achieve a general government primary deficit (deficit excluding interest expenditure) not exceeding EUR 2,925 million (1.5% of GDP) in 2012, and general government primary surpluses of at least EUR 0 million (0.0% of GDP) in 2013, EUR 2,775 million (1.5% of GDP) in 2014, EUR 5,700 million (3.0% of GDP) in 2015 and EUR 9,000 million (4.5% of GDP) in 2016. Prior to any debt-reducing measures agreed in December 2012, these targets for the primary deficit/surplus imply an overall ESA-government deficit of 6.9% of GDP in 2012, 5.4% of GDP in 2013, 4.5% of GDP in 2014, 3.4% of GDP in 2015 and 2.0% of GDP in 2016.

These numbers could be estimated to translate into an improvement in the cyclically-adjusted primary balance to GDP ratio from 4.1% in 2012 to 6.2% in 2013 and at least 6.4% of GDP in 2014, 2015 and 2016 and into a cyclically-adjusted government deficit to GDP ratio at -1.3% in 2012, 0.7% in 2013, 0.4% in 2014, 0.0% in 2015 and -0.4% in 2016, reflecting the profile of interest payments.

Proceeds from the privatisation of financial and non-financial assets, transactions related to bank recapitalisation, as well as all transfers related to the Eurogroup decision of 21 February 2012 in regard to income of euro zone national central banks, including the Bank of Greece (BoG), stemming from their investment portfolio holdings of Greek government bonds shall not reduce the required fiscal consolidation effort and shall not be counted in the assessment of these targets.

The adjustment path referred to in the previous paragraph, taking into account the impact of the debt-reducing measures to be implemented in December 2012, would be consistent with a general government consolidated debt ratio to GDP of below 160% in 2016.

Prior to the disbursement the Government:

- a. Adopts the budget for 2013.
 - b. Adopts additional measures (see Annex 9.6) with the aim of reducing the primary deficit to EUR 2925 million (1.5% of GDP) in 2012, EUR 0 million (0% of GDP) in 2013, and ensure a primary surplus of 2775 million (1.5% of GDP) in 2014, 5700 million (3.0% of GDP) in 2015 and 9000 million (4.5% of GDP) in 2016.
 - c. Adopts the medium-term fiscal strategy (hereinafter MTFS) through 2016 and the respective implementing bill. The MTFS elaborates on the permanent fiscal consolidation measures, which ensure that the deficit ceilings for 2013-16 as established by the Council Decision are not exceeded, and that the debt-to-GDP ratio is put on a sustainable downward path.
1. Following a decision on the final details of the planned direct income tax reforms, the authorities will review the fiscal outlook for 2014 and agree with the EC/ECB/IMF on measures needed to close any residual gap for 2014, in the context of the **next review of the program**.
 2. To the extent that a fiscal gap in 2015-16 remains, the authorities could pursue several strategies to close this, including improving revenue by broadening the tax base through further reduction in exemptions and deductions; extending measures that are expiring; and targeted cuts in current expenditure. There are also opportunities to refocus the investment program for more effective support to growth. The authorities will specify concrete plans for 2015 no later than **end-August 2013**, when they will formulate a detailed fiscal program for 2014-2015 consistent with a primary surplus of 3% by 2015.

2 Structural reforms with budgetary relevance

2.1 Privatising to boost efficiency in the economy and reduce public debt

The privatisation of public companies contributes to the reduction of public debt, as well as to the reduction of subsidies, other transfers or state guarantees to state-owned enterprises. It also aims at increasing the efficiency of companies and, by extension, the competitiveness of the economy as a whole, while attracting foreign direct investment. This is why the Greek authorities have committed to proceed swiftly and efficiently with the Privatisation Plan, with the aim of collecting EUR 50 billion, even if the sale of assets goes beyond the duration of the Economic Adjustment Programme. Within this context, the Government is committed to insulate the privatisation process from political pressures.

The provision of basic public goods and services by privatized industries will be fully safeguarded, in line with the national policy goals and in compliance with the EU Treaty and appropriate secondary legislation rules.

Prior to disbursement, the Government:

Strengthens the institutional framework for privatisation by:

- a. Presenting an updated Privatisation Plan to Parliament with the 2012-2016 MTFS.
- b. Publishing a semi-annual update of the Asset Development Plan, which will include a Portfolio Overview with a description of the privatisation assets, a timeline of planned tenders and targeted total receipts for the current and next year.

- c. Amending the Articles of Association of the HRADF (Article 16.3.) in order to stipulate that the “due cause” required for substituting members of the Board of Directors is defined in particular by the undue suspension or by the intentional compromising of the objectives of the HRADF with acts or omissions of its Board members.
- d. Amending Law 3986/2011 to require the publication of quarterly reports of the HRADF on activities and financial accounts, including a detailed profit and loss statement, a cash flow statement, and a balance sheet, within 60 days of the end of each quarter.

Transfers ownership of assets to the HRADF by:

- e. Transferring to the portfolio of privatisation assets of the HRADF the full and direct ownership (shares or concession rights) of: Egnatia Motorway and the regional ports of Elefsina, Lavrio, Igoumenitsa, Alexandropolis, Volos, Kavala, Corfu, Patras, Heraklion, and Rafina.
- f. Signing the contract between HRADF and the Ministry of Finance for the use of the voting rights for ELVO.
- g. Issuing an Inter-Ministerial Decision that secures that the proceeds of the sales of the Digital Dividends are transferred to the HRADF.
- h. Having the line ministries and other relevant entities providing the General Secretariat for Public Property with full access to the inventory of all real estate assets owned by the State.

Eliminates the legal obstacles for the sale of assets by:

- i. Amending/repealing statutory provisions of companies that diverge from private company law (PPC, OLP and OLTH port authorities, HELPE, EYATH and EYDAP, ports, etc.), regarding any restrictions on voting rights of private shareholders
- j. Launching the process to obtain the zoning and land planning permits (ESCHADA), i.e., submit the environmental and zoning study for Afantou and Kassiope.

Proceeds with the appointment of advisors by:

- k. Launching tenders for the appointment of advisors for EAS, ELVO, South Kavala Natural Gas, Trainose, being consistent with the existing procurement rules.

Other actions to be taken by the Government include the following:

1. Rapid adoption of necessary primary and secondary legislation and implementation decisions, in consistency with the required actions for a swift Privatisation Plan (see Annex 9.1).
2. The establishment of a regulatory framework for airports (**January 2013**), the State Lottery, ports (**April 2013**) and water companies (**December 2012**).
3. The submission of a pre-notification to the Commission services with respect to the definition of the universal postal services and the compensation of the Universal Service Provider (**December 2012**).
4. The launch for tender of Egnatia Motorways (**March 2013**).
5. Trainose is transferred to the HRADF (**March 2013**) and the tender for its sale is launched (**June 2013**).
6. Transfer of forty new real estate assets (identified as "real estate assets lots 2 and 3" in the Privatisation Plan) to the HRADF (**March 2013**).

7. Full identification and description of all the remaining real estate assets in the pool of 3,150 assets that have been preselected and pre-valued by the HRADF (**December 2013**).
8. Transfer of full and direct ownership of 1000 commercially viable real estate assets to the HRADF (**by end-2013**). The transfer will be done in four phases, based on concrete interim targets of 250 real estate assets per quarter (**starting in January 2013**).
9. Ensuring that there will be no transfer or withholding of any real estate assets, without prior consultation and agreement with the HRADF and the EC/IMF/ECB, to entities other than the HRADF, including to municipalities and the recently established pension fund SPV or other dedicated legal entities, or until such time as the assets necessary to supply the privatisation plan have been secured (**Continuous**).
10. Amendment, upon privatisation, of all statutory provisions (including on labour relations) to fully align them with private sector law (**Continuous**).
11. The HRADF will continue to be tasked with selling assets as quickly and effectively as possible. In particular, there will be no further political review once an asset has been transferred to the HRADF. To ensure that the HRADF is accountable in this role we will enhance the transparency of its operations. To this end, the HRADF will publish quarterly reports on its steps to facilitate privatisations, financial accounts, including a profit and loss statement, a cash flow statement, and a balance sheet, no later than 60 days after the conclusion of every calendar quarter (**Continuous**).
12. Securing privatisation receipts which, cumulatively since June 2011, should be at least EUR 1.6 billion by **end-2012**, EUR 4.2 billion by **end-2013**, EUR 6.5 billion by **end-2014**, EUR 7.7 billion by **end-2015**, EUR 11.1 billion by **end-2016**.

2.2 Tax policy reform

1. The Government will prepare a tax reform that aims at simplifying the tax system, eliminating exemptions and preferential regimes, thus broadening bases, and allowing a gradual reduction in tax rates as revenue performance improves. This reform relates to the personal income tax and corporate income tax. The reform will be adopted in **December 2012** to entry into force in 2013.
2. By **November 2012**, the Government will announce the full schedule of intermediate steps — including legislative actions as well as technical steps needed — until the new tax system becomes effective. These intermediate steps will include public consultation and appropriate review by the European Commission, ECB and IMF staff.
3. By **March 2013**, the Government makes fully operational a standard procedure for revision of legal values of real estate to better align them with market prices under the responsibility of the Directory of Capital Taxation.

2.3 Revenue administration reforms

A strong and focused reform programme to be undertaken in the coming months must address all the weaknesses in the existing system and support the fight against tax evasion and corruption. The Government will reform the current institutional framework in line with that in many other OECD and EU economies to ensure more autonomy for the tax administration department, especially for day-to-day operations, while leaving policy matters in the hands of the Government. The reform can be undertaken in a gradual way after assessing carefully the impact of each step undertaken:

- The re-organisation of tax offices must take place to increase the efficiency of audits and tax collection, by creating specialised units to deal with specific taxpayer groups (e.g., large taxpayer unit, high wealth individual unit, and large debtor unit), regrouping local offices into more efficient offices, and tackling potential corruption.
- Methods must be improved to focus audits on substantial issues in order to detect tax evasion and not on mere observance of formal rules. This implies the replacement of the Code of Books and Records by a more modern and substantially simpler set of rules for tax record keeping. A new single tax procedure code will be created. Additionally, compulsory auditing of all tax declaration should be abolished, and efforts concentrated on high yield audits, targeted in using risk assessment techniques.
- Collection of taxes should be reinforced. At the local level, groups of specialized and dedicated staff will be put into place in larger DOYs. Besides, rules to write-off non-collectable debts in line with international best practice have to be introduced.
- The management will be improved, under the leadership of a new Secretary General with increased powers. Managers and auditors should be subject to performance targets and regular assessment. The Secretary General must have the capacity to replace non-performing managers and auditors. Besides, the regular rotation of managers has to become a rule.
- Fighting tax evasion and corruption is a priority in this effort. Progress made so far did rely on useful but piecemeal measures. Fight against corruption, especially in the tax sector, must use new tools, making full use of the will of the people to fight it.
- The current administrative review process has to be replaced by a cost effective compulsory pre-settlement administrative procedure, in order to significantly reduce the number of unnecessary tax litigation, so as to lighten the burden of courts and ensure a timely settlement of the cases.

With the aim of strengthening fiscal institution as part of the reform programme, the Government, prior to the disbursement:

- a. Adopts legislation to define the role and qualifications of the Secretary General. Concerning qualifications, this will be a person with senior management experience, expertise in tax matters, and an impeccable reputation (including a strong tax compliance history).
- b. Adopts interim legislation, and the Minister of Finance will use this to delegate decision making powers to the Secretary General. These powers will include the competence to make operational decisions, direct and control local offices, manage human resources, replace underperforming senior managers, manage the budget of the tax administration, and manage all information with due confidentiality;
- c. Adopts legislation to deploy experienced tax auditors towards activities serving the immediate revenue imperative, making fully operational key enforcement areas as the large taxpayer unit by transferring 100 auditors, establishing one functional unit for high-wealth individuals and high-income self-employed and staffing the unit with 50 experienced tax auditors directly accountable to the Secretary General of the tax administration;
- d. Establishes procedures for the rotation of managers in critical tax offices on a periodic basis.
- e. Replaces the Code of Books and Records by significantly simpler legislation in line with international standards;

The Government undertakes the following reforms:

2.3.1 Organization

1. Appoints a new Secretary General of the tax administration (**December 2012**);
2. Adopts legislation to establish a significantly more autonomous tax administration and specify the degree of autonomy, governance framework, accountability, legal powers of the head of the administration and initial staffing of the organization by **February 2013**. In **March 2014** the new agency will become fully operational;
3. Continues to centralise and merge local tax offices leaving about 120 functioning offices (**June 2013**);

2.3.2 Fight against tax evasion, money laundering and corruption

1. The revised Code of Books and Records enters into force (1st **January 2013**);
2. Steps up the hiring procedure and simplifies the reassessment process of the tax auditors with the objective to achieve the target of 2 000 tax auditors fully operational by **June 2013**;
3. Introduces, at least, twice-yearly performance assessments for tax auditors (**December 2012**);
4. Issue an administrative circular to enhance targeted auditing based on risk assessment techniques (**December 2012**).
5. Abolish the requirement that all tax declarations for the previous 10 years must be audited while retaining the right to continue to audit earlier years and the discretion to audit any amount of declarations from these earlier years (**January 2013**).
6. Adopts legislation in order to introduce a modern code of conduct concerning conflicts of interests and declaration of interests and a system for protecting whistle-blowers who report corruption (**March 2013**);
7. Appoints a national coordinator for anti-corruption action (**April 2013**);
8. Enacts the appropriate legal framework to create a secure direct or indirect central register of bank accounts (**January 2013**);
9. Requires that all Ministries which have a fiscal relationship with taxpayers utilize their tax identification number for financial transactions with them (**June 2013**).
10. Introduces a central agency to consolidate and link all of the different identification numbers now employed across various government agencies (**June 2014**);

2.3.3 Tax and revenue collection

1. Establishes specialist debt management units in larger local tax offices and allocating at least 10 percent of local staff to this function (**December 2012**);
2. Completes a review of the policy and procedures to write off tax debts, and prepare recommendations to facilitate actively managing tax debt with real prospect of collection and explore ways to deal with the non-collectable part (**February 2013**);

3. Replaces payments in cash and cheque in tax offices with bank transfers, to discourage corruption and free up staff time for higher value added work (audit, collection enforcement and taxpayer advice) (**December 2012**);
4. Commits not to adopt new tax amnesties, or extend existing amnesties for the collection of taxes and social contributions during the years covered by the economic adjustment programme (**Continuous**);
5. Integrates the collection of social security contributions into the tax administration (**March 2014**).

2.3.4 Tax dispute

1. Puts in place a mandatory administrative review procedure (**Q2 2013**). The aim is to design a mandatory administrative appeal procedure in line with international best practice to allow a distinct and higher level body within the Ministry of Finance, staffed with specialists in tax dispute matters, to re-examine tax decision taken by the DOYs or auditors before going to court.

2.3.5 Management of the State Revenue Service

1. Replaces managers who do not meet performance targets (**Continuous**);
2. Launches an easily accessible website to enforce accountability to the public through publication of summary statistics on key performance indicators, the number of tax evasion cases sent to the FIU and to prosecution by the tax administration (**December 2012**).

2.3.6 Tools

1. Adopts a new Single Tax Procedures Code (**June 2013**). This code should aim to reduce the costs of administration and compliance and will incorporate procedural reforms in all major administrative areas that are necessary to support modern tax administration (e.g., tax filing, audit and penalties, enforcement powers and debt collection). It will also incorporate a new streamlined administrative dispute resolution process;
2. Puts in place a new IT system that interconnects all tax offices (**March 2013**);

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:

3. 20 more new electronic services and enhancements (**December 2012**). These concern mainly taxes withheld at source;
4. 8 remaining new electronic services and enhancements (**December 2012**). These concern forms filed late with a fine, real-estate tax, and VAT administration;
5. system and user tests, user training, and migration of all tax offices to the centralized database (**December 2012**);
6. operational use of the new IT infrastructure by all tax offices (**March 2013**).

2.4 Public financial management reforms

Developing a solid public financial management framework is key in controlling expenditures and thus being able to achieve fiscal targets. The Government is committed to enact reforms for strengthening the framework both within the GAO and line ministries.

Prior to the next disbursement the Government will,

- a. adopt the 2013-16 Medium term fiscal strategy
- b. ensure that EOPYY reports for at least two consecutive months (retroactive reports included) from its commitment register through the e-portal.

Further actions include:

1. The Government adopts an administrative calendar for the update of the medium-term fiscal strategy. (**February-2013**)
2. To address problems still lying in the extra-budgetary funds and in the social security sector, especially in relation to the transfer of competencies from SSFs to EOPPY, despite the progress in the setting-up of the commitment/co-payment registries, the Government will:
 - i. ensure that **by December-2012** commitment registers are in operation in 90 per cent of general government entities.
 - ii. monitor the effectiveness of the commitment registers by conducting regular targeted inspections in the public entities covered by the system (**Continuous**).
 - iii. enforce the obligation of accounting officers to report commitments by enacting sanctions to entities not submitting needed data, though disciplinary action for accounting officers, and by strengthening the role of GAO in providing support and guidance to Accounting Officers (**Continuous**)
 - iv. ensure **by December 2012** that EOPYY monthly budget execution is published on the website with a lag of four weeks after the end of the respective month, providing detailed data on both expenditure commitments/purchases (accrual basis) and actual payments (cash basis), current performances against yearly budget allocation and accumulation of accounts payable (and arrears). As soon as significant deviations from yearly targets become evident, remedial action should be taken at the same time.
3. To clear expenditure arrears and tax refunds, the conditions for a government unit to meet to allow funds for clearance to be disbursed will include, for expenditure arrears: (i) establishment by the unit of a fully functioning commitment register and (ii) reporting of at least three months of consistent data on commitments, payments, and arrears (2 months for EOPYY); and, for both expenditure arrears and tax refunds: (iii) verification of claims. Subvented agencies which meet these conditions can clear their arrears even if their parent agency does not meet the conditions. Arrears should not delay the execution of the pharmaceutical spending clawback or any related measure. The Government will:
 - i. Prepare and publish **by November 2012** a plan for the clearance of arrears owed to suppliers by public entities and of tax refunds (to be done by GAO in liaison with GSIS and other relevant authorities).
 - ii. Ensure the administrative capacity to make the clearance of arrears effective through different means, including re-allocation of at least 30 employees with relevant competences from other social security funds to EOPPY (**November 2012**)

4. Once the clearance of all verified arrears is achieved, the Government ensures that no new arrears are accumulated (**Continuous**).
5. The GSIS designs a risk-based assessment procedure for verification of VAT refunds (**March 2013**).

2.5 Safeguards for the delivery of fiscal commitments

Enhancing credibility is essential to the success of the Adjustment Programme for Greece. One way is through the early implementation of the EU's Fiscal Compact. Greece has already signed and ratified the intergovernmental Treaty on Stability, Coordination and Governance in the EMU. A key part of the Treaty is the fiscal compact that introduces national budgetary rules as well as enhanced enforcement mechanisms at European level. Within a comprehensive approach, key steps to safeguard the delivery of fiscal commitments are necessary in the areas of: Budget preparation and implementation, monitoring and reporting, corrective and sanctioning mechanisms, transparency, accountability and oversight, debt servicing.

The Government will, **prior to disbursement**:

- a. Adopt a Council of Ministers act (replacing the Council of Ministers act adopted on 29 October 2012, aiming at strengthening the Budget execution and enhancing the sound fiscal management), and including, beyond the provisions in the original Council of Ministers act, additional provisions:
 - i. establishing that Memoranda of Cooperation are signed **by end-December** of each year between the Ministry of Finance and the other Ministries or between the Ministries and managers of the supervised entities (thus covering the entire General Government). The Memoranda aim at enhancing the current monitoring and introducing corrective mechanisms, such as: quarterly budget execution targets, corrective actions in case of deviations from targets and further actions in case of non-compliance with the corrective actions.
 - ii. Strengthening the current balanced budget constraints for Local Governments in order to be more effective, but also including corrective and sanctioning mechanisms.
 - iii. Strengthening the current monitoring system for SOEs, introducing an enforcement mechanism in case of deviations from the specific targets identified for each SOE.
 - iv. Setting the framework for defining specific targets for the coverage of operational commitment registers for LG and SOEs to be established by December of each year.
 - v. Setting up a framework for correcting transfers from central government to address deviations from targets within the year and possibly in the following years while ensuring that arrears are not increasing. Improvements in operational terms should be integrated in the relevant legislation, including inter alia triggering circumstances, criteria for graduation from suspension to outright reduction of transfers, and timing issues.
 - vi. Making it explicit that the proceeds from the privatisation of government assets are paid directly into the account referred to in section 2.5.6.
 - vii. Set automatic cuts in expenditures to be applied as a rule when targets are missed, while ensuring that arrears are not increasing.
 - viii. Reinforce centralisation of budget planning and implementation. This will include further strengthening of the Ministry of Finance vis-à-vis line ministries, notably with the introduction of an effective top-down budgeting, including a veto role of the Minister of Finance, monthly submission to the supervising Director General of Financial Services (DGFS) and the GAO (depending on the size of their budget) of

the budget execution programme and actual execution, and the power to take corrective measures if appropriate at the implementation stage, with bodies failing to comply with their obligations being brought under the direct supervision of the Ministry of Finance.

1. The Council of Ministers act referred to in paragraph a. shall be converted into law by **end-December 2012**.

2.5.1 Enhancing national budgetary rules in line with the EU's Fiscal Compact

1. The Government will adopt the necessary legislation to transpose the Fiscal Compact provisions with a view to introducing a structural budget balance rule with an automatic correction mechanism (**August 2013**)

2.5.2 Budget preparation and implementation

The Government will:

1. Introduce three-years binding expenditure ceilings per subsectors (at least for the central government and the health sector) for 2013, in order to strengthen the implementation of the MTFS, as follows: ceilings for the first two years would be considered fixed and used as such in the following budget planning exercise although with some flexibility within the ceiling as long as the general target is met to leave some space of action to the administration; ceilings for the last year of the three-year period may be updated annually. This measure will be adopted within an update of the MTFS to be done by **January 2013**.
2. Modify the organic budget law by **August 2013** to introduce:
 - i. The three-years binding expenditure ceilings (as in paragraph 2.5.1) on a permanent basis as part of the rolling MTFS.
 - ii. Provisions to freeze ex-ante 10% of discretionary appropriations per budget line as part of the MTFS. The frozen appropriations would be released in the second half of the year conditional upon meeting the fiscal targets. The first application should concern the 2014 budget.
 - iii. A revenue rule for the general government, according to which at least 30% of windfall revenues will be devoted to debt repayment while up to 70% could be used the following year by the Government to support temporary policies aiming to boost growth and social cohesion automatically, conditional to the achievement of the fiscal targets.

2.5.3 Monitoring and reporting

The Government will:

1. Identify other areas of operational expenditure where real time monitoring mechanisms could be introduced or strengthened (**March 2013**).
2. Extend e-prescription to illness benefits provided by EOPYY to strengthen the monitoring among others of Diagnostic Tests, Inpatient Care and Rest Provision. (**June 2013**)

2.5.4 Corrective and sanctioning mechanisms

The Government will:

1. Ensure a continuous balance between contributions and benefits, by bringing forward by one year the entry in force of the binding mechanism (for auxiliary pensions) already legislated to enter in force as of 2015. (**September 2013**)
2. Strengthen HRADF's governance and independence and implement an automatic correction mechanism, should there be any difficulties in the privatisation process or slippages in the targets, by (**quarterly**):
 - i. Reviewing the functioning of the recently amended privatisation law, through specific QPCs to be enforced the moment the privatisation plan derails.
 - ii. Taking, in cooperation with EC/ECB/IMF, appropriate steps, including changes in existing legislation and/or in the composition of the Board, to safeguard and strengthen the independence and the functioning of the HRADF, if targets for the sale of assets to be privatised were missed substantially for two consecutive quarters. In all circumstances, the HRADF remains fully accountable to parliament on an ex-post basis for the integrity of every privatisation sale.
 - iii. Increasing automatically the primary surplus target, should there be a shortfall of privatisation proceeds due to the delay in sales of specific assets compared to programme targets for two consecutive quarters. Any shortfall in privatisation proceeds ceteris paribus increases the financing need and the debt ratio. To mitigate this undesirable outcome, unless other adjustments are agreed with the EC/ECB/IMF, the primary surplus target would be raised with immediate effect by 50 percent of the shortfall in proceeds, and should be achieved by means of current expenditure cuts in the general government. The adjustment within any year would be capped at €1 billion.

2.5.5 Transparency, accountability and oversight

The Government will:

1. Increase transparency and accountability to the public/parliament, by e.g. releasing status reports on the implementation of the legislated fiscal measures, publication of hiring numbers, proper fiscal impact assessment of legislation, statement of the main sources of fiscal risks related to changes in key economic assumptions in the forecast, as well as an assessment of the fiscal impact of the main sources of fiscal risk including government guarantees and other contingent liabilities, etc. (**March 2013**)
2. Resume and enhance the operation of the existing Parliamentary Budget Office (**June 2013**) and take steps to strengthen its reputation, independence and technical competence towards a fully-fledged fiscal council (e.g. provision/endorsement of forecasts for the budget preparation, monitoring of compliance with budgetary targets and fiscal rules, provision of independent assessments of fiscal developments and challenges, etc.), building on best international practices. (**December 2013**)

2.5.6 Debt servicing account

1. The Government will ensure an effective implementation of the debt servicing account to monitor cash flows, avoid diversion of official financing and secure a timely debt servicing. Law 4063/2012 established a segregated account in the Bank of Greece. By law, disbursements to this account cannot be used for any other purposes than debt servicing. Via this account the amortization and interest payment costs of all HR's loans, debt

management transactions and derivatives, as well as any parallel cost (fees and other expenses) related to debt servicing and in general to Public Debt Management are paid. The proceeds of this account are the disbursement of EFSF's loans, subject to an EFSF acceptance notice, as well as the Hellenic Republic's contributions to debt servicing, including all revenues from the privatisation of State assets and at least 30% of windfall revenues. All payments from this account will be subject to prior detailed reporting to the EFSF/ESM and ex-post confirmation by the account holder. (**Continuous**)

2.6 Other institutional requirements

Prior to the disbursement, the Government:

- a. Adopts the legal act harmonising the entrance fees for all casinos in Greece and all necessary actions are taken toward full and effective recovery of the illegal state aid from all Casinos, including Casino Mont Parnes.
- b. Identifies the assets and production units of LARCO assets and rights that belong to the Agios Ioannis/Larymna concession in view of their sale after the current concession of LARCO.
- c. Amends the current requirement in the existing ETEAN law of providing government bonds at market value to banks when guarantees are called. Instead the State will provide ETEAN with cash against ETEAN holdings of government bonds to pay banks for the guarantees called.

Other Actions

1. The Government identifies the assets and production units of the Hellenic Defence Systems to be privatised. (**December 2012**)
2. The Government creates a Central State Aid Unit responsible for screening all measures, from across the Government, for their compliance with State aid rules, before they are implemented. (**January 2013**). The Central State Aid Unit will be the only contact point for the Commission on all State aid matters, including for notifications. The aim is to ensure a timely and effective clearance of state aid issues.
3. All actions attributable to public authorities should be in compliance with the rules on free movement of capital (TFEU, Article 63) (**Continuous**).

2.7 Making the public administration more efficient and effective

Reforming the public sector constitutes an essential step for the reduction in waste, the containment of public wages and the increase in efficiency and productivity levels. As a prerequisite, the following actions will be taken in the next months.

2.7.1 Reforming the public administration

In order to achieve a leaner and more efficient state, the Government initiates a rigorous evaluation of administrative structures and personnel, in order to maintain the right skill mix of employees over time. Entity closures are pursued and employees are either transferred to the mobility scheme or dismissed. This reform process is extended to extra budgetary funds and regional and local administrations in 2013.

Prior to disbursement:

- a. The Government ensures that at least 2,000 staff will be moved to the mobility scheme.

2.7.1.1 Institutional reforms

1. The assessment of the institutional setting of two pilot ministries (Ministry of Administrative Reforms and Ministry of Environment) is completed (**October 2012**).
2. The assessment of the institutional setting of all ministries is finalised (**December 2012**), while the assessment of the performance of civil servants is completed (**December 2013**).
3. The first draft of the two pilot staffing plans is finalised (**November 2012**); the other ministries' staffing plans are completed (**February 2013**).
4. Develop an action plan for the assessment of all public entities, including all Extra-Budgetary Funds and SOEs under Chapter A (**December 2012**). The action plan will focus on their mandate and activities, their staffing, the level of State subsidies and their overall budget. The pilot assessment of two major public entities is completed by **February 2013** and a complete assessment of all public entities is completed by **December 2013**.
5. Based on the different assessments, the Council of Reform approves the transformation scenarios for each ministry (**January 2013**). A precise roadmap on how these structures are created must be published **two months after** the approval of the transformation scenarios.
6. The Government monitors progress on the inter-ministerial coordination, whereby the Coordinator is appointed (**November 2012**) and full implementation of the process is ensured (**January 2013**).
7. The Government involves the Commission services with respect to the assessment of structures and staffing linked with the implementation of the Cohesion Policy (NSRF Operation Programmes) and will seek its agreement when taking related decisions (**Continuous**).
8. Prepares and makes public a fully-fledged anti-corruption plan for the civil service, including special provisions for the tax and customs administration (**February 2013**).

2.7.1.2 Mobility scheme and human resources management

In order to ensure that the Government's efforts to redeploy and reduce personnel are effective, that the recruitment and evaluation process are improved, and that the performance and motivation of personnel increases, concrete steps will be made to: limit and improve the quality of hiring at the

selection, limiting the intake into public service academies by 30 percent, removing job guarantees for private sector teachers; put a sunset to existing lists of eligible graduates; establish clear guidelines for the regular assessment of personnel run by managers. The Government will:

1. Combine the assessment of the institutional setting with mobility, attrition, reduction of temporary contracts, disciplinary procedures and mandatory redundancies. This should help reduce the public sector workforce by 150,000 **by 2015**, relative to the end-2010 level.
2. Place 25,000 government employees in the mobility scheme in 2013, with half of them by **mid-2013**. The government's mobility scheme, where transferred personnel can remain for up to one year with a reduced rate of pay (substituting for severance payments), while they seek new employment and they are re-trained, will help the transition across job positions, if necessary towards the private sector.
3. **By end-February 2013**, the staffing plans for line Ministries will be completed and these will be used to identify redundant positions and employees, and on this basis set quarterly targets for mandatory exits through end-2014.
4. Adopt the law on mobility between ministries in the interest of the services (**November 2012**).
5. Defines a human resources strategy in order to: (i) identify the weaknesses of the public service management of human resources; (ii) identify the best possible way to modify recruitment procedures, appointments, trainings, as well as mobility. This strategy is reflected in legislation (**January 2013**). This legal act will provide a basis for evaluating the competences of the senior management.
6. Assesses the mandate, roles and responsibilities of all senior managers, including the politically appointed and the senior public service management (**February 2013**). This assessment will lead to an amendment of the current legislation, by clarifying and framing the relationship between the political level, the management positions and the services. Within this framework, the number of advisors will be reduced and constrained, and each advisor will have a specific job description. The aim is to ensure institutional continuity and higher levels of efficiency in the public administration (**May 2013**).

2.7.2 Avoiding waste and increasing quality through sound public procurement

Important fiscal savings and higher quality purchases can be realised by sound public procurement processes. The reforms aim at i) making the Single Public Procurement Authority, the newly created procurement watchdog, fully operational; ii) establishing an e-procurement platform and mandating gradually its use by the public administration; iii) increasing the share of supplies and services tendered through Central Purchasing Bodies, including by the use of framework contracts and iv) at codifying and simplifying all public procurement legislation.

2.7.2.1 To make the Single Public Procurement Authority (SPPA) operational

The Government:

1. **By December 2012**, issues the following implementing legislation of Law 4013/2011 on the Single Public Procurement Authority, providing for:
 - i. the SPPA's financial management rules (Art. 4).
 - ii. the SPPA's structure and remit of its services and any other matters pertaining to its organisation (Art. 4).
 - iii. the SPPA's Rules of Procedure (Art. 7).
 - iv. the Agora Portal for contract transparency (Art. 11).

The above legislation shall enter into force at the latest by **December 2012**.

2. Ensures that all necessary staff is transferred to the SPPA, in accordance with the Presidential Decree 123/2-11-2012 on its organisation, so that the SPPA fulfils its mandate, objectives, competences and powers as defined in the implementing regulations, of the law on the SPPA and in the Action Plan agreed with the European Commission in November 2010. **(February 2013)**
3. The SPPA ensures coordination and coherence of the functioning of the Central Purchasing Bodies, of the reform of the Greek public procurement regulations and of the e-procurement framework with the overall public procurement system and strategy. **(Continuous)**

2.7.2.2 To increase the efficiency of procurement processes:

The Government moves towards more centralised procurement, especially in the field of health procurement, services and supplies (including civil supplies and services for defence not falling under the scope of Directive 2009/81 on procurement in the fields of defence and security). It also uses framework contracts and reviews the public procurement legislation including works, supplies and services. In particular the Government:

Central Purchasing Bodies (CPB):

1. Presents a plan for the development of CPBs (such as the Greek General Secretariat for Commerce -for supplies and services- and EPY -for health procurement-) to the Commission Services by **December 2012**. The plan identifies all contracting authorities procuring supplies and services at the Central Government level and overviews their procurement needs, with a view to gradually increasing the share of supplies and services procured through those CPBs. Similarly, a plan to establish CPB at regional/local level is also submitted to the Commission services by **December 2012**.

Framework contracts:

2. Submits by **December 2012** to the Commission services for evaluation two and one framework contracts used in frequently purchased supplies or services at central government and regional level, respectively, and mandates the relevant administration to source via those contracts. **(April 2013)**

Reform of public procurement legislation:

3. Undertakes to adopt by **December 2013** a reform of the public procurement system including works, supplies and services under the coordination of the SPPA with a view to:
 - i. simplifying, streamlining and consolidating the body of public procurement legislation;
 - ii. rationalising the administrative structures and processes in public procurement to desired procurement results in terms of efficiency and efficacy;
 - iii. improving national review procedures, including the reduction of delays triggered by the redress system and assessing the role to confer to the SPPA in the area of redress (remedies and judicial protection).
4. Develops an Action Plan for the reform, in agreement with the European Commission. **(January 2013)**. It will include an analysis of the state of play (flowcharts, procedural phases, actors involved, timelines, statistics etc.) and factors in the results of the study on the Greek public procurement system commissioned by the EC.

5. The drafts of all legislative and organisational measures implementing the above-mentioned Action Plan are presented to the European Commission in **September 2013**.

2.7.2.3 To run public procurement procedures by electronic means (i.e., E-procurement):

The Government

1. Refines, in consultation with the European Commission, the existing *plan* for the development of the e-procurement platform by **December 2012**, including, among others, measures and deadlines for:
 - i. the operation of supplies, services and public works procurement contracts through the e-procurement platform;
 - ii. the availability of functionalities such as e-notification and e-tendering;
 - iii. the mandatory use of the platform by the central government, regional government and other public sector entities;
 - iv. the communication and training programmes for users of the platform;
 - v. the periodic monitoring mechanisms for the take-up of e-procurement platform by its users and the specification of target usage levels;
 - vi. the interaction of the platform with the planned simplification of procurement legislation;
 - vii. the means to facilitate access and use to the platform by users, including easy to use e-signature and e-ID solutions.
2. In the *development* of the e-procurement platform, commits to:
 - i. complete the e-procurement infrastructure for supplies and services contracts by **December 2012**.
 - ii. run supplies and services contracts for the Central Government on a pilot basis through the e-procurement platform throughout the **1st half of 2013**.
 - iii. ensure that the e-procurement platform is fully operational and ready for use by the Central Public Administration for supplies and services contracts in **July-2013**.
3. Ensures the *use* of the platform as follows:
 - i. the Central Government procures at least 25% of its supplies and services' needs (in terms of contract value) through the e-procurement platform by **December 2013**.
 - ii. the Central Purchasing Bodies (CPBs) use the e-procurement platform for all their tendering procedures. (**June 2014**)
 - iii. the whole public sector in Greece uses the e-procurement platform by **December 2015**.
4. Submits to the Commission services the data of the *monitoring* activities covering year 2013 against the target user levels. (**1st half of January 2014**)

2.8 Completing the pension reform to secure sustainability

Prior to disbursement

- a. The age of retirement is increased by 2 years, starting from (1 January 2013). The increase is applied to the statutory retirement age and any other retirement age for special groups and to the minimum requirement for getting a pension.

Other actions

The Government:

1. Finalises the implementation of the reform of the functioning of secondary/supplementary public pension funds and ensures the unification into ETEA of all existing funds, which are considered to be in the domain of public sector according to ESA95 national account definition. **(Q4-2012)**
2. Ensures that the new single fund ETEA sets up, in a cost effective way, a computerised system of individual pension accounts; starting in **Q1 2013** and to be finalised by **Q4-2013**.
3. Identifies the schemes for which lump sums paid on retirement are out of line with contributions and adjusts the payments. A new, actuarially neutral, formula to calculate lump sum, including a sustainability factor to avoid any future imbalances, is designed in consultation with the European Commission, ECB and IMF staff. **(Q4-2012)**
4. Will produce a regular quarterly report of the activities of the Health Committee, aimed at monitoring and revising the disability status and ensure that disability pensions correspond to not more than 10 percent of the overall number of pensions. **(next report, Q1-2013)**

2.9 Modernising the health care system

The Government continues to implement the comprehensive health sector reform with the objective of stabilising 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 programme measures aim at achieving savings in the purchasing (accrual basis) of outpatient medicines of about EUR 1 billion in 2012 compared to 2011 and to reach spending of about EUR 2.440 billion in 2013 (accrual basis). The goal is to bring public spending on outpatient pharmaceuticals to about 1 percent of GDP i.e. around EUR 2 billion euro (in line with the EU average) in 2014. Total (outpatient plus inpatient) public expenditure on pharmaceuticals should be no more than 1.5 per cent in 2013 and 1.3 per cent in 2014.

2.9.1 Governance

- a. **Prior to the disbursement**, to strengthen health system governance, improve health policy coherence, reduce fragmentation in the purchasing of health services and reduce administrative costs, the Government finalises the concentration of all health-related decision making procedures and responsibilities (including payroll expenditures) under the Ministry of Health by merging all health insurance funds, without exception, into EOPYY.
1. From **January 2013**, hospital services will be purchased directly by EOPYY through prospective budgets based on KEN-DRGs costing procedure (and payroll costs, should be at least reported).
2. EOPYY ensures that the number of doctors is reduced in headcount compared to June 2012 by at least 10% by **December 2012** and by a further 10% **in 2013**.

2.9.2 Controlling pharmaceutical spending

In order to achieve EUR 1 billion of reduction in outpatient pharmaceutical spending in 2012 and reach the 1 percent of GDP target in 2014, the Government steps up its efforts, and further develops the 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.

2.9.2.1 Contingency measures to deliver the overall targets

Prior to the disbursement, the Government:

- a. adopts legislation which activates contingency measures (including e.g. a cross-the-board cut in prices or entry fee for the positive list), if, for any reason, the claw-back is not able to achieve the target. Such measures produce equivalent amount of savings.
- b. sets, through Ministerial decree, the new claw back threshold for 2013, based on the above mentioned targets (Euro 2.44 billion for outpatients).
1. The Government revises the co-payment structure for medicines to exempt from co-payment only a restricted number of medicines related to specific therapeutic treatments. **(Q4-2012)**

2.9.2.2 Pricing of medicines

- a. **Prior to the disbursement**, the Government repeals the current provision of the law which hampers the collection of the rebate from pharmacies in case of delays in payments on the part of EOPYY.

In addition, the Government:

1. Revises downward the price of medicines, based on the three EU countries with the lowest prices. In addition, the government re-prices medicines now cheaper than 10 EUR, including implementing a 10% price reduction in the prices of these medicines (**quarterly update** of price list in line with the provisions of Council Directive 89/105/EEC - next published by **December 2012**)
2. Applies an automatic claw-back mechanism (every six months) to pharmaceutical producers which guarantees that the outpatient pharmaceutical expenditure (EOPYY budget) does not exceed the above targets (**Continuous**).
3. Produces an implementation report on the impact of the new profit margins of pharmacies by **Q1-2013** and shares it with the European Commission, ECB and IMF staff. If it is shown that this new model to calculate profit margins does not achieve the expected result of a reduction of profit margins down to 15%, the regressive margin will be further revised.
4. Ensures that EOPYY negotiates a 5% discount through price-volume agreements on medicines (200 medicines) (**Continuous for 2013 and 2014**)
5. Extends the application of the 5% rebate on pharmaceutical companies (which exists for hospital-priced medicines) to all products sold in EOPYY pharmacies (legislation adopted by Q4-2012).

2.9.2.3 Prescribing and monitoring

- a. **Prior to the disbursement**, the Government updates the price list and the positive list of reimbursed medicines notably by reimbursing only the cost-effective packages for chronic diseases, by moving medicines from the positive to the negative and OTC lists and introducing the reference price system developed by EOF. **These lists must be updated at least twice a year.**

The Government will,

1. Extend 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 outpatient facilities and providers contracted by EOPYY and the other social security funds. (**Q4-2012**); the extension to NHS facilities will be finalised by **Q2-2013**.
2. Implement the system (API) whereby pharmacies electronically register any residual manual prescriptions from doctors into the e-prescription application established by IDIKA. (**Q4-2012**);
3. Continue publishing prescription guidelines/protocols for physicians, with priority for the most expensive and/or mostly used medicines, and makes them compulsory (**Continuous**);
4. Enforce the application of prescription guidelines through the e-prescription system. (**Q2-2013**);
5. Further develop monitoring and control of e-prescription by introducing ICD-10 and SPC filters in the e-prescription system (**Q2-2013**);

6. Produce detailed monthly auditing reports on the use of e-prescription in NHS facilities and by providers contracted by EOPYY. These reports are shared with the European Commission, ECB and IMF staff teams. **(Continuous)**;
7. Continue to provide a regular assessment of the information obtained through the e-prescribing system. **(Continuous)**;
8. Produce detailed quarterly reports 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. **(Quarterly updates)**;
9. Provide detailed reporting on individual prescription behaviour to each physician relative to the average of comparable (specialty, patient workload) physicians (both in NHS facilities and contracted by EOPYY and other social security funds until they merge) and signals 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. **(Continuous)**;
10. Enforce 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)**;
11. Select a number of the most expensive medicines currently sold in pharmacies, to be sold in hospitals or EOPYY pharmacies. **(Q4-2012)**.
12. Implement a mechanism to reduce off-label prescription **(Q4-2012)**

2.9.2.4 Increasing use of generic medicines

Prior to the disbursement, the Government:

- a. Makes it compulsory for physicians to prescribe by international non-proprietary name for an active substance, with no reference to any brand name on the prescription form. This constitutes a major health reform. To avoid any potential risk to the health of the patient, brand name prescription will, however, be allowed in limited and duly motivated cases. The share of branded name prescriptions can be no more than 15% of the overall prescriptions of each doctor and the doctor needs to provide the relevant justification in each case. A strict control of the prescription of each doctor is implemented through the e-prescription monitoring system, using warning mechanisms to each doctor for when the prescription level by branded name is getting closer to the target. Prior to disbursement, a ministerial decree will explicitly define the exceptions to INN prescription, which must cover a very limited group of products (e.g. with narrow therapeutic index) and known sensitivities of the patient, according to international standards and best practices.
- b. Mandates the substitution of prescribed medicines by the lowest-priced product of the same active substance in the reference category by pharmacies (compulsory "generic substitution").

The Government also:

1. Increases 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:
 - i. setting 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

- (exclusivity period) expired. After this first reduction, when exclusivity period expiry, further reductions are achieved through external reference pricing based on the three EU countries with the lowest prices. This will be done also by linking off-patent (when exclusivity period expires) products to the average of the three lowest prices in the EU and the price of the generic to 80% of the downward revised price of the off-patent. Further reductions are achieved through external reference pricing based on the three EU countries with the lowest prices. Producers are allowed to offer lower prices, thus allowing an increased competition in the market. **(Continuous)**;
- ii. automatically reducing the maximum price of originator medicines when their patent (exclusivity period) expires (off-patent branded medicines) to 50 percent of its price at the time of the patent expiry. Further reduction will be achieved by linking off-patent products to the average of the three lowest prices in the EU, to be revised periodically with price list. Producers can offer lower prices, thus allowing an increased competition in the market. **(Continuous)**;
 - iii. creating dynamic competition in the market for generic medicines through price reductions of at least 10 percent of the maximum price of each new generic producer entering the market. **(Q4-2012)**;
 - iv. introducing (EOPYY) additional incentives and mechanisms, including a prescription quota system for physicians, to ensure generic substitution **(Q4-2012)**;
 - v. deciding about the reimbursement of newly patented medicines (i.e. new molecules) on the basis of objective and strict medical and cost-effective 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. **(Continuous)**;
 - vi. excluding from the list of reimbursed medicines those which are not effective or cost-effective on the basis of objective criteria. **(Continuous)**;
2. Takes further measures to ensure that at least 50 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. **(Continuous)**
 3. Makes it compulsory for all public hospitals to procure at least 2/3 of pharmaceutical products by active substance, using the centralised tenders procedures developed by EPY and by enforcing compliance with therapeutic protocols and prescription guidelines. **(Q4-2012)**
 4. Adopts, with the pharmaceutical companies and physicians, 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 will forbid 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. **(Q4-2012)**
 5. Speeds up administrative and legal procedures, in line with EU legal frameworks for the entry of cheaper generic medicines in the market. **(Q4-2012)**

2.9.3 Reviewing the provision of medical services contracted by EOPYY

- a. **Prior to the disbursement**, to improve the current financial situation of EOPYY and ensure that the budgetary execution is closer to a balanced budget in 2012 and 2013, a set of measures will be implemented, including:
 - i. restricting the benefit package;
 - ii. increasing cost-sharing for private care;

- iii. negotiating price-volume agreements and revising case-mix agreements with private providers;
- iv. revising the fees for and number of diagnostic and physiotherapy services contracted by EOPYY to private providers with the aim of reducing related costs by at least EUR 80 million in 2013.
- v. introducing a reference price system for reimbursement of medical devices.
- vi. progressively increasing the contributions paid by OGA members to the average of those paid by other members of EOPYY.

1. The government starts publishing a quarterly report on the prescription and expenditure of diagnostic tests. (**quarterly updates** - next report **Q4-2012**)

2.9.4 National Health System (NHS) service provision

2.9.4.1 Reorganisation and management of the health care sector

The Government:

1. Implements the plan for the reorganisation and restructuring, as set in Law 4052 / March 2012, with a view to reducing existing inefficiencies, utilising economies of scale and scope, and improving quality of care for patients, thus contributing to better aligning working organisation with Directive 2003/88/EC). This implies reducing hospital operating costs by 8 percent **in 2012** and an additional 5% **in 2013** and reducing beds substantially, as legislated by MD OG1681/B (28-7-2011). This is to be achieved through:
 - i. increasing the mobility of healthcare staff (including doctors) within and across health facilities and health regions;
 - ii. adjusting public hospital provision within and between hospitals within the same district and health region;
 - iii. revising the activity of small hospitals towards specialisation in areas such as rehabilitation, cancer treatment or terminal care where relevant;
 - iv. revising emergency and on-call;
 - v. optimising and balancing the resource allocation of heavy medical equipment (e.g. scanners, radiotherapy facilities, etc.) on the basis of need.
 - vi. reducing administrative costs notably by removing deputy managers posts;
 - vii. reducing cost with outsourcing services such as IT services, laboratory services and hospital servicing costs (e.g. cleaning services).
2. Produces an annual report comparing hospitals performance on the basis of the defined set of benchmarking indicators (**Continuous**)
3. Updates a report on human resources for the whole health care sector annually and uses it as a human resource planning instrument. (**Continuous**)

2.9.4.2 Accounting, control, IT and monitoring systems

The Government ensures that:

1. Internal controllers are assigned to all hospitals and all hospitals adopt commitment registers. (**Q4-2012**)
2. EOPYY publishes a monthly report with analysis and description of detailed data on healthcare expenditure with a lag of three weeks after the end of the respective month. This report will make possible the more detailed monitoring of budget execution, by including both expenditure commitments/purchases (accrual basis, by **December 2012**) and actual

- payments (cash basis). The report will also (1) describe performance on the execution of budget and accumulation of arrears, and (2) recommend remedial actions to be taken. **(Continuous)**
3. Further measures are taken to improve the accounting, book-keeping of medical supplies and billing systems, through:
 - i. the introduction of analytical cost accounting systems **(Continuous)**;
 - ii. the regular annual publication of balance sheets in all hospitals. **(Q2-2013)**;
 - iii. the introduction of the uniform coding system for medical supplies developed by the Health Procurement Commission (EPY) and the National Centre for Medical Technology (EKEVYL) and the use of the observe.net system to monitor the procurement and use of tenders for medical supplies. **(Continuous)**;
 - iv. the introduction of inbound hospital logistics and stock management **(Q4-2013)**
 - v. 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. **(Q4-2012)**;
 - vi. enforcing the collection of co-payments and implementing mechanisms that fight corruption and eliminate informal payments in hospitals. **(Continuous)**.
 4. 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). **(Q4-2012)**
 5. 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. **(Continuous)**
 6. The government starts to develop a system of patient electronic medical records. **(Q1-2013)**
 7. In all NHS hospitals, the Government, with technical assistance from experts across EU, continue piloting 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). DRGs include a detailed item on costs of personnel. **(Continuous)**
 8. 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 **(Q4-2012)**

2.9.5 Centralised procurement

1. The Government increases substantially the number of expenditure items and therefore the share of expenditure covered by centralised tender procedures through EPY. **(Continuous)**
2. 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)**
3. 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) including the full and integrated system of hospitals' IT systems. **(Continuous)**

2.10 Upgrading the education system

1. The Government implements the Action Plan for the improvement of the effectiveness and efficiency of the education system and regularly reports on the progress of its implementation including on the results of the external evaluation of high education institutions (**December 2012**).
2. On higher education: the provisions of the laws 4009/2011 and 4076/2012 are fully and promptly implemented including:
 - i. the activation of the Quality Assurance Authority (**December 2012**);
 - ii. the constitution of the Council of Higher Education Institutions is completed (**March 2013**), with the respective organisation charters and internal regulations completed (**September 2013**);
 - iii. the election of the new Rectors (**December 2012**);
 - iv. the procedure on the consolidation/merging of departments of universities and technological institutes (ATHINA Project) starts to be implemented (**March 2013**).
3. On primary and secondary education, progress on the implementation of the school and teacher evaluation policy including the schools' self-assessment project is reported on a quarterly basis (as of **Q1 2013**). In addition, more flexibility is introduced by **end-December 2012** in the adjustment of tuition fees by private schools, as per Opinion 20/VI/2012 of the Hellenic Competition Commission.

3 Stabilising the financial system

3.1 Recapitalisation of the banking sector

The Bank of Greece (BoG) completed a strategic assessment of the banking sector in March 2012, assisted by an international consultancy firm. The study assessed the viability of the banks based on quantitative and qualitative criteria. This study identified four core banks accounting for approximately 75 percent of banking sector assets.

The authorities have reviewed their estimate of resources needed to fully recapitalize the Greek banking system. Based on the strategy laid out below, they estimate that the funds required will still amount to €50 billion, which is fully accounted for in updated estimates of program financing.

3.1.1 Identification of capital needs

- a. **Prior to the disbursement**, the BoG has informed all banks, of their individual capital needs and has requested that they finalize the capital raising process by end-April 2013. The capital needs account for the impact of the valuation losses on new Greek government bonds, and results of a stress test exercise with a 3-year horizon (which took into account BlackRock credit loss projections and banks' future pre-provisioning results).
1. **By Q4-2012**, the Government and the Bank of Greece will align capital metrics to the minimum core tier I capital ratio of 9 percent of risk-weighted assets set out in the European Banking Authority (EBA) recommendation on capital buffers. Banks will also have to meet the requirements set by the BoG under Pillar II (to maintain a 7 percent core tier 1 capital ratio under a 3 year adverse stress scenario).
2. The BoG will publish a detailed report on the individual banks' capital needs, recapitalization process and the methodology followed **by Q4-2012**.

3.1.2 Recapitalization process

Current or new shareholders will have control of the core banks, provided they are deemed fit and proper as already envisaged in the regulatory framework, and have subscribed no less than 10 percent of the capital to be raised by way of common shares. While existing shareholders will be diluted during the recapitalization process, they or new investors will be allowed to participate in the rights issuance and should the above 10 percent threshold of private sector participation be reached, will receive warrants to acquire the remaining shares from the HFSF within five years.

Subsidiaries have been recapitalized by their parent banks. Agreements have been reached on the acquisition of Emporiki and Geniki by Alpha Bank and Piraeus Bank, respectively, with a view to achieve further consolidation of the banking system while protecting the public sector from potential losses. It is expected that the authorities will approve these acquisitions subsequent to the completion of the due diligence process. These acquisitions will not require injection of additional public funds.

- a. **Prior to disbursement**, the legal framework for recapitalisation is put into place.
1. The recapitalization process of *core banks* will involve three broad steps:
 - i. First, the Hellenic Financial Stability Fund (HFSF) will provide sufficient funds in the form of bridge capital to bring the core banks up to the minimum level of 9 percent CT1

under Pillar 1 by **end-December 2012**. The HFSF will also issue a commitment letter to subscribe to 100 percent of the remaining capital needs.

- ii. In the second step, by **end-January 2013**, the HFSF will subscribe to 100 percent of any convertible instruments that the banks will decide to issue.
 - iii. In the third stage, by **end-April 2013**, the core banks will complete the rights issue and any shares not subscribed by the private sector will be acquired by the HFSF subscription to the common equity.
2. The recapitalization strategy for remaining undercapitalized *non-core banks* has also been finalized. The strategic assessment of the authorities shows that these institutions are less suitable candidates for public money. These banks must be fully capitalized by **end-April 2013**. They may also merge with other banks if they can demonstrate a credible business plan, meet recapitalization needs by **end-April 2013** and address all viability challenges.
 3. The authorities are developing a strategy to address the on-going challenges for the *cooperative banks*. By **end-February 2013** the BoG will complete its assessment of this sector and issue a final report. Based on this report, by **end-May 2013**, the authorities will set out a comprehensive strategy to implement its recommendations.

3.2 Framework for restructuring and strengthening of the banking system

The government of Greece has established a framework to ensure continued restructuring and strengthening of the banking system after the recapitalization process is complete. Banks that receive state-aid will need to provide clear and realistic business plans for their restructuring:

1. *Operational restructuring*. Following the recapitalization of the core and non-core banks, all institutions should update their restructuring plans and submit them for validation by the EC. These should be finalized by **Q2-2013**. However, banks that acquire other institutions through P&A transactions sponsored by the HFSF will have to submit such revised plans by **end-July 2013**. The restructuring plans should take into consideration the updated macroeconomic framework set out in the most recent program review. The HFSF will continuously monitor banks' adherence to their restructuring plans and report to the EC/ECB on progress on a semi-annual basis.
2. *NPL resolution*. The HFSF will request that banks assess whether their established frameworks and policies to deal with troubled assets are effective by **June 2013**. International work-out specialists should be invited to assist in the process.
3. *Funding*. As part of the new restructuring plans, banks will set out their intentions to broaden their funding base and reduce over time their reliance on emergency liquidity provided by the central bank. The BoG, following the procedures and rules of the Eurosystem, will stand ready to continue disbursing adequate and appropriate emergency liquidity support in a timely manner if needed. **(Continuous)**
4. The authorities will take no fiscal policy actions to increase the burden for the programme, and in particular will adjust the structure of outstanding government-owned bank capital instruments (preferred shares) to ensure that they can continue to be counted as bank capital. A one-time €50 million fee, to be received from banks in 2012 in return for the provision of bridge capital, will be earmarked to the HFSF and placed in the HFSF intermediate account. **(Continuous)**

3.3 Resolution of undercapitalized banks

1. The authorities will *complete the resolution* of undercapitalized banks **by mid-June 2013** and establish a framework to manage the assets of banks under liquidation:
 - i. *State-owned banks.* ATE bank was resolved in July through a promptly conducted Purchase and Assumption (P&A) transaction with Piraeus Bank. The final resolution cost will be defined by an external audit of the transferred assets and liabilities. Additionally, Piraeus Bank has presented to the EC a restructuring plan to demonstrate that the new integrated firm will enhance its viability and its cost-efficiency. Regarding Hellenic Postal Bank, the authorities have initiated its orderly resolution with the aim to do so via a P&A transaction to be completed no later than **end-January 2013**. Finally, the authorities will complete Nea Proton's restructuring by May 2013 under the sponsorship of the HFSF.
 - ii. *Other undercapitalized non-core banks.* If the shareholders or new investors are unable to support these institutions as required above by **end-April 2013** the authorities plan to complete the resolution of these institutions by **end-June** via P&A transactions with well capitalized banks, or, as a second best, the establishment of a bridge bank. To prevent market distortions and unsound banking activities, the BoG has placed all undercapitalized non-core banks under enhanced supervision.
4. Greek authorities will ensure that the assets of banks under liquidation are *managed* on the basis of best international practices. This includes the bad assets of banks that are resolved as part of the restructuring process. To this end, **by end-February 2013** the BoG will publish an assessment report prepared by an international expert regarding policies and procedures required to ensure effective bank asset management and recovery. The report will identify the areas that could require further strengthening to maximize loan collection and help reduce bank resolution costs.

3.4 Safeguards to ensure stability and viability of the financial system

The authorities are committed to ensure that the financial system operates with maximum safeguards to ensure stability and continued viability.

Prior to disbursement:

- a. The HFSF will complete the due diligence of core banks and any findings of interest to the supervisor will be communicated to the BoG. The due diligence will, inter alia, focus on a review of governance including loans to related parties, asset quality, and risk concentration. The BoG will address these findings promptly, including suspension of private shareholders (which would prevent them from participating in bank recapitalization framework) and/or removal of board members and managers.
- b. The authorities agree with the EC/ECB/IMF the terms of reference for the monitoring trustee and have communicated them to the banks with instructions for the trustees to begin work no later than mid-January 2013.
- c. The authorities will amend the HFSF by-laws to clearly stipulate that the HFSF Board, including the EC and ECB observers at the HFSF, must be informed of all decisions of the core banks having an impact on the HFSF's rights as a shareholder/investor. This information, as soon as received by and through the senior executive of the HFSF, is to be provided within one day of receipt.

1. **By Q1-2013** banks will submit to the BoG plans to address identified *operational governance weaknesses* with clear timetables for full implementation **by Q4-2013**.
2. *Monitoring trustees* will be appointed in all banks under restructuring to submit quarterly reports on governance and operations, as well as ad-hoc reports as needed. The monitoring trustees:
 - i. Will work mainly under the direction of the EC, within the terms of reference agreed with the EC/ECB/IMF and will liaise closely with the EC/ECB observers at the HFSF and share their report with the HFSF. In line with the EU state aid rules the trustees will be responsible for overseeing the implementation of restructuring plans, including verifying proper governance and the use of commercial basis criteria in key policy decisions.
 - ii. Will follow closely the banks' operations and shall have permanent access to Board meetings' minutes, and be observers at the executive committees, and other critical committees including risk management and internal audit functions.
 - iii. Shall be a respected international auditing or consulting firm (that will include the participation of overseas based partners and managers) which needs to be endorsed by the EC on the basis of its competence, its independence from the banks and the absence of any potential conflict of interest.
3. The authorities will ensure adequate *reporting of HFSF operations*, and enhance the role of EC and ECB observers' access to information at the HFSF. Starting **by end-January 2013**, the HFSF will initiate semi-annual public reporting on its main activities.
4. The authorities will ensure *arms-length governance* of core banks' business activities. **By Q1-2013**, the HFSF will publish relationship frameworks with each bank on the basis of best international practices, with a view to define the responsibilities of bank managers and board members and the role of HFSF as a shareholder, to ensure the core banks are run on a commercial basis. A draft for discussion based on international best practices will be developed with the EC, ECB, and IMF staff **by end-January 2013**.

3.5 Adaptation of banking supervision

The BoG and the Government have maintained the stability and adequate supervision of the financial sector. With a view of adapting the supervision of the Greek banking sector to the changed banking environment the BoG are taking further important steps.

1. *Updating the supervisory model*. The BoG will complete a review of its supervisory approach in light of the new challenges ahead, **by Q2-2013**, with technical support provided by a banking supervision expert. Key enhancements will include: (i) the refocusing of off-site analytical capacity to assess the business models of the core banks and be able to monitor and critically analyse the implementation of their business plans and the direction that banks may be taking; (ii) updating onsite supervisory procedures and prudential regulation in light of the findings of the ongoing reviews; and (iii) an action plan to monitor credit risk concentration, in line with best practices, such as enhancing the monitoring of large business groups (including those related to bank owners) **by end-July 2013**.
2. *Standardizing asset quality disclosure*. To enhance information available on banks' asset quality, provisioning and income recognition, the BoG and the Hellenic Capital Markets Commission (HCMC) will issue guidelines in accordance with their respective competences, in order to align banks' disclosure practices to international best practices. This is particularly relevant regarding the accounting for provisioning and the reporting of

restructured loans. **By end-August 2013** with the assistance of a leading consulting firm, such practices will be benchmarked against those followed by top European institutions and will be reflected in the banks' end-2013 financial statements.

3. *Undertaking a Basel Core Principles (BCP) assessment.* The authorities will request the IMF to undertake a stand-alone assessment by **Q4-2014**. The BoG will prepare in advance by **end-June 2014** a self-assessment of compliance with the BCP with the support of independent experts **by Q2-2014**.
4. *Clarifying competences and responsibilities.* The authorities will develop and publish a memorandum of understanding governing the relationship of the HFSF as a shareholder and the BoG's role regarding the oversight of banks that have received state aid.

3.6 Review of insolvency frameworks

The authorities will strengthen the insolvency framework.

1. In consultation with the EC/ECB/IMF staff, the authorities will, **by Q4-2012**, on the basis of best international practices, review the insolvency framework of households and SMEs as well as the framework for out of court negotiations between banks and troubled borrowers, and prepare an assessment identifying areas for improvement. The aim will be to achieve predictable, equitable and transparent allocation of risks among all interested parties and maximizing value for the economy in general.
2. **By end-February 2013**, the authorities will revise, with technical support of international experts, the existing framework to facilitate workouts with over-indebted household borrowers that preserves bank solvency and credit discipline, avoids the use of fiscal resources to protect private borrowers and minimizes moral hazard by targeting borrowers that are in real need. The authorities will refrain from supporting initiatives that may undermine the payment culture in Greece.

3.7 Follow up stress testing

1. To ensure that the system remains sufficiently well-capitalized, the BoG will conduct a new stress test exercise, based on end-June 2013 data, using a methodology determined in consultation with the EC/ECB/IMF, **by Q4-2013**.

4 Strengthening labour market institutions and promoting employment

The Government will build upon the recent labour market reforms, by promoting an efficient wage-setting system, reducing non-wage labour costs and creating more options for the adaptability of working hours. These reforms should support the on-going adjustment of the labour market, with the aim of reducing nominal unit labour costs in the economy by 15 per cent over the period 2012-14, and thus help restore cost-competitiveness and boost employment in the medium to long term.

The Government will fight undeclared work and informality, also by streamlining administrative burdens and increasing the transparency and enforceability of the labour law, and enhance policies in order to help the unemployed returning to paid jobs, while developing adequate and affordable social safety nets. In addition, within the context of the product and service market reforms in order to help the latter to succeed, labour legislation treating preferentially some sectors or professions will be brought in line with general standards applicable to the rest of the economy as presented in Section 6.

Reforms in labour legislation will be implemented in consultation of social partners as a rule, and in respect of EU Directives and Core Labour Standards.

4.1 *Reforms in the wage-setting system*

The wage setting framework at national level will be reformed in consultation with social partners to help ensure that wage dynamics support employment while setting a floor for labour income.

The reform shall aim at establishing a statutory minimum wage system as the nation-wide legally binding minimum floor for wage setting. Negotiations for labour agreements and contracts of any type and level shall take into consideration the binding floor of the statutory minimum wage rate. As of the enactment of this reform, the National General Collective Labour Agreement binds only the signatory parties, regarding wages, allowances and any other direct remuneration clauses. The minimum wage rate shall be legislated by the Government after consultation with social partners, other stakeholders and independent experts, taking into account the economic and labour market situation and prospects. The reform will also define how the economic and labour market situation and prospects will be factored into that process in order to ensure that the objectives of supporting employment and safeguarding labour income are achieved.

Prior to the disbursement,

- a. The Government adopts the framework provisions for the reform of the minimum wage framework as described above, with the view of having the necessary changes finalised by Q1-2013 at the latest.
 1. With this reform, the base wage and the maturity allowances currently linked to the National General Collective Labour Agreement will start by being set in a statutory way without exceeding their current level over the Programme period, with no other statutory minimum allowances. The statutory minimum wage system is expected to come **by Q1-2013**.
 2. **By Q1-2014**, the Government will review the minimum wage system, with a view to possibly improve its simplicity and effectiveness to promote employment and fight unemployment and help the competitiveness of the economy.

4.2 *Adaptability of working hours arrangements*

Work schedules shall be made more flexible in order to allow working hours to better adjust to demand and production patterns that may vary over time as well as over sectors and firms, and thereby help employment and competitiveness.

Prior to the disbursement,

- a. The Government makes it possible - and in full respect of the current limits on the duration of the working week (including the 40-hours working week as a reference) and of minimum rests due to health reasons for specific categories of workers - to: (i) on a contractual basis, apply the general rules on the number of maximum workdays to sectors not now covered by the general rules; (ii) set the minimum daily rest at 11 hours; (iii) allow in seasonal sectors the consecutive minimum two week leave requirement to be taken anytime during the year.

4.3 *Reducing non-wage labour costs*

Prior to disbursement,

- a. the Government reduces the maximum dismissal notification period to 4 months and caps statutory severance pay at 12 months (while preserving the existing link between tenure and severance for tenures with severance below the cap). If the cap has already been surpassed on the date of the reform, the amount accrued will be grandfathered in case of future dismissal any time thereafter, subject to a cap of EUR 2000 per month for the number of months exceeding 12. Occupations for which statutory severance costs are in excess of the rule just described, the compensation for severance will be aligned with the latter.

With a view to foster employment creation, the Government:

1. adopts legislation **by November 2013** reforming the system of social contributions, by broadening the base for contribution; simplifying the schedule across the various funds; shifting funds away from nuisance taxes and onto contributions; and reducing average contributions rates by 3.9 percentage points, which will be phased in over 2014, 2015 and 2016. The reform will be revenue neutral and preserve the actuarial balance of the various funds.
2. As intermediate steps, actuarial studies of possible changes in the system of social contributions will be carried out and action plans proposed **by September 2013**.
3. Carries out actuarial studies 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 and presents options for the reduction of social contribution rates **by Q2-2013**.
4. Based on these studies of first-pillar pension schemes, and together with the reform of the system of social contributions, reduces social contribution for these companies and adjusts benefits in a fiscally-neutral manner **by Q4-2013**.

4.4 *Lowering compliance costs, fighting undeclared work and informality*

The Government streamlines reporting requirements on firms internal work arrangements in order to reduce the administrative burden — thereby lowering the costs of compliance and helping formality in labour arrangements, and reforms the Labour Inspectorate.

Prior to disbursement, the Government:

- a. eliminates the obligations: i) to ex-ante submit work schedules to the Labour Inspectorate; ii) to require pre-approval by the Labour Inspectorate of: overtime work, itinerary books of trucks and buses, the work book of daily employment of construction workers, and split of annual leave. These changes shall not apply in the cases of underage employees and workers. Employers will be obliged to record this information and make it available to the Labour Inspectorate for checks whenever requested.
- b. undertakes an independent external assessment of the Labour Inspectorate, to be completed by **Q4-2012**, on: (a) the mandate, activities and structure of the Labour Inspectorate with a view to increase its effectiveness and efficiency in fighting undeclared work while keeping administrative burdens for firms contained; and (b) the enforcement and penalty structure for infringements of labour arrangements (including undeclared work).

To implement the reform of the Labour Inspectorate:

1. The Government, based also on the external assessment of the Labour Inspectorate, shall present and start implementing a detailed action plan **by February 2013**, aimed at strengthening the fight against undeclared work and raising the effectiveness of the Labour Inspectorate. The plan should focus on: strengthening the mandate and effectiveness and efficiency of the Labour Inspectorate; amending monetary and legal penalties for infringement of law and regulations; streamlining the reporting by employers and employees; and reinforcing anti-fraud and anti-corruption mechanisms.

4.5 More transparent and enforceable labour law

1. The Government adopts **by Q4-2013** a single Labour Code compiling all existing legislation relevant for labour and industrial relations. This should ease interpretation, reduce compliance costs and increase enforceability of labour law. By **Q1-2013** the Government shall prepare a report on the structure of the Labour Code.

4.6 Support to the unemployed

1. The Government has already taken measures and will further seek to prevent unemployment becoming permanent and to mitigate the hardship of unemployment, by focusing on: facilitating the transition of workers across occupations and sectors; improving the quality of training policies; promoting the employability of the disadvantaged groups; targeting segments of the population with the strongest need of income support. To this end, and in order provide continuing support to the Active Labour Market Policies, an Action Plan should be adopted **by Q1-2013** focusing on:
 - i. Supporting job matching and activation of the unemployed by reforming and broadening the role of the Public Employment Service and by introducing short-term public work programmes where feasible and appropriate;
 - ii. Enhancing the effectiveness and adequacy of measures for re-skilling the unemployed, including by promoting the training of the unemployed by firms;
 - iii. Facilitating the combination of reduced working time schedules with training in case of temporary reductions in activity;
 - iv. Enhancing unemployment benefits to help mitigate the short-term impact of unemployment and supporting the long-term unemployed and specific categories of workers without entitlement to unemployment insurance.

The action plan should provide a description of the programmes currently in force and plans for their rationalisation as well as an indication on sources of financing.

5 Creating favourable conditions for economic activity

The program places strong emphasis on implementing structural reforms that aim at improving the business and overall economic environment and contribute in enhancing competition and competitiveness. These include horizontal measures to reduce time and costs to i) create a company, ii) to get establishment and operating licenses for manufacturing activities, iii) to get permits for environmental projects and activities, iv) to export and import, combined with measures to improve the functioning of the judicial system.

5.1 Promoting an efficient and competitive business environment

5.1.1 Rationalising / eliminating quasi-fiscal charges

1. The Government further refines by **November-2012** the list of non-reciprocating charges in favour of third parties presented to the Commission services in November 2011 by i) identifying beneficiaries; ii) specifying the legal base of each contribution and iii) quantifying contributions paid by consumers in favour of those beneficiaries.
2. **Within the preparation of the 2013** budget, the Government ceases to earmark and directs:
 - i. 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.
 - ii. the non-reciprocating charge calculated on the fuel price in favour of Mutual Distribution Fund of the Oil-Pump Operators of Liquid Fuel.
3. The Government eliminates the vast majority of the quasi fiscal charges in a budget neutral way in the 2014 budget. (**October 2013**)

5.1.2 Reducing procedural and other administrative burden

1. To further **simplify time for and reduce the cost of company creation**,:

Prior to the disbursement, the Government,

- a. removes the mandatory presence of a lawyer to draft the articles of association of companies with capital in excess of €100,000 (cfr. Art. 42.1 of law 3026/1954).

The Government, among others:

- i. Eliminates the prior check carried out by the One Stop Shop (OSS) on outstanding social security and health payments by founders, members, and directors of the new company, so that it does not cause a potential blockage to company formation. Instead, and after company formation, the OSS would notify IKA and / or OAEE of the company number and founders information, so that IKA and / or OAEE can take any further actions that they deem necessary. (**December 2012**)
- ii. Eliminates the ex-ante requirement for company seal and perforation of documents (books) as per the Code of Books and Records. (**November 2012**)
- iii. Enables the Ministry of Development to issue a Ministerial Decision providing for draft model company statutes without the prior proposal of the chambers of notaries and lawyers (cfr., Art. 12.2 of Law 3853/2010) (**December 2012**) and publishes the model company statutes in **January 2013**.

- iv. Reduces the minimum capital requirements of new companies to levels comparable with "best practice" Member States and within the limits of the second Company Law Directive. **(December 2012)**
 - v. Pass legislation making voluntary the registration of companies with the chambers of commerce as of January 2015. **(December 2012)**
 - vi. Takes additional measures by **June 2013** at the latest, to reduce by 50% the cost of starting a business, as measured by the World Bank's *Starting a Business* sub-indicator. The results will be monitored in the World Bank's 2014 edition of Doing Business. **(November 2013)**
2. To implement law 3982/2011 on the **fast track licensing procedure** for technical professions, manufacturing activities and business parks and other provisions, the Government issues the Presidential Decrees provided for in:
- i. Art. 4.4 of the same law, regarding preconditions for obtaining a licence for industry technicians, plumbers, liquid and gaseous fuel technicians, cooling technicians and machine operators in constructions. **(December 2012)**
 - ii. Art. 4.4, on preconditions for obtaining a licence for electricians, to reduce the number of specialisms, increase the mobility of electricians within the same level category and provide for the institution of private certification bodies. **(February 2013)**
 - iii. Art. 27.4, on Certified Inspectors. **(February 2013)**
 - iv. Art. 24.5, laying down the requirements for Citizens Service Centres' (KEP) for integrated electronic application among licensing bodies and for modalities of processing demands through it. **(March 2013)**
 - v. Art. 27.4, defining the fees paid for establishment and operating licenses. **(December 2012)**
 - vi. Art. 35.2, providing for the certification of the licensing service of the Chamber of Engineers. **(December 2012)**
3. To implement Law 4014/2011 on **environmental licensing of projects and activities**, the Government issues the Ministerial Decisions provided for in:
- i. Art. 2.13, to further specify the procedure and specific criteria for environmental licensing. **(December 2012)**
 - ii. Art. 8.3, on environmental licensing of projects and activities (other than industrial activities), laying down the standard environmental commitments of projects and activities in category B. **(January 2013)**
4. To simplify **export and import procedures**, the Government:
- a. **Prior to disbursement**, amends the regulatory framework of custom brokers to, among others i) eliminate the limitation of customs brokers' services to natural persons and to legal partnerships; ii) allow legal persons to represent others at customs, authorise companies (natural and legal persons) to complete customs formalities (for themselves or for other companies) without employing the services of a customs broker; iii) lift geographical restrictions, nationality requirements, the age limit to sit the examinations for customs brokers; iv) increase the frequency of examinations; v) review the system of annual renewal of licenses and to vi) repeal minimum fees.

In the short term, the Government:

- i. Publishes a National Trade Facilitation Strategy **(October 2012)** with time bound quantitative performance indicators to streamline pre-customs and customs procedures according to best practices and EU regulations. The overall goal of the strategy is (i) to establish an electronic single window for exports

- providing for a single entry point for exporters for all products and destinations and (ii) to achieve 50% reduction in the time needed to export by Q4 2015.
- ii. Launches in **November 2012** a review of the customs office as a pilot to optimise operations, reduce the number of physical and documentary controls, reassess the organization of labour, sequencing of procedures and work shifts and to enable 24/7 trade. The review is completed in **March 2013** and is applied to Athens airport and Piraeus Port by (**March 2013**) and all other customs offices by December 2013.
 - iii. Reviews the risk assessment system for exports, with recommendations for improvement in order to align it with best practices in EU Member States. (**December 2012**) The level of controls converges to the average level of controls in the EU by **September 2013**.
 - iv. Reviews and streamlines pre-customs and customs procedures for selected pilot products (fresh vegetables fruits, white cheese) according to EU regulations and best practices and presents an approach for extending the simplification process to a wider set of frequently exported / imported products. (**December 2012**)
 - v. Ensures that the e-customs system supports the electronic submission of all import and export declarations, including the possibility of submitting documents and making payments electronically. (**June 2013**)
 - vi. Implements automatic clearance for low risk declarations, based on EU best practices. (**December 2013**)
 - vii. Ensures that the trade facilitation strategy is supervised and coordinated by an inter-ministerial steering committee, to be appointed by **December 2012**.
5. To identify and eliminate unnecessary **reporting requirements** for businesses:
- i. The Government, assisted by the OECD, starts applying the Standard Cost Model (SCM) to identify administrative burdens for businesses in 13 key sectors, with a view to reducing administrative burdens by at least 20 percent (compared with the baseline year 2008). (**December 2012**)
 - ii. The sectors are the following: Agriculture and agricultural subsidies, Annual accounts/company law, Energy, Environment, Fisheries, Food safety, Pharmaceutical legislation, Public procurement, Statistics, Tax law (VAT), Telecommunications, Tourism, Working environment/employment relations.
 - iii. Following the identification of administrative burdens (by **June 2013**), the Government completes the amendments to sector specific legislation by **September 2013**.
7. To facilitate **spatial planning** including through an effective **land registry**, the Government:
- i. adopts legislation to (i) simplify and reduce the time needed for town planning processes (**January 2013**); (ii) update (**March 2013**) and codify legislation on forests, forest lands and parks (**September 2014**). It also licenses at least two disposal sites for hazardous waste (**June 2013**).
 - ii. completes the revision of the 12 regional spatial plans to make them compatible with the sectoral plans on industry, tourism, aquaculture and renewable energy. The first phase of this revision is completed (**December 2012**), followed by a second phase for modifications (**May 2013**), a third phase for the formulation of proposals (**September 2013**) and a fourth phase for the legislation of the final proposal (**December 2013**).
 - iii. accelerates the completion of the land registry, with a view to:

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

5.1.3 Enhancing competition

1. With the help of the Hellenic Competition Commission, the Government will screen the restrictions in the air transport services (including airport services) and maritime transport (including seaport services) and will prepare by **end-January 2013** a set of measures to promote competition in those sectors and facilitate price flexibility.
2. The Government, assisted by the OECD, starts applying the Competition Assessment Toolkit in sectors such as food processing, retail trade, building materials and tourism to identify unnecessary restraints on market activities and develop alternative, less restrictive measures that still achieve government policy objectives. (**December 2012**)
3. Immediately upon completion of the analysis (**June 2013**), the Government will prepare the legislative amendments to remove disproportionate regulatory restrictions identified by the Competition Assessment Toolkit, with a view to having them adopted by **September 2013**.

5.2 *Reforming the judicial system to support economic activity*

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:

- ensures effective and timely enforcement of contracts, competition rules and judicial decisions;
- increases efficiency by adopting organisational changes to courts;
- speeds up the administration of justice by eliminating backlog of court cases and by facilitating out-of-court settlement mechanisms.

In designing and implementing the measures below, the Government consults the EC/IMF/ECB.

5.2.1 Review of the code of civil procedure

1. The Government commits to review the Code of Civil Procedure in accordance with the roadmap defined in section 9.3 of this Memorandum, which defines intermediate steps towards its completion by **March 2014**.

5.2.2 Judicial statistics

1. In order to facilitate the implementation of a performance and accountability framework for courts, the Government will compile and publish on its website the information indicated in Section 9.4 of this Memorandum. (**Quarterly**)
2. It also establishes an interservice group between the Ministry of Justice, Transparency and Human Rights, the Ministry of Finance and the Hellenic Statistical Authority to cooperate in the compilation and publication of the data in Section 9.4 of this Memorandum and the

establishment and updating of a database with case data for each court. This cooperation takes into consideration current and future e-justice applications. (**November 2012**)

5.2.3 Tax case backlog reduction

1. Following 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 and its first update in July 2012, which provides for the intermediate target for reducing the backlog by at least 80 per cent by end-December 2012 and for the *full clearance* of the backlog by end-July 2013, the Government, by **end-October 2012** and thereafter once a quarter:
 - i. presents updated and further refined work plans (ensuring that priority is placed on high value tax cases – i.e., exceeding €1 million);
 - ii. takes remedial action in case of anticipated or actual deviations, and
 - iii. publishes reports on progress in backlog reduction.

5.2.4 Non-tax case backlog reduction

1. The Government presents to the EC/IMF/ECB and publishes the study of the backlog of non-tax cases in courts conducted jointly with an external body of experts. (**December 2012**)
2. By **end-January 2013**, the Government presents to EC/IMF/ECB, based on the above-mentioned study, an action plan with specific measures for a reduction of such backlog of at least 50 per cent by **end-July 2013**.

5.2.5 Reorganization of the magistrates' court

1. 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 making the most effective use of the existing resources available within the system. (**October 2012**) The Presidential Decree on the reform of the magistrates' courts is implemented by **March 2013**.

5.2.6 Development of e-justice applications in courts

1. By **end-December 2012**, the Government updates, further refines and operationalises every quarter the e-justice work plan of December 2011 and its first update of July 2012 for the use of e-registration and e-tracking of the status of individual cases in all courts covered by the action plan and for e-filing.
2. The updates will contain an evaluation to be completed by **end-March 2013** of the e-filing pilot project at the Athens Court of First Instance, an evaluation to be completed by **end-March 2014** of the level of integration of IT systems achieved at that time in all courts of the country, and a timetable with proposed deadlines aiming at the extension of e-registration and e-tracking to all courts by **end-2015**. The Government ensures consistency of the e-Justice action plan with the e-government strategy.

5.2.7 Promotion of pre-trial conciliation and mediation

1. By **end-October 2012**, the Government develops its 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.

In order to implement this strategy, the Government, *inter alia*, applies to obtain funding under the Operational Programme 'Administrative Reform' by **end-November 2012**.

2. By **end-September 2013**, 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 intended to achieve, 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.
3. By **end-December 2013**, the Government presents a legislative proposal for the effective opening of the mediator's profession to non-lawyers.

5.2.8 Other measures on judicial reform

1. **Assessment of the Law on fair trial and conciliation (4055/2012):** The Government conducts an assessment whether the enactment of Law 4055/12 has delivered the results which the legislation intended to achieve, in particular as regards civil courts, improved case processing in multi-member first instance courts, the speeding-up of the issue of provisional measures, the strengthening of the institution of 'voluntary jurisdiction' in certain matters at the level of the magistrates' courts and efficiency gains in enforcement proceedings, and as regards administrative courts, the strengthening and general application of pilot proceedings in the Council of State and the speeding-up of the issue of provisional measures. **(December 2012)**
2. **Administrative review of cases:** The Government prepares, in accordance with Law 4048/2012 on better regulation, draft legislation providing for, where appropriate, a compulsory administrative review before an independent committee before a case may be brought before the administrative courts and submits it to the Greek Parliament. **(June 2013)**
4. **Study on the costs of civil litigation:** the Government completes a study on the costs of civil litigation, its recent increase and its effects on workload of civil courts, together with recommendations. **(June 2013)**

6 Efficient Network Industries and Services

6.1 Energy policy

Designing an appropriate energy policy, given the country's needs and potential, is fundamental for economic growth. For this reason the Government must follow a holistic approach which maximises the benefits for market participants, protects consumers and vulnerable parts of the society and the rights of tax payers. The reforms below aim at bolstering competitiveness and efficiency in the electricity and gas market, to avert a repetition of the 2012 liquidity crisis and to position the energy sector as a potential contributor for prosperity.

6.1.1 Unbundling effectively network activities from supply activities

1. Legislation is passed providing for the details of the ITO-option for the gas TSO. (**end-November 2012**)
2. DESFA applies for certification to RAE. (**December 2012**)
3. The unbundled gas TSO is certified by the Greek energy regulator. (**March 2013 or prior to the clearance of the privatisation of DEPA, whichever date comes earlier**)

6.1.2 Provisions regarding the privatisation of PPC and DESFA:

1. The Government submits a plan for the restructuring of PPC with a view to preparing the company for privatisation and to allowing PPC to be competitive with other firms in a liberalised electricity market. The plan shall specify which parts of PPC should be privatised and within which timeframe. The plan shall also include provisions for the divestment of lignite-fired and hydro electricity generation capacity currently managed by PPC and evaluate the possibility of ownership unbundling of ADMIE. (**November 2012**)
2. The Government undertakes that whichever the outcome of the privatisation process the gas industry and electricity industry structure will be fully compliant with Directive 2009/73/EC and 2009/72/EC. (**Continuous**)

6.1.3 Ensuring that electricity prices reflect costs

1. The Government takes measures for the gradual phasing out of regulated electricity prices for all but vulnerable customers by **June 2013**. In this respect:
 - i. it issues a Ministerial Decision to adjust end-user prices for low voltage customers, effective as of January 2013. (**December 2012**)
 - ii. as necessary, it issues a Ministerial Decision by **end-March 2013**, effective as of May 2013, to further set low voltage end user prices at cost recovery.
 - iii. it removes regulated tariffs for all but vulnerable consumers. (**June 2013**)
2. In addition, the Government assesses best practices with a view to charging royalties for the use of hydro and lignite. (**March 2013**)
3. To evaluate the incumbent electricity company's operating costs the Government submits to the EC/IMF/ECB and publishes a study by a specialist of European standing to compare PPC worker's remuneration with best-practice European electricity companies, by

comparable job assignments and productivity per employee. Remuneration and promotion schemes also to be assessed against practices in private Greek companies. **(December 2012)**

6.1.4 Implementing smart metering systems

1. The Government issues a Ministerial Decision, based on the advice of RAE, on the large-scale replacement of existing systems with smart metering systems and explores assistance from EU structural funds and/or the EIB to conduct this strategic investment. **(end-December 2012)**

6.1.5 Providing for a financially sustainable development of renewable energy sources

Within a short term perspective, the Government:

1. Ensures that from **January 2013** onwards, LAGIE publishes monthly data on the evolution of the RES account with projections throughout 2013. **(Monthly)**
2. Takes measures to reduce the accumulation of licences issued for renewable energy installations, but not implemented. **(December 2012)**
3. Adjusts the RES levy every six months (**January** and **July 2013**) to eliminate the projected RES account debt by **end-December 2013**.

To achieve a long-lasting reform of renewable support schemes, the Government:

4. Submits to the Commission services a **detailed plan for the reform** of the renewable energy support schemes such that they are more compatible with market developments and are subject to budgetary discipline. **(December 2012)** The reform should look into:
 - i. options applicable to the support scheme, including market elements such as forward looking tariff digression and feed-in-premia, combined with a ceiling on the number of licenses, volume of capacity supported or overall subsidies to be provided per technology/tariff category.
 - ii. current and expected trends in costs for all relevant technologies.
 - iii. a sustainable and transparent framework for the regular adjustment of the RES levy.
5. Caps temporarily new connections of rooftop PV systems. **(March 2013)**
6. Adopts the reform of the renewable energy support schemes as specified in paragraph 4. **(June 2013)**

6.1.6 Planning the development of the electricity market in the medium to long term

1. A detailed plan and roadmap to change the market model is presented to the Commission services, including measures to have effective competition in generation and supply, the development of a power exchange, introducing an intra-day market and implementing market coupling with neighbouring markets. **(end-December 2012)**
2. The study also presents a time bound roadmap and estimation of costs of connecting Crete to mainland Greece. **(end-December 2012)**

6.1.7 Fuel distribution

1. To facilitate the **import and trade of oil and oil products**, in the transposition of Directive 2009/119, the Government creates the framework for setting up of a Central Stockholding Entity (CSE), within the meaning of the Directive. In addition, the transposition law will grant economic operators, on which it imposes stockholding obligations, the right of delegation of such obligations with:
 - i. the CSE in Greece (should there be one) or to other economic operators within Greece which have surplus stocks or available stockholding capacity, without quantitative restrictions, and /or
 - ii. the CSEs of other EU Member States up to a percentage of the stockholdings obligations imposed on them, upon the entry into force of the transposition law, and /or
 - iii. economic operators abroad which have surplus stocks or available stockholding capacity up to a percentage of the stockholdings obligations imposed on them, upon the entry into force of the transposition law.

The percentage of cases (ii) and (iii) is at least 30%. **(December 2012)**

2. To eliminate **restrictions on public and private use trucks** for fuel distribution:

Prior to the disbursement, the Government takes measures to:

- a. allow independent gas stations to own or rent tanker trucks of any capacity provided that safety standards for the transportation of fuel are respected.
- b. allow independent gas stations to hire public-used tanker trucks for fuel transportation without needing to qualify for their own private used tankers.
- c. allow any tanker truck, regardless of its capacity, to enter the refineries and customs installations to transport fuel under their own brand name/trademark, provided that safety standards for the transportation of the fuel are respected.

3. To improve **monitoring systems**, prevent **illegal trade and tax evasion** in fuel distribution:

Prior to the disbursement, the Government:

- a. issues technical specifications and next steps for the implementation of the input-output measurement system in all fuel stations;
- b. issues a Ministerial Decision providing for the installation of GPS systems, as provided for in Art. 320 of law 4072/2012.

6.2 *Electronic communications*

The switchover from analogue to digital TV technology will release a significant amount of high quality radio spectrum which will be free for the deployment of new services and new technologies. This 'digital dividend' can boost both the broadcasting sector and the wireless communication industry, make a major impact on competitiveness and growth, and provide a wide range of social benefits. The items below provide a roadmap for the release of the digital dividend in Greece.

1. Regarding the **release of Digital Dividend**, the Government (and/or EETT) undertakes to:
 - i. amend the frequency and the broadcasting plans, taking into consideration the state of play of international coordination, allocating and authorising the use of the digital dividend to Electronic Communication Services. (**December 2012**)
 - ii. adopt necessary secondary legislation for the assignment of licenses for broadcasting and for the establishment of licensing procedures. (**March 2013**)
 - iii. launch the public consultation on the tender procedure for the assignment of the digital dividend (800 MHz band) allocating and authorising the use of the digital dividend to Electronic Communication Services, in line with EC Decision 2010/267/EU and in respect of the deadlines and procedures of the RSPP. (**December 2012**) (*)
 - iv. resolve cross-border coordination issues with neighbouring countries, if any. 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. (**Continuous**)
 - v. Adopt secondary legislation that defines a mandatory date for the switch-off of analogue broadcasting 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). (**March 2013**)
 - vi. launch the tender for the assignment of rights of use for broadcasting transmission. (**March 2013**)
 - vii. 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. (**June 2013**) (*)

(*) The deadlines for steps (iii) and (vii) might be amended according to the Decision of the European Commission on the request for derogation from the deadline provided by Art. 6.4 of the Radio Spectrum Policy Programme submitted by the Greek Government on 15 May 2012.

6.3 Transport

The opening of the road haulage and occasional passenger transport is completed. Therefore, priorities now shift to measures that allow for higher levels of tourism and investment, particularly with respect to road (limousines and shuttle services), maritime and port activities (domestic ferry and port services) and aviation. Specific actions are expected to lead to the reduction of operating costs of service providers, while increasing consumers' choice. The gradual restructuring of railways should also lead to its effective privatisation.

6.3.1 Road

Prior to disbursement, the Government adopts all necessary measures to:

- a. Remove restrictions on the rental of pickup trucks, vans and chauffeur services;
- b. Allow shuttle services by hotels and tour agencies using small vehicles (less than 12 seats) and tour packages for small vans and off-terrain vehicles.

1. After having completed the report on the functioning of the regular passenger services, the Government:

- i. Defines a follow up strategy for the effective opening of the sector in line with state aid rules and EU Legislation on awarding contracts of passenger transport services, while ensuring continuity of service provision and identifying concrete options for public transportation in remote areas (**December 2012**).
- ii. Approves the required law (and necessary acts) that ensures equal conditions and access equity to all road passenger service operators (**March 2013**).

6.3.2 Maritime Activities and Ports

1. The Government:
 - i. Launches (**October 2012**) a consultation procedure to review the legal framework of the domestic ferry industry, with a view to strengthening the growth potential of the tourist sector. Particular attention is given, inter alia, to increasing the flexibility of (i) manning requirements of vessels outside the minimum routing obligations and (ii) approving changes in the timetables and vessel size for ferry services.
 - ii. Make a concrete amendment of Law 2932/2011 building on this consultation (**February 2013**).
 - iii. Launches the social dialogue, following the Maritime Labour Convention (2006) principles, in order for labour arrangements to respond to the current economic context and future developments (**October 2012**).
2. Following the first submitted version of the port national strategy, the Government adopts a five-year port national strategy that ensures connectivity of ports with the overall transport network, specifying concrete projects, deadlines for implementation and a financial plan. The strategy will be coherent with TEN-T priorities and principles, such as the smooth operation of the internal market, the mobility of persons and goods and the economic, social and territorial cohesion of the European Union, the efficient use of the assigned Structural and Cohesion Funds and in line with State aid rules (**December 2012**).
3. In alignment with the new ports strategy and organisational model for ports, the Privatisation Fund (HRADF) defines a concrete privatisation strategy mainly through concessions with the objective of making the best use of the ports (**February 2013**) and launches the appropriate call(s) for tender (June **2013**).
4. The Government revises the legal framework governing port labour relations and the administrative functioning of ports and sends a draft proposal to the Commission services (see Annex 9.5 for a non-exhaustive list of labour regulations for ports) (**December 2012**). This revision complies with the EU social *acquis* and provides, among others, for the training and certification of cargo-handling employees, and defines a competitive model for ports and terminal operators. The new legal framework is adopted (**March 2013**).

5. The Government examines compatibility with Community legislation and in particular State aid rules and amends as necessary provisions concerning Piraeus Port (OLP) and Thessaloniki Port (OLTH), in particular **(December 2012)**:
 - i. Law 2688/1999:
 - a. Chapter A, Article Second, paragraph 2;
 - b. Chapter A, Article Third, article 5, paragraph 5;
 - c. Chapter B, Article Seventh, paragraph 2;
 - d. Chapter B, Article Eighth article 5, paragraph 5.
 - ii. Law 2937/2001: Article 34.

6.3.3 Aviation

1. After having submitted the National Airport Policy, the Privatisation Fund (HRADF) launches the appropriate process leading to the privatisation of regional airports **(March 2012)**.
2. The Government submits legislation for the restructuring of the Hellenic Civil Aviation Authority (HCAA), which strengthens its regulatory role and implements the full separation between Regulation and Management from Operation. The Government ensures improvements in the performance of air traffic management delivery through adherence to the relevant EU Regulation (EU 691/2010) **(December 2012)**. Public airports that will not be privatised will be formed under a public body and their management and operation will be totally separated from the HCAA. New legislation is adopted **(March 2013)**.

6.3.4 Railways

1. The Government spins-off ROSCO (Maintenance Unit), GAIOSE (Real Estate), transfers the leasing of the rolling stock activities from the OSE Group to the State, and provides an updated TRAINOSE Business Plan **(November 2012)**.
2. The Government amends the law such that the fee of charges for obtaining a license or a safety certificate does not exceed the average European charge. All operators are awarded safety certificates on the basis of published, simple and transparent rules for the duration of five years **(December 2012)**.
3. The rolling stock that is not used/needed by TRAINOSE is transferred to a body that leases it on market conditions, including winners of such tenders **(December 2012)**.
4. The Government establishes independent award authorities for passenger services by rail that can organize competitive tenders **(January 2013)**. Contracts concluded in 2014 or later will generally be awarded by means of competitive tender. The National Safety Authority establishes the examination of five examiners for train drivers according to the EU Regulation and publication of register of examiners on the web. The safety authority publishes the conditions and procedures to recognize drivers **(March 2013)**. The Government amends the safety legislation to establish a right of any company on access to train driver facilities and examiners **(April 2013)**.
5. Tariffs in OSE Group and TRAINOSE **(June 2013)** and OASA Group **(October 2013)** increase by at least 25 percent.

6.4 The Retail Sector

On retail, the selected measures aim at allowing a wider class of goods to be sold by more efficient retailers, and reduce their operating costs. Measures not only look into retail specific regulations (such as rules on pricing, sales and labelling) but also, into the rules on transport and

healthcare provisions applicable to retail outlets. Combined, the measures should help contribute to lower prices and more choice for consumers.

Prior to the next disbursement, the Government:

- a. eliminates the requirement of minimum space for the sale of food products.
- b. allows mixed shops to sell goods other than food, subject to hygiene and food and safety standards.
- c. allows supermarkets the sale of pre-packaged meat, cheese and fish products;
- d. liberalizes sale in supermarkets of infant milk (i.e., 0-6 months)
- e. allows a delink of the working hours of all employees in establishments (as defined in Law 1037/1971 and related implementing legislation) from opening hours of the establishment.
- f. adjusts the law to clarify that shift breaks are allowed in all retail establishments (including those with continuous working schedule).

In addition, the Government:

1. applies the same standards for transporting perishable goods to private-use trucks as those applicable to public-use trucks. (**December 2012**)
2. carries out a proportionality analysis of the restrictions applied on outdoor / ambulant trade for social policy criteria. (**December 2012**)
3. completes the revision of Ministerial Decision A2-3391/2009 on market regulations and submits it to the Commission services, in accordance with the notification procedure provided for in Directive 98/34. (**October 2012**) The revised Ministerial Decision on market regulations is adopted one month after the reply from the Commission services, following the notification process.
4. reviews and amends the Market Policing Code (Law 136 /1946) providing for various forms of public sector intervention in the production, distribution and consumption of goods in line with the simplifying recommendations of the Hellenic Competition Commission's opinion no. 24/VII/2012. (**January 2013**)

6.5 Regulated professions, professional qualifications and provision of services

6.5.1 Removing restrictions to the access to and exercise of regulated professions

a. **Prior to the disbursement**, the Government amends specific legislation to lift the restrictions in the professions and economic activities listed in Section 9.2.1 of this Memorandum.

1. For professions and economic activities included in Section 9.2.2, the Government prepares draft provisions amending sector specific legislation as per the opinions of the Hellenic Competition Commission. The legislation is adopted by **December 2012**.
2. A report on the implementation of Law 3919/2011 is published on the Government's website (**December 2012**), including:
 - i. the list of all professions/economic activities falling under the scope of that law.

- ii. the list of all remaining professions/economic activities that have not been treated beforehand. For these, the Government ensures that the regulatory framework is fully in line with chapter A of law 3919/2011 and the opinions (if applicable) of the Hellenic Competition Commission (HCC) by **(December 2012)**.
- 3. To reinforce **transparency** in the functioning of professional bodies: Legislation is adopted mandating the publication on the webpage of each professional association the following information **(December 2012)**:
 - i. the annual accounts of the professional association.
 - ii. the remuneration of the members of the Governing Board broken down by function.
 - iii. 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.
 - iv. statistical and aggregate data relating to sanctions imposed, always in accordance with the legislation on personal data protection.
 - v. 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.
 - vi. any change in the professional codes of conduct, if available.
 - vii. the rules regarding incompatibility and any situation characterised by a conflict of interests involving the members of the Governing Boards.
- 4. To **de-link minimum fees** for professional services from taxation and contributions to social security funds and professional associations:
 - i. The Government issues a Presidential Decree, which 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'. **(November 2012)**
 - ii. Within the context of the tax reform, it also identifies ways of de-linking taxation from engineers legal fees and from lawyers legal fees / reference amounts. **(December 2012)** This reform becomes operational upon the entry into force of the tax reform in **January 2013**.
- 5. To assess the proportionality and justification of **activities reserved** to specific regulated professions:
 - i. The Government updates the study of the regulations of the professions submitted to the Commission services in July 2012, to assess the justification and the proportionality of the requirements reserving certain activities to providers with specific professional qualifications. **(November -2012)**
 - iii. Draft legislation is sent to Parliament amending unjustified or disproportionate requirements reserving certain activities to providers with specific professional qualifications, starting from the main regulated professions (i.e., lawyers, engineers, accountants, sworn-in valuers, energy / building inspectors, etc.). **(March 2013)**

6.5.2 Additional measures

Prior to disbursement, legislation is adopted to:

- a. repeal the mandatory involvement of a lawyer for transactions on ships with immediate effect and for the drawing up of real estate transactions with an immediate effect for the

- seller and with an effect from 31-12-2013 for the buyer, with the relevant thresholds immediately raised to €80,000 for the entire country;
- b. repeal the presence of a lawyer (with immediate effect) for the contracts for the distribution or exchange of real estate property as well as for the gratuitous legal transactions, such as donations;
 - c. repeal the scale of minimum monthly amounts that are due to private sector lawyers remunerated for services rendered with a fixed periodic fee. This is without prejudice to having fee regulations for trainee lawyers and the minimum wage for private sector workers provided for in law 4046/2012.

Other actions

1. A draft code revising Legislative Decree 3026/1954 is submitted to the Commission services by **end-November 2012** and adopted by **December 2012**. The new code should, among others, abolish total bans on commercial communications, repeal age limits to take the Bar examinations, ease the re-entry into the legal profession and clarify the nature of lawyers' fees provided for in current legislation.
2. The Government takes additional measures by **June 2013** at the latest, to reduce by 50% the cost of registering property, as measured by the World Bank's *Registering Property* sub-indicator. The results will be monitored in the World Bank's 2014 edition of Doing Business. (**November 2013**)
3. To confirm progress in the area of regulated professions, the Government completes a study of the 20 largest professions examining the degree to which they have been liberalized, including results with respect to new entrants and price changes. (**July 2013**)

6.5.3 Easing the recognition of professional qualifications

1. 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:
2. continues to update the information on the number of pending applications for the recognition of professional qualifications, and sends it to the European Commission. (**Quarterly**)
3. adopts legislation to i) remove the prohibition to recognise the qualifications derived from franchised degrees to access or exercise an economic activity and to ii) ensure that holders of franchised degrees from other Member States have the right to work in Greece under the same conditions as holders of Greek degrees. (**November 2012**)

6.5.4 Services Directive: exploiting the information benefits of the Point of Single Contact

The Government ensures:

1. that the Point of Single Contact (PSC) is fully operational in all sectors covered by the Services Directive. (**December 2012**)
2. 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). (**December 2012**)

3. that there is adequate connection between the PSC and other relevant authorities (including one-stop shops, professional associations and the recognition of professional qualifications) and that the submission of on-line applications as regards the recognition of professional qualifications is fully operational. **(December 2012)**

7 Increasing the impact of structural and cohesion funds

1. 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. **(Q4 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

2. The Government submits complete applications for all major projects for which a Commission decision under Article 41 of Regulation (EC) No 1083/2006 has to be adopted. **(Q4 2013)**
3. In deciding the "Public Investment Budget" allocation, the Government ensures that the necessary national contribution remains available in order to complete the unfinished ERDF, ESF and Cohesion Fund projects of the 2000-2006 programming period and to cover the required national contribution including non-eligible expenditure under the Structural Funds and Cohesion Fund rules in the framework of the 2007-2013 programming period.
4. The Government continues to monitor on a quarterly basis the implementation of the priority projects, certain of which — as the functional review of the public administration, the "Elenxis" project for the tax control services, the land register, the solid waste management infrastructures, the railway projects, the e-prescription, the e-procurement, the development of a social economy sector and the national registry — are critical for the development of the country. For priority projects in delay, a method for closer monitoring should be agreed **(Q4 2012)** in order to allow the adoption of the necessary measures on time. The priority projects should be completed by the **end of 2015**.
5. Support to SMEs managed at central and regional level is targeted to directly contribute to the development of the economy and the creation of sustainable employment, in particular for young people. Guidelines are issued for the definition of the conditions of granting state aid and its monitoring. **(Q4 2012)**
6. Within the review of the public procurement regulations (cfr. section 2.7.2.2.3), legislation is adopted, and immediately implemented, to shorten deadlines and simplify procedures on contract award. **(Q1 2013)**
7. The monitoring tool for expropriations is completed and operational and data are made accessible to the public. **(Q1 2013)**

8. Following the simplification initiative launched in May 2010 the Government takes measures to speed up absorption, accelerate payments to beneficiaries and simplify the management and project implementation on the basis of issues raised by the Commission and any other additional issues which may be proposed. In particular, the Government reviews the "sleeping" projects, un-activated delegations and sleeping contracts and informs the Commission on those eliminated. **(Q4 2012)** Similar exercises are periodically repeated until the expiry of the programming period.
9. The Government adopts measures and starts implementing an anti-fraud strategy in the field of the Structural Funds and the Cohesion Fund **(Q2 2013)**. The Government establishes an efficient inter-service consultation procedure supported by an electronic system. For this, an integrated project will be set up and implemented with the exploitation of the existing infrastructure. **(Q1 2013)**

8 Monitoring

8.1 Statistics

High quality statistics are key for effective economic surveillance and policy design, and for the proper monitoring and execution of the budget. Significant progress has been made in improving the quality and coverage of statistics in Greece during the past two years.

The Government commits to continue supporting the work of ELSTAT, and to honour its "Commitment on Confidence" signed by the Prime Minister of Greece on 29 February 2012 and which states among other things that " The Hellenic Republic ...makes the solemn commitments to fully respect the international and European standards for statistical data quality....to guarantee and defend the professional independence of the....Hellenic Statistical Authority...and to defend [it] against any efforts to undermine [its] credibility...and secure adequate and stable resources [for it]"

1. The Government, as stated in the aforementioned "Commitment on Confidence", further commits to decouple the budget of ELSTAT from that of the Ministry of Finance in line with the existing procedures and involving the Hellenic Parliament and the Court of Audit. From January 1st 2013 onwards, ELSTAT as a legal entity under Greek public law will get budgetary execution autonomy in accordance with the relevant legal framework, in particular Law 4072/2012, article 323. The Authorities commit to complete all actions needed to establish budgetary execution autonomy to ELSTAT in line with Law 4072/2012, article 323.
 - i. To achieve this, the Government amends the Law 3832/2010 regarding the non-applicability to ELSTAT of the provisions of article 25 of Law 2362/1995 and, more broadly, of any other provision the implementation of which is not consistent with the independence of ELSTAT (**November, 2012**).
2. **Prior to disbursement**, and to ensure a smooth and effective transition toward the new framework, the Authorities commit to clear all arrears toward ELSTAT for the financial years 2011 and 2012. Those arrears will be paid at the expense of ELSTAT's 2012 budget.

9 Annexes

9.1 Privatisation plan and intermediate steps

Greece--Hellenic Asset Development Fund: Projects Under Development 2012-14

Timing of Privatisation Project (Launch of Tender)		Intermediate Steps
I. State-owned enterprise/share sale		
2012 Q1	Public Gas (DEPA)	Modification of statutory provision at time of privatisation.
Q1	Public Gas (DESFA)	State aid clearance (January 2013).
Q4	Football Prognostics Organization (OPAP)	VLT regulation issuance and notification to EU (December 2012). Law on new tax provisions for state aid clearance (December 2012).
2013 Q1	Horse Race Betting Organization (ODIE)	Pending state aid clearance-, adopt legislation for the granting of the new license and the subsequent liquidation of the company (January 2013).
Q1	Hellenic Post (ELTA)	Ministerial decisions for (i) the determination of the content of universal service and (ii) the compensation mechanism for USP drafted and prenotified to DGComp.
Q1	Hellenic Vehicle Industry (ELVO)	Transaction structure to be determined and agreed (February 2013).
Q1	Thessaloniki Water (EYATH)	Establish regulatory framework (December 2012). Establish pricing policy and amend the license (May 2013).
Q1	Mining and Metallurgical Company (LARCO)	Law for establishing a new company (January 2013).
Q1	Hellenic Defense Systems (EAS)	Identify EAS assets for privatisation (December 2012).
Q2	Hellenic Petroleum (HELPE)	Following divestment of DEPA.
Q2	Athens Water (EYDAP)	Establish regulatory framework (December 2012). Establish pricing policy and amend license (September 2013). Settlement of receivables from the State (September 2013).
Q2	Athens Airport (AIA)	Re-approach Hochtief Airports (December 2012).
Q2	Railways (Trainose)	Remaining problems in Trainose will be resolved (February 2013). Trainose will then be transferred to the HRADF (March 2013).
Q3	Public Power Corporation (PPC)	MoEnergy issues the Energy Policy Objectives and a restructuring plan is fully identified (December 2012).
Pending court decision	Casino Mont Parnes	Pending legal action for the recovery of the state aid taken by the Ministry of Tourism (December 2012)
II. Concessions		
n.a.	Hellenic Motorways	Negotiations for the restart of projects currently in progress; ratification of reset agreement by Parliament (December 2012).
2011 Q4	State Lottery	Binding offers (December 2012). Submission to Court of Auditors (December 2012).
2013 Q1	Egnatia Odos	Launching of tender process dependent on: a) agreement/finalisation with Ministry of Development on key characteristics of the concession and conclusion of business plan, b) decision on tolling policy/toll collection system, c) treatment of Piraeus loan granted to Egnatia Odos SA, and d) reset of the 4 Motorway concession projects
Q1	Small ports and marinas	Resolve issues related to urban zoning (December 2012).
Q1	Regional airports	National Airports Policy defined. Establish regulatory framework (January 2013).
Q2	Thessaloniki Port (OLTH)	State aid clearance (March 2013). Establish regulatory framework (April 2013).
Q2	Piraeus Port (OLP)	State aid clearance (March 2013). Establish regulatory framework (April 2013).
Q2	Large regional ports	State aid clearance (March 2013). Establish regulatory framework (April 2013).
Q3	South Kavala Gas Storage	Decision on the best exploitation option (December 2012).
Q4	Digital Dividend	Pass law to finalise licensing of TV stations and digital broadcasting (December 2012).
n.a.	Mining rights	
III. Real Estate		
2011 Q4	Hellenikon 1	Transfer of Hellenikon SA ownership to HRADF (Pending decision: December 2012). Launch Phase B of tender process (December 2012).
2012 Q1	IBC	Get approval from Court of Audit (December 2012) and issue PD for ESCHADA (January 2013).
Q1	Cassiopi	Declassification of Naval outpost (December 2012).
Q1	Lot 1 (Afantou)	All intermediate steps have been fulfilled.
	Sale/repo 28 buildings	All intermediate steps have been fulfilled.
2013 Q1	Astir Vouliagmenis	Negotiations ongoing with NBG. ESCHADA (Zoning and land permit) to be submitted (January 2013). Process led by NBG.
Q1	Real Estate lot 2	40 properties to be identified (December 2012) and transferred to HRADF (March 2013).
Q4	Real Estate lot 3	At least 1,000 real estate properties to be transferred to HRADF (December 2013).

Source: HRADF.

9.2 Regulated professions

9.2.1 List no. 1: list of restrictions on selected regulated professions to be repealed prior to the next disbursement

1. **Stevedores for land operations and at ports:** simplify declaration procedures, repeal fixed fees for loading and unloading services and allow stevedores to be employed under private sector law.
2. **Sworn-in valuers:** Issue new legislation to eliminate the applicable fees, the system of *numerus clausus*, the nationality requirement, allow legal entities to pursue the profession and open up the areas reserved in exclusivity to this profession.
3. **Accountants and tax consultants:** clarify in circular 26801/DIOE 654 of 13 June 2012 that the professional identity card will be issued automatically within the three months period;; ii) clarify that it is SAEP the body responsible for the recognition of professional qualifications; iii) amend Ministerial Decision POL 1166/2011 to abolish the certification procedure provided for thereof, which is applicable to legal entities and natural persons; iv) include in the text of the circular references to the legal text of accountants/ tax advisors that have been abolished by law 3919/2011. In addition, amend sector specific legislation to eliminate inconsistencies with the 2011 law on regulated professions.
4. **Temporary employment companies (TEC):** amend sector specific law to i) reduce the minimum capital of €176.083 (Art.123.1 of law 4052/2012); ii) two eliminate / reduce the amounts of bank guarantees (Art. 126); iii) to lift the requirement of having a minimum number of employees; iii) extend the scope of temporary employment agencies to cover, among others, the provision of consulting and training services.
5. **Private labour consultancy offices (PLCO):** amend sector specific law to i) allow employers of PLCOs – other than its director, to undertake mediation; ii) lift requirements on built in infrastructure and on technical equipment; iii) lift requirement provided for in Art. 104.2 of law 4052/2012, whereby if the registered office of the PEA or its branch has changed, the procedure regarding start of PEA activity /occupation under Art. 101 of the same law shall apply; iv) allow PEAs to do activities other than intermediation in the premises where the PEA operates.
6. **Real estate brokers:** Amend sector specific law to drop the probationary period before an applicant can become a real estate broker (Art. 199 of law 4072/2012).
7. **Actuaries:** review the regulatory framework governing the examination process so as to prevent the Hellenic Actuarial Society (HAS) from determining indirectly the number of successful candidates in the examinations in the interest of the incumbents (*cfr.* the Hellenic Competition Commission's opinion no. 14/VI/2012).
8. **Tourist guides:** provide that the professional ID card will be issued within the three months period or earlier) and amend sector specific law to open the profession to holders of related university degrees.
9. **Energy inspectors:** amend sector specific law to repeal minimum fees for energy inspection services and to simplify licensing.
10. **Private providers of primary care services:** amend sector specific law to eliminate inconsistencies with Law 3919/2011 law on professions.
11. **Customs brokers:** *cfr.* section on trade facilitation.
12. **Kiosks and cantinas in public buildings:** remove restrictions for licenses in favour of specific groups.
13. **Tourist offices:** eliminate prior authorization scheme, minimum office space requirements, applicable quasi-fiscal charges and reduce the amount of bank guarantees or require touristy offices to get insurance.
14. **Teaching at private tuition establishments and foreign language schools and teaching at home:** remove the need for prior licence and replace it by a notification of commencement of activity. Remove the need to renew the licence every year.
15. **Private primary and secondary schools:** abolish the nationality requirement to get an establishment licence, amend the requirement for formal qualifications to the founder of a private school; abolish shareholding capital requirements, the ban on more than one establishment, minimum distances, the need to

renew licenses annually; remove prohibitions to licensing to relatives of private primary and secondary schools license holders.

16. **Private tuition establishment and foreign language schools:** Amend the requirement for formal qualifications to the founder of a private tuition establishment and foreign language schools and remove prohibitions to licensing to relatives of license holders.
17. **Vocational training institutes (VTI):** Allow the advertising of VTI without the approval of the E.O.P.P.E.P.
18. **Vocational training centres (VTC):** Amend sector specific legislation to base the accreditation of a VTC on the basis of an integrity check of objective statutory requirements; ii) to allow private individuals to establish legal entities; iii) to renew the accreditation in the form of notification under Art. 3 of Law 3919/2011, by uncoupling it from the scoring system.
19. **Post-secondary education centres:** repeal the prohibition that post-secondary education centres cannot be established by shareholders or partners of the legal entity which applied for an establishment and operating licence; to renew operating licences in the form of notification under Art. 3 of Law 3919/2011; allow post-secondary education centres to recruit off-register staff notified to the supervising authority, as in the case of VTC; repeal the need to submit a letter of guarantee for the opening of a post-secondary education centre.
20. **Accredited study centres:** Amend the regulation on renewing licenses, so that licenses renewals are limited to the notifications under Art. 3 of law 3919/2011.
21. **Press distribution agencies:** remove prior authorization scheme and expand the number of economic activities carried out.

9.2.2 List no. 2: regulated professions / economic activities whose regulatory framework needs to be adjusted to applicable opinions of the Hellenic Competition Commission

1. **Professions under the Greek Ministry of Citizen Protection:** i) sale of revolvers, pistols and target-shooting weapons; ii) preparation of explosives; manufacture, conversion, assembly, finishing and repair of firearms, and charging/recharging of firearm cartridges; iii) charging cartridges for hunting weapons for sale; iv) sale of fireworks and flare launchers; v) manufacture of fireworks and flare launchers; vi) operation of private security firms; vii) work by security staff of private security firms; viii) operation of private investigation offices; ix) work by staff of private investigation office: *Cfr.* HCC Opinion no. 13/VI/2012.
2. **Dealers in antiques and more recent artifacts and restorers of fine art and antiquities:** *Cfr.* HCC Opinion no. 18/VI/2012.
3. **Professions / economic activities under the Greek Ministry of Citizen Protection – harbour guard:** i) Organisations certifying divers; ii) Suppliers of recreational diving services; iii) Rental of means of marine recreation; iv) Service boat operations; v) Towing operations; vi) Licensing for outdoor trading (stands or itinerant) on board ships; vi) Operation of casinos on board passenger vessels flying the Greek flag on international voyages; vii) Lifeguards: (i) Operation of public health establishments on anchored or floating craft and (ii) Operation of public health establishments on seafaring vessels: *Cfr.* HCC Opinion no. 22/VII/2012.
4. **Professions / economic activities under the Ministry of Health and Social Solidarity, Directorate-General for Welfare:** i) Care units for old people; ii) Day care centres for old people; iii) Creative activity centres for children; iv) Creative activity centres for children with disabilities; v) Nurseries and kindergartens; vi) Private childrens' camps; vii) Child welfare institutes: *Cfr.* HCC Opinion no. 25/VII/2012.
5. **Petrol sellers, shotfirers, blasters and natural gas sales.** *Cfr.* HCC Opinion no 26/VII/2012

9.3 Agreed roadmap between the Greek Ministry of Justice and the EC/IMF/ECB for the review of the code of Civil Procedure

1. By **end-October 2012**, the Taskforce on the review of the Code of Civil Procedure ("the Taskforce") prepares a briefing paper for its foreign expert members appointed by other EU Member States to assist its work. The objective of the briefing paper is to enable these foreign expert members to fully participate in its work, including developing alternative legal solutions to the identified reform needs based on cross-country experience in other Member States.
2. Starting from **October 2012**, the Taskforce also provides monthly updates by the end of each month on progress towards preparation by end-March 2013 of a detailed paper outlining the main proposals for amendments to the Code of Civil Procedure in line with the objectives defined in previous versions of this Memorandum. The detailed paper is presented to the EC/IMF/ECB shortly after its completion.
3. By **end-March 2013**, the Taskforce prepares a detailed paper outlining the main proposals for amendments to the Code of Civil Procedure in line with the objectives set out in previous versions of this Memorandum.
4. By **end-May 2013**, the Government holds a series of workshops to discuss the findings and proposals in the detailed paper prepared by the Taskforce. These workshops will allow for broad consultation with domestic stakeholders and participation from recognised international experts in the field of civil procedure. On the basis of the outcome of this consultation, the Taskforce presents a revised version of the detailed paper to the EC/IMF/ECB and submits the revised paper, after reflecting comments from the EC/IMF/ECB, to the Government.
5. By **end-June 2013**, the Taskforce presents a detailed work plan, which provides for the preparation of the draft law by end-January 2014 and contains specific deadlines and deliverables for the chapters of the draft law, and implements the plan with immediate effect. At the end of each month the Ministry of Justice, Transparency and Human Rights assesses compliance with the detailed work plan and takes immediate remedial actions in case of anticipated or actual deviations.
6. Starting from **July 2013**, the Taskforce prepares the draft law on the basis of the above-mentioned detailed paper and work plan, and provides monthly updates by the end of each month on progress towards preparation by **end-January 2014** of the draft law. The monthly updates describe the outcomes of the assessments of compliance with the detailed work plan and, if necessary, any remedial actions taken. The Ministry of Justice, Transparency and Human Rights holds at least three EC/IMF/ECB expert meetings throughout the drafting process: **July 2013, October 2013 and January 2014**. The meetings will allow for expert input in the drafting process and feedback on preliminary drafts of the legislation under preparation.
7. The Government finalises the study on the costs of civil litigation, its recent increase and its effects on workload of civil courts, together with recommendations, ensures that the recommendations are reflected in the draft law prepared by the Taskforce on the review of the Code of Civil Procedure and publishes the study. (**December-2013**)
8. The Government carries out a public consultation on the draft law bringing the Code of Civil Procedure in line with international best practice and submits the draft law to the Greek Parliament. (**March-2014**)

9.4 Statistics to be published by the Ministry of Justice or Ministry of Finance

- (a) *by end-October 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 two quarters of 2012;
 - (v) the number of tax cases, with a breakdown according to case value (up to EUR 150,000, between EUR 150,001 to EUR 300,000 and above EUR 300,000);
 - (v) the number of tax cases carried over from 2011;
 - (vi) the number of tax cases filed in the first two quarters 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-October 2012*, 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 on 30 June 2012, i.e. cases brought 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-October 2012*, at the first instance, court of appeal level and the supreme civil court:
 - (i) the number of all corporate insolvency cases;
 - (ii) the number of corporate insolvency cases carried over from 2011;
 - (iii) the number of corporate insolvency cases filed in the first two quarters of 2012
 - (iv) the average duration of corporate insolvency cases;
 - (v) a break-down of insolvency cases by sector (e.g., agriculture, construction, manufacturing, and services).
- (d) *by end-December 2012*, quarterly updates of the information in (a) to (c) above relating to the previous quarter.
 - (iii) the number of corporate insolvency cases filed in the first two quarters of 2012;
 - (iv) the average duration of corporate insolvency cases;
 - (v) the recovery rate for all corporate insolvency cases, which for the purposes of the MoU, shall mean the ratio of the amount collected by all creditors in reorganisation, debt enforcement or liquidation proceedings to the total amount owed by the company;
 - (vi) a break-down of insolvency cases by sector (e.g., agriculture, construction, manufacturing, and services).
- (d) *by end-December 2012*, quarterly updates of the information in (a) to (c) above relating to the previous quarter.

9.5 Non-exhaustive list of regulations on port work for review under the new port strategy

- Port of Piraeus – law 1559/1950 (Gov. Gazette A 252/1950), law 2688/1999 (Gov. Gazette A 40/1.3.1999), Joint Ministerial Decision 5115.01/02/2004 on the approval of the General Regulation for Personnel (Gov. Gazette B 390/26.2.2004).
- Port of Thessaloniki - legislative decree 449/1970 (Gov. Gazette A 51/27.2.1970), law 2688/1999 (Gov. Gazette A 40/1.3.1999), Joint Ministerial Decision 5115.01/05/2003 on the approval of the General Regulation for Personnel (Gov. Gazette B 1203/26.8.2003).
- Work Regulation of the Dockworkers of the Piraeus Port approved by Joint Ministerial Decision 45058/7/1971-Gov. Gazette B 579/22.7.1971)
- Joint Ministerial Decision 44885/8919/1956, as modified by Joint Ministerial Decision 117756/8295/1967-Gov. Gazette B 9/11.1.1967)
- Law 3239/1955
- Law 5167/1932
- Ministerial Decision F 10221/26816/929- Gov. Gazette B 2778/2.12.2011

9.6 Additional fiscal measures for 2012 and Medium-Term Fiscal Strategy 2013-16

The measures included in the medium-term fiscal strategy (MTFS) through 2016 are the following:

1. Rationalisations in **wage bill** by at least EUR 1,110 million in 2013, and additional EUR 259 million in 2014 through:
 - further reduction by 10 percent of fixed term contracts;
 - the rationalization of the State wage bill (including reduction the wage bill for consultant doctors, and an hiring freeze at the Ministry of Citizen protection and at the Ministry of Education, Religious Affairs, Culture and Sport);
 - progressive cuts in the monthly wages of employees under special wage regimes (judges, diplomats, doctors, professors, armed forces and police, airport personnel, and general secretaries) with effect by August 1, 2012, with the following marginal reduction schedule: 2 percent below EUR 1000; 10 percent for EUR 1000-1500; 20 percent for EUR 1500-2500; 30 percent for EUR 2500-4000; and 35 percent above EUR 4000)
 - elimination of automatic wage promotions for the armed forces by 2014 yielding yearly at least EUR 88 million net of taxes and contributions
 - elimination of seasonal bonuses of employees at the state and local governments, and at legal entities of public and private law,
 - application of the uniform wage grid for public servants to the parliamentary staff (measure to be completed by December 2012),
 - abolition of exceptions from the public sector wage grid reform introduced in 2011,
 - suspension throughout 2016 of fiscal and performance bonuses for public sector employees,
 - reduction in the local government wage bill,
 - reductions in Members of Parliament compensations and other allowances
 - reductions in cost for wages related to non-permanent secondary level teachers
 - reduction in non-permanent teachers in universities and technical colleges
 - reduction of intakes into professional academies,
 - extension of the 1:5 hiring rule (according to which 1 employees could only be hired against 5 retirees) for the General Government through 2016
 - placing 2,000 civil service employees into the mobility and exit scheme, by abolishing positions of specialized employees, addressing disciplinary cases (including via outright dismissals) and by abolishing positions associated with closed entities.
2. Savings in **pensions** by at least EUR 4 800 million in 2013, and additional EUR 423 million in 2014, through
 - the anticipation of the full effects of the pension reform in 2013,
 - the increase of the general pensionable age from 65 to 67 and of all age limits for particular types of pensions while maintaining the current number of contributions required to qualify for the full pension at 40 years,
 - cuts in new lump-sum benefits for public employees and for all Social Security Funds,
 - the reduction of the overall monthly pension incomes (main and supplementary pensions) per pensioner (between €1000-€1500 by 5 percent; €1500-€2000 by 10 percent; €2000-€3000 by 15 percent and above €3000 by 20 percent),
 - cuts in pensions for special wage regimes equivalent to the cuts to wages in special wage regimes,
 - cuts in pensions of military and police due to elimination of automatic wage promotions,

- increase in healthcare contributions for farmers
 - elimination of seasonal bonuses for main and supplementary pensions (exceptions allowed for people with disabilities),
 - means-testing pensions for specific categories of beneficiaries,
 - elimination of special pension benefits of trade unionists and cross-checks to abolish ineligible pension benefits in 2013,
 - reduction of pensions of elected staff.
3. Cuts in the **state's operational expenditures** by at least EUR 239 million in 2013 and additional EUR 285 million in 2014, through the gradual implementation of e-procurement for all public administration, 25 percent reduction in discretionary non-wage spending, reduction in subsidies to internal ferry boats and in grants to entities outside the general governments, elimination of grants to farmers' trade unions linked to assistance in applying for EU financial aid and tightening spending rule for the Green Fund in 2014 (at 2.5 percent of the stock of deposits).
 4. Cost reductions and efficiency improvements in **education expenditure** by at least EUR 86 million in 2013, and additional EUR 37 million in 2014, through reduction in funding for entities outside of the General Government budget for education, rationalisation of the network of higher education institutions and reduction in expenses for central and regional education administrations..
 5. Savings in **state-owned enterprises** by at least EUR 249 million in 2013 and additional EUR 123 million in 2014, through increase in revenue, reduction in transfers from the State budget to entities outside the General Government, operational and personnel expenses (harmonization of the wage grid of all state-owned enterprises in Chapter A with the uniform wage grid for state employees reducing average wages to no more than €1900 per month). In order to enforce the achievement of those savings, a new institutional framework is introduced by 2013 fixing the fiscal target for the overall sector in line with the MTFS, bettering the current monitoring system and introducing an enforcement mechanism in case of deviations from the target.
 6. Cuts in **operational defense-related expenditure** producing savings by at least EUR 303 million in 2013 and additional EUR 100 million in 2014 through reduction in expenditures for military procurement by EUR 340 million in 2013-14, reduction in operational expenditures, closure of military camps and reduction of intakes into military academies.
 7. Savings in **healthcare and pharmaceutical expenditure** by at least EUR 455 million in 2013, and additional EUR 620 million in 2014, through further development of the set of incentives and obligations for all participants along the medicines supply chain to promote the use of generic medicines, revises the co-payment structure for medicines to exempt from co-payment only a restricted number of medicines related to specific therapeutic treatments, the revision of medicines' price, based on the three EU countries with the lowest prices, application of automatic claw-back mechanism to pharmaceutical producers which guarantees that the outpatient pharmaceutical expenditure does not exceed the targets of EUR 2 440 billion in 2013 and EUR 2000 million in 2014 to be in line with the overall target of 1 percent of GDP by 2014, while maintaining supplies for patients. Increase in co-payments in hospitals and for prescriptions of drugs from 2014 onwards, reductions in hospitals' expenditures and a more effective implementation of the Health Map will also contribute to the expenditure reductions.
 8. Savings from **rationalisation of social benefits** by at least EUR 217 million in 2013 and additional EUR 78 million in 2014, through
 - the introduction of a length of residence in Greece criterion for the provision of pension benefits for uninsured individuals aiming to achieve savings (net of income taxes and social security contributions) of €13 million in 2013 and additional €13 million in 2014,

- the replacement of existing family benefits with a single targeted benefit which absorbs the tax family allowances,
 - rationalization of the transportation reimbursement scheme for selected categories of patients in order to avoid frauds and misuse of public funds maintaining the service according to actual needs of patients,
 - reduction of unemployment benefits targeted to specific geographical areas,
 - targeting assistance pensions provided by EKAS to persons above 64 years,
 - reduction of benefits to farmers
 - introduction of two new social programmes capped, respectively, at 35 and 20 million from 2014 onwards: a Minimum Income Guarantee scheme applied in two pilot areas of the country with different socioeconomic profiles, and introducing a benefit equal to €200 per month payable for up to 12 months to long-term unemployed who exhaust the full length of unemployment benefit (12 months), provided they do not qualify for other training schemes and have family taxable income up to €10,000.
9. Cuts in **state transfers to local governments** by at least EUR 50 million in 2013 and additional EUR 160 million in 2014, through cuts in transfers from the State for ordinary expenses and investment of local government. In order to enforce the achievement of those savings, an internal stability pact is strengthened by 2013 fixing balanced budget targets, putting in place an effective system of monitoring municipalities' expenses, economic disincentives in case of deviations from the targets and excluding any possibility for financing deficits.
10. Cuts in **expenditure by the public investment budget** (domestically-financed public investment, and investment-related grants) by EUR 150 million in 2013 and additional 150 million in 2014.
11. Increases in **revenue** by at least EUR 1 689 million in 2013 and additional EUR 1 799 million in 2014, through increases in the fee for law suits, an increase of tax on ship owners' activities, reducing VAT refunds for farmers, reduction of diesel excise duty subsidy provided to farmers, equalization of the excise tax on LPG and motor diesel oil by raising the LPG tax, equalization of social security contributions by raising the ceiling for employees first employed before 1993 to that of employees first employed after 1993, a reform of tobacco excise taxation, imposing a 30 percent taxation on OPAP's gross gaming revenue, equalization of taxation of winnings towards 10 percent rate without deductibles, and reintroduction of the 2011 one-off taxation of pools, yachts and luxury goods from 2014 onwards. By December 2012 a tax reform will be adopted that aims at simplifying the tax system, means-testing family allowances in order to better targeting benefits according to real needs, eliminating selected income tax credits and deductions and preferential regimes, thus broadening bases and ensuring an increase in revenue by about EUR 1.8 billion.

If necessary, after consultation with the European Commission, ECB and IMF staff, these measures may be replaced with other measures yielding comparable or higher savings.

9.7 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). (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. (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). (Data compiled by the Ministries of Interior and Finance)	Monthly, 30 days after the end of each month.
Preliminary monthly cash data on general government entities other than the state. (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. (Data compiled by the Ministries of Interior and	Monthly, 30 days after the end of each month.

<i>Finance)</i>	
Weekly information on the Government's cash position with indication of sources and uses as well of number of days covered. <i>(Data compiled by the Ministry of Finance)</i>	Weekly on Friday, reporting on the previous Thursday.
Data on below-the-line financing for the general government. <i>(Data compiled by the Ministry of Finance)</i>	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. <i>(Data compiled by the Ministry of Finance on the basis of basic data from the several line ministries)</i>	Quarterly, within 55 days after the end of each quarter.
Data on use of international assistance loans split among following categories: Financial stability fund, segregated 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. 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). Data on planned monthly interest outflows. <i>(Data compiled by the Ministry of Finance)</i>	Monthly, within one month.

Data on assets privatised and proceeds collected. <i>(Data compiled by the Ministry of Finance)</i>	Monthly.
Data on state-owned enterprises: revenue, costs, payroll, number of employees and liabilities (including maturities of public enterprises' debts) <i>(Data compiled by the Ministry of Finance)</i>	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. <i>(Data compiled by the Ministries of Finance and Education, Religious Affairs, Culture and Sport)</i>	Monthly, at the end of each month.
Monthly statement of the operations on the special accounts. <i>(Data compiled by the Ministry of Finance)</i>	Monthly, at the end of each month.
Report on progress with fulfilment of policy conditionality. <i>(Report prepared by the Ministry of Finance)</i>	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. <i>(Data compiled by the Ministries of Labour and Health)</i>	Monthly, within three weeks of the end of each month.

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 Hellenic Financial Stability Fund with indication and explanation of changes in the accounts.	Monthly.
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Abbreviations

ASEP	Supreme Council for Staff Selection
CPB	Central Purchasing Bodies
DEPA	Public Gas Corporation
DRG	Diagnostic-Related Group
DSO	Distribution System Operator
EC	European Commission
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

GREECE: TECHNICAL MEMORANDUM OF UNDERSTANDING

December 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 provide the European Commission, ECB and the International Monetary Fund with the necessary information for program monitoring.
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, and €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 the Green Fund and the HRADF.
 - The following state enterprises and organizations included by the National Statistical Service (ELSTAT) under the definition of central government (ATTIKO METRO, OSY, ELGA, HELLENIC DEFENCE SYSTEMS S.A., OSE, TRAINOSE, ERT, ELECTROMECHANICA KYMI LTD, OPEKEPE, KEELPNO, EOT, GAIAOSE, ERGOSE, INFORMATION SOCIETY IN GREECE, Unit for the Organization and Management of Development Projects S.A.).

- 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 Ministry of Health, will provide monthly data on revenues and expenditures in main social security funds (including IKA, OGA, OAEE, OAED) and the central healthcare fund (EOPYY). The Bank of Greece will provide detailed monthly data on assets and liabilities of local authorities, social security funds, the Green Fund (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 the Green Fund, 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 HRADF. 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) gross ordinary budget revenues (recurrent revenue plus non-recurrent revenue, minus tax refunds, minus payments for the clearance of tax refunds in arrears; minus (ii) ordinary budget expenditures 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. 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 any special budget allocation for clearance of expenditure arrears to any general government entity.
- **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 the Green Fund** is defined on a transactions basis, as the change in the total of financial assets minus financial liabilities of the Green Fund, adjusted for valuation changes by the Bank of Greece.
 - Financial assets include
 - Deposits of the Green Fund in the Bank of Greece and 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 the Green Fund, 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 the Green Fund, 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 ELEGEPE), EOT, ATTIKO METRO, HELLENIC DEFENCE SYSTEMS S.A., ERT, , TRAINOSE , ERGOSE, GAIAOSE, OSY, ELECTROMECHANICA KYMI LTD, INFORMATION SOCIETY IN GREECE, MANAGEMENT ORGANISATION UNIT, 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 HRADF** are defined from below the line as the change in deposits of the HRADF 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 HRADF 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 purposes of the Program.**

- The MGGPCB will also exclude all transfers related to the Eurogroup decisions of February 21, 2012 and November 26, 2012 in regard to income of euro zone national central banks, including the BoG, stemming from their investment portfolio holdings of Greek government bonds.
- Receipts from privatization are excluded from cash general government revenue receipts. However, for the entire program period 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 primary expenditure of the central government excludes payments related to bank support. 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. 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.

- The primary revenue of the central government will exclude any cash payments from loss-making banks beyond those which would accrue from the ELA guarantee fee structure existing on November 30, 2012 (25 basis points).
- 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/downward for payments of tax refund arrears and expenditure arrears (e.g. from any special budget allocation) below/above the path specified in Schedule A. Downward adjustments will be subject to a cap of €1.4 billion.

Schedule A: Payments Made for Clearance of Tax Refund and Expenditure Arrears

	(Billions of euros)							
	2012		2013			2014	2015	2016
	Dec-12 Progr. 1/	Mar-13 Progr. 1/	Jun-13 Progr. 1/	Sep-13 Progr. 1/	Dec-13 Progr. 1/	Dec-14 Progr. 1/	Dec-15 Progr. 1/	Dec-16 Progr. 1/
Payments made for clearance of tax refund and expenditure arrears	2.0	3.5	5.0	6.5	8.0	0.0	0.0	0.0

1/ Cumulatively from October 1 2012

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 the Green Fund, 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 four 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. Ordinary state budget spending includes called guarantees to entities inside the general government (as opposed to the definition of the modified general government primary cash balance criterion above that excludes this spending item). 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 upward/downward for payments of expenditure arrears (e.g. from any special budget allocation) above/below the path specified in Schedule A. Upward adjustments will be subject to a cap of €1.4 billion.
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. Net Change in the Stock of Domestic Arrears (narrow definition) (Performance Criterion)

11. **Definition.** For the purpose of the program, domestic arrears (narrow definition) are defined as: (i) unpaid invoices of line ministries and hospitals that are 90 days past their due date; plus (ii) tax refunds for which a refund document "AFEK" has been issued and cleared but have not been repaid to the taxpayer. 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. The stock of arrears excludes: (i) the arrears which are being accumulated by the Civil Servants' Welfare Fund; and (ii) hospital arrears to pharmaceutical companies which were incurred by end-2009 (€113 million as of November 30, 2012). Beginning July 1, 2013, the definition will include all tax refund claims that have not been assessed within 90 days.
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 expenditure 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 by 0-30, 31-60, and 61-90 days for the central government (line ministries and Decentralized Prefectures) based on the commitment registers. Tax refund arrears data will be based on information provided by General Secretariat for Information Systems and General Secretariat for Tax and Customs. The Ministry of Finance will also provide a monthly table on tax refund arrears as defined above (with AFEK issued) as well as on full tax refund accounts payable that include any refund claims for which AFEK has not been issued (and showing those that have not been assessed after 90 days).

D. Net Change in the Stock of Domestic Arrears of the General Government (Indicative Target)

Definition. For the purpose of the program, domestic arrears of the general government are defined as: (i) unpaid invoices of general government entities that are 90 days past their due date; plus (ii) tax refunds for which a refund document “AFEK” has been issued and cleared but have not been repaid to the taxpayer. 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. The stock of all general government arrears excludes: (i) the arrears which are being accumulated by the Civil Servants’ Welfare Fund; and (ii) hospital arrears to pharmaceutical companies which were incurred by end-2009 (€113 million as of November 30, 2012). Beginning July 1, 2013, the definition will include all tax refund claims that have not been assessed within 90 days.

13. **Supporting material.** The Ministry of Finance will provide consistent data on monthly expenditure and tax refund 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 expenditure 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 by 0-30, 31-60, and 61-90 days for the central government (line ministries and Decentralized Prefectures), based on the commitment registers. Tax refund arrears data will be based on information provided by General Secretariat for Information Systems and General Secretariat for Tax and Customs.

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 extra budgetary funds and public enterprises that are consolidated into the central government, and other ESA 95 adjustments. Holdings of intra-government debt will be netted out. 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 rates 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 (required 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.** 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-September 2012 ESA95 central government debt of €307.9 billion.

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 paragraph 15. The ceiling shall exclude: (i) guarantees to support banks; (ii) guarantees related to EIB financed loans; (iii) guarantees granted by ETEAN (up to an amount of €50 million provided these are fully backed by an equivalent amount of bank deposits); and (iv) 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. New guarantees are guarantees extended during the current fiscal year, but for those for which the maturity is being extended beyond the initial contractual provisions, only 50 percent of the full value will be counted. Modification of existing guarantees (without changing the maturity, amount of guarantees, and beneficiaries of the loan) will not be treated as new guarantees.

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 and QPC)

21. **Definition.** Privatization proceeds will be defined as the cash receipts from the asset sales to be carried out by the privatization agency (HRADF), cash receipts from direct government sales, and cash receipts from the eventual sale of any bank participations through the HFSF, the HRADF, or from the government directly. 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 HRADF including the fees of advisors related to the specific privatization. Proceeds will be measured as the inflows of cash received by the HRADF as deposited in the Special Privatization Account at the Bank of Greece within 10- days after the settlement of the transaction.

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 HRADF, no later than 60 days after the end of each quarter.

23. **Other.** 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 decisions of February 21, 2012 and November 26, 2012 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 provides the latest estimates).

Schedule B: Indicative Amounts to be Transferred to the Greek Government by Eurosystem National Central Banks

(Billions of euros)										
	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total 12-20
ANFA	349.0	636.0	518.0	500.0	557.0	464.0	367.0	306.0	253.0	3,950.0
SMP		2,098.0	1,941.0	1,503.0	1,134.0	898.0	729.0	580.0	422.0	9,305.0

Source: Greek authorities, ECB, IMF staff estimates.

25. **ESA Primary Balance.** For the purpose of the program, the ESA primary balance is defined as general government ESA95 balance (EDP B.9) minus 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 ELSTAT, 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, 2012-13.** Progress in revenue administration in 2012 and 2013 will be defined as reaching or exceeding 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. The number of cases submitted to the state prosecutor relates to those submitted for financial crimes on grounds of suspicion of deliberate tax evasion. An audit of assets of a manager, director or auditor includes an audit of all assets, both movable and immovable, including those of his/her spouse. This will include but will not be limited to an examination of all his/her financial accounts for a period of up to 10 years from a current date, all immovable assets compared

against information from State registries and of the acquisition of all moveable assets. The purpose of this audit will be to trace and justify the legal acquisition of these assets. These audits will be conducted annually by the Internal Affairs Directorate of the MoF.

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, collection of assessed taxes and penalties, collection of tax debt, and audits of asset declarations from auditors and managers of local tax offices will be made available by the Minister of Finance no later than two weeks after the end of each month. The monthly submission will also include, for each local tax office and special unit, the number of audits, hours spent on audits, assessed tax specified for income tax and VAT, assessed penalties and surcharges, collected tax amount from assessments, collected penalties and surcharges from assessments, specified for temporary and full scope audits.

30. **Benchmark on progress in public financial management, 2012.** Progress in implementing public financial management reforms in 2012 will be defined as reaching or exceeding the targets set in Table 2.

31. **Definition.** For the purpose of the 2012 target, the reporting institutional units (State and general government entities) include any unit under the general government as defined in paragraph 32 of the March 2012 TMU. For the purpose of subsequent target, the reporting institutional units (state and general government entities) include any unit under the general government as defined by ELSTAT as of end-September 2012 whose overall annual spending exceeded €1 million in 2011. From March 2013, entries under the e-portal will include all fields with financial information as prescribed in the GAO circular of Dec 29, 2010 (protocol number 2/91118/0026); this includes inter alia cumulative appropriations released, commitments made, the sum of 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 June 2013 unless discrepancies between survey and e-portal data are fully eliminated. An authoritative list of entities included under general government as defined by ELSTAT will be made available by the Ministry of Finance by December 31, 2012, updated with the entities reporting either on the e-portal or through surveys, including their share of overall annual spending in 2011 and the amount, provided no later than four weeks after the end of each month.

Table 1. Structural Benchmark in Revenue Administration

Area	Indicator	2012 Target 1/ End-December	2013 Targets 1/ End-June	2013 Targets 1/ End-December
Debt collection				
	Collection of tax debts as of the end of the previous year	2,000	775	1,900
	Collection of new debts in the current year (percent of new debt in the year)	20.0%	14.0%	24.5%
Tax audits and collection of large tax payers				
	Number of risk-based full scope audits in the year	300	330	750
	Number of risk based temporary audits in the year	325	350	750
	of which field audits	100		
	Collection full scope audits in the year (percent of assessed tax and penalties)	50%	65%	75%
	Collection temporary audits in the year (percent of assessed tax and penalties)	50%	45%	55%
	Number of cases submitted to the state prosecutor		8	18
Audits and collection of high wealth individuals				
	Number of completed risk-based audits in the year	1300	1200	2600
	Collection of assessed audits in the year (percent of assessed tax and penalties)	50%	40%	65%
	Number of cases submitted to the state prosecutor		50	110
Audits and collection for VAT non filers				
	VAT audits of VAT non-filers	10,000		
	Collection of assessed tax and penalties	20%		
Internal control and human resource integrity				
	MoF audit of assets of managers of local tax offices 2/		50	110
	MoF audit of assets of auditors 2/		50	130

1/ Cumulative audits from January of each year.

2/ The audit is performed by the Internal Affairs Directorate of the MoF.

Table 2. Structural Benchmark in Public Financial Management 1/

Indicator	2012 Target	2013 Target 2/	
	End-December	End-June	End-December
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, is above the target.			
2012 entity coverage	90%		
2013 entity coverage		80%	97%
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 commitment registers and the total arrears reported through monthly surveys, i.e. the sum across all entities of the absolute value of (arrears monthly survey less arrears E-portal) divided by total arrears multiplied by 100, is below target.			
2012 entity coverage	1 %		
2013 entity coverage		10%	1 %
c. Percentage of institutional units (State and general government entities) reporting on the E-portal of GAO all the prescribed items with financial information of the circular on commitment registers at the end of each month, based on data from their commitment registers, is above the target.			
2013 entity coverage		65%	93%

1/ For the purpose of the 2012 target, the reporting institutional units (State and general government entities) include any unit as was defined in paragraph 32 of March 2012 TMU. For the purpose of the 2013 target, the reporting institutional units (state and general government entities) include any unit under the general government as defined by ELSTAT as of end-September 2012, whose overall annual spending exceeded €1 million in 2011.

2/ Cumulative target from January 2013, reflecting the expansion of general government entities in the Elstat register as of September 30, 2012.