



GREECE

June 2014

FIFTH REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, AND REQUEST FOR WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION AND REPHASING OF ACCESS; STAFF REPORT; PRESS RELEASE; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR GREECE

In the context of the fifth review under the Extended Arrangement under the Extended Fund Facility, and request for waiver of nonobservance of performance criterion and rephasing of access, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on May 30, 2014, following discussions that ended on March 18, 2014, with the officials of Greece on economic developments and policies underpinning the IMF arrangement under the Extended Fund Facility. Based on information available at the time of these discussions, the staff report was completed on May 16, 2014.
- A **Press Release** including a statement by the Chair of the Executive Board.
- A **Statement by the Executive Director** for Greece.

The following documents have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Greece*
Memorandum of Economic and Financial Policies by the authorities of Greece*
Technical Memorandum of Understanding*
Letter of Intent to the European Commission and the European Central Bank*
Memorandum of Understanding on Specific Economic Policy Conditionality*

*Also included in Staff Report

The publication policy for staff reports and other documents allows for the deletion of market-sensitive information.

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GREECE

FIFTH REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, AND REQUEST FOR WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION AND REPHASING OF ACCESS

May 16, 2014

EXECUTIVE SUMMARY

Extended Arrangement. On March 15, 2012, the Executive Board approved a four-year arrangement in the amount of SDR 23.79 billion (2,159 percent of quota; €28 billion). Purchases totaling SDR 7.2 billion (€8.1 billion) have been made so far, and a purchase in the equivalent of SDR 3 billion (€3.5 billion) is proposed to be released on the completion of the review. Euro area countries have so far disbursed €139.9 billion since this program's approval (of €144.6 billion committed), of which €48.2 billion was for bank recapitalization.

Developments. Significant progress has been made toward rebalancing the economy. The fiscal primary and external current account balances are in surplus. Investor sentiment has improved, and the government successfully placed a medium-term bond. The economy is poised to grow in 2014, after six years of deep recession. All this bodes well for a potentially virtuous cycle of recovery to take hold. But a number of challenges remain to be overcome before stabilization is deemed complete and Greece is on a sustained and balanced growth path. The real exchange rate remains overvalued, and non-tourism exports are relatively weak. Banks face a mountain of bad loans that will require adequate capital and oversight to clean up, absent which the prospects are of a prolonged deleveraging antithetical to the assumed recovery. Fiscal gaps are projected for 2015–16, and public debt remains very high.

Policies. The authorities over-performed significantly on their 2013 fiscal primary balance target, achieving a surplus of 0.8 percent of GDP. Although the carryover of the over-performance to 2014 is small, the authorities are on track to achieve this year's target. They are implementing a number of structural reform commitments, with a notable acceleration of product and service market liberalization, where progress has lagged. However, in the area of labor market reforms, where Greece has made important progress in the past, the program is now falling short of targets. Following the Bank of Greece's stress tests, the HFSF buffer has been set aside to safeguard financial stability, and ambitious steps are planned to strengthen the private debt resolution framework. Reforms to tax codes have been legislated, aimed at simplifying the system and making tax administration easier and, thus, addressing longstanding weaknesses. But at the same time, the authorities need to guard against pressure to rollback progress. On public administration reform, progress is mixed as Greece is struggling to introduce performance-based management and address the taboo against mandatory dismissals.

Approved By
**Reza Moghadam and
 Hugh Bredenkamp**

Discussions for the review were held during September 17–29, November 5–20, December 4–5 and 11–16, 2013, and February 24–March 18, 2014. The mission met with the Minister of Finance, Governor of the Bank of Greece, other cabinet ministers, and staff in these and other ministries. The mission also met with private banks, think tanks, and employer associations. The staff team comprised, at various times, P. Thomsen (head), R. Goyal, J. Bersch, G. Gottlieb, N. Hobdari, A. Kangur, W. Maliszewski and M. Shamloo (EUR); I. Petrova and H. Jin (FAD); B. Rayner (SPR); O. Frecaut and D. Monaghan (MCM); W. Bergthaler, G. Esposito, A. Gullo, N. Rendak and A. Rosha (LEG), and M. Alves (STA). W. McGrew, S. Eble, M. Athanasopoulou, G. Gatopoulos, and M. Kalimeri (IMF resident representative office) assisted the mission. J. Manning and C. Piatakovas (EUR) assisted from headquarters. T. Catsambas (OED) participated in some meetings.

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CONTEXT

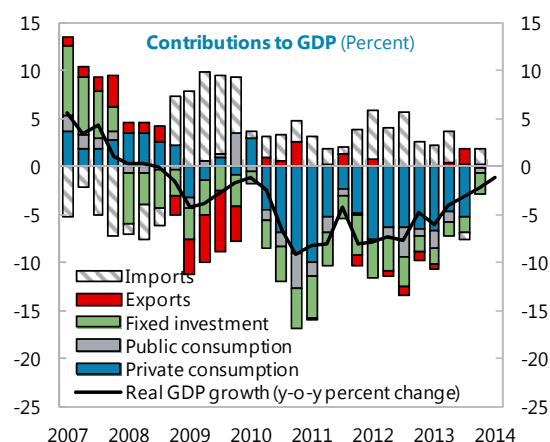
1. Greece has continued to make significant progress in rebalancing the economy. The scale of pre-crisis imbalances and indebtedness—an overall fiscal deficit of 15½ percent of GDP at end-2009, an external current account deficit of 11 percent of GDP, and public debt of nearly 130 percent of GDP—meant that Greece had no option but to undertake a sizeable adjustment, when the capital inflows that financed them came to a sudden stop in early 2010. By end-2013, the primary fiscal and external current account balances were in surplus. To have reached a surplus so swiftly is an extraordinary adjustment by any international comparison.

2. But Greece has lagged on productivity-enhancing reforms. Political turmoil in 2011–12 and questions in Europe about Greece’s place in the euro area exacerbated uncertainty and emboldened vested interests opposed to reforms. As a result, adjustment has been through recessionary channels (compression of real spending and income) rather than productivity gains. Real output has declined by close to 25 percent since 2007. Unemployment has risen to around 26½ percent, of which over two-thirds are long-term unemployed. The share of the population at risk of poverty increased from 20 to 23 percent over 2009–12, and the income distribution deteriorated slightly (the Gini coefficient rose from 33 to 34 percent over 2009–12).

3. Political support for the EFF-supported program is fragile. Adjustment fatigue has set in, and the coalition government has a reduced majority of just two seats in the 300-member parliament. This is making it difficult to move forward boldly and swiftly with needed reforms, and contributed to significant delays in reaching understandings on a policy package sufficient to warrant completion of this review.

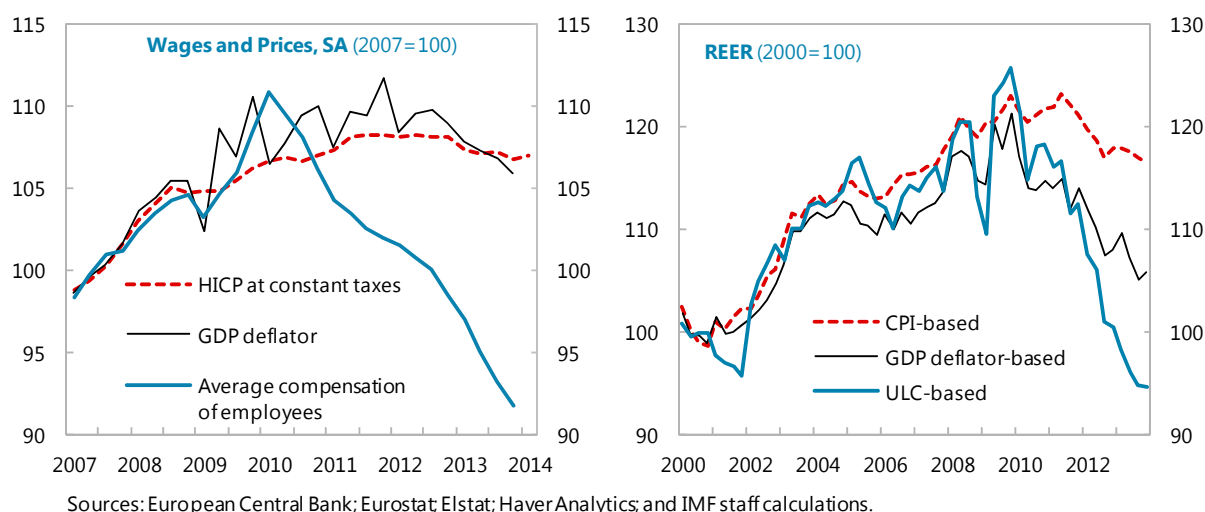
RECENT DEVELOPMENTS

4. There are initial signs of economic stabilization (Table 1 and Figures 1–3). Real GDP fell by 3.9 percent in 2013, better than the 4.2 percent contraction projected at the last review, as stronger-than-expected tourism receipts mitigated the impact of ongoing fiscal adjustment and private wage correction. The latest activity and confidence indicators suggest some further improvement in economic conditions in early 2014; e.g., the PMI in manufacturing has exceeded 50, for the first time since mid-2009, and unemployment, which is the highest in the EU, has declined slightly in recent months. The Q1 GDP flash estimate was -1.1 percent year-on-year.

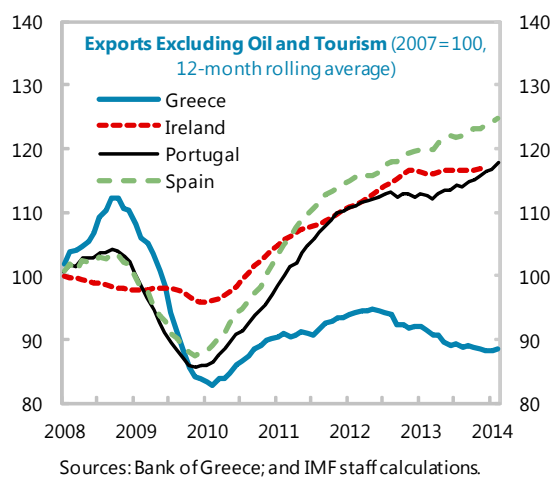


5. Internal devaluation is underway, but the REER remains over-valued (Figures 4–6). Private sector nominal wages have fallen by about 16 percent since 2009. As a result,

competitiveness measured by the ULC-based real effective exchange rate (REER) has improved considerably. The wage decline has put downward pressure on consumer prices, especially nontradables, and the GDP deflator, which are clearly falling. But price declines have not been commensurate with wage declines, reflecting rigidities in product and service markets, and improvements in the CPI-based REER have been much more limited. The CPI-based REER remains over-valued by about 10 percent, which in the context of the currency union implies the need for continued lower inflation relative to trading partners.



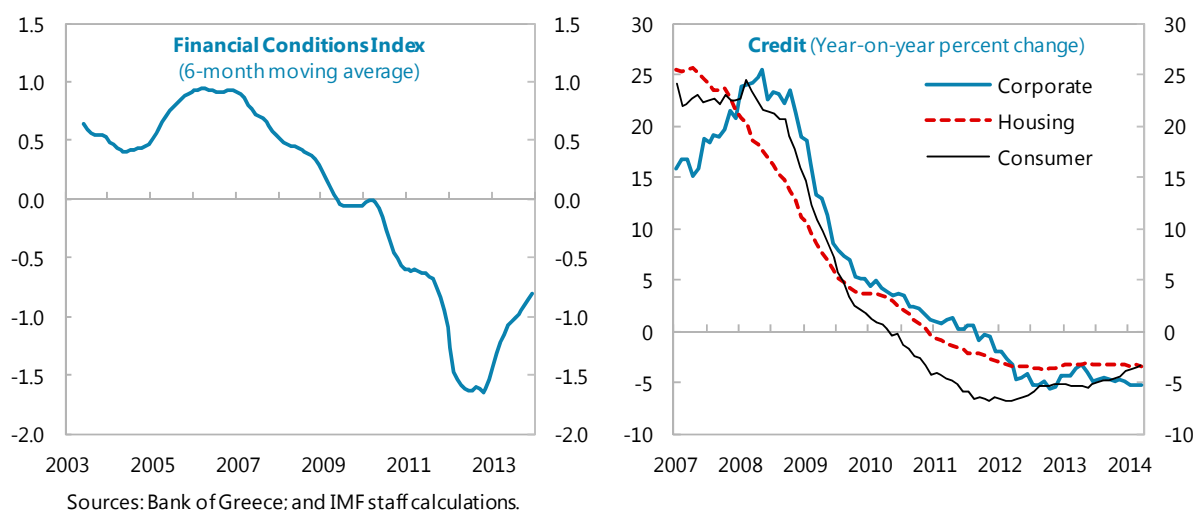
6. The external current account registered a surplus in 2013, for the first time in decades, but non-tourism exports continue to perform poorly (Table 2, Figure 7). Last year, strong tourism receipts and oil exports, as well as large EU transfers, contributed to the improved balance. However, Greece's export performance remains generally weak, and most of the adjustment since 2009 is due to a contraction of imports. For example, exports excluding tourism and oil (which comprise about $\frac{2}{3}$ rds of total exports) have lagged significantly other euro area "periphery" countries. This reflects inter alia sluggish improvements in price competitiveness and limited financing. Commensurate with the over-valued REER, the underlying structural external current account position remains relatively unfavorable, at an estimated deficit of 4 percent of GDP in 2013.



7. The government achieved a significant primary fiscal surplus in 2013, well above target and ahead of schedule (Tables 3–5, Figure 8). The surplus reached 0.8 percent of GDP compared to a zero target, reflecting underspending of the budget, one-off adjustments, and higher revenue outturns toward end-

2013.¹ State spending was lower than budgeted by €0.8 billion, and state revenues were higher than expected, including from frontloading EU funds of €0.7 billion. As such, the carryover of the over-performance to 2014 is small. Greece now has the highest cyclically-adjusted primary balance in the euro area. The adjustment has generally shielded the vulnerable, although improved tax administration would have resulted in a fairer distribution of the burden (Box 1).

8. Financial conditions have improved significantly since mid-2012 (Tables 6–7, Figures 9–10). Overall, staff calculations of a financial conditions index² point to easier financial conditions, but still tighter than neutral. Reliance on central bank funding declined by over €95 billion from its peak in 2012 to €62 billion at end-April 2014. In particular, emergency liquidity assistance declined to just €3 billion, reflecting an increase in banks' eligible collateral, interbank repo transactions, and recent share capital increases. Beyond an initial recovery, deposits have not been returning. But deposit rates have declined from their peak of 3 percent in 2012 by 120 bps. Average lending rates have declined by 80 bps over the same period, and now stand at 5.5 percent. While the resulting rise in the spread has increased banks' core profitability, bank deleveraging has continued and credit is contracting at an annual rate of 4 percent.



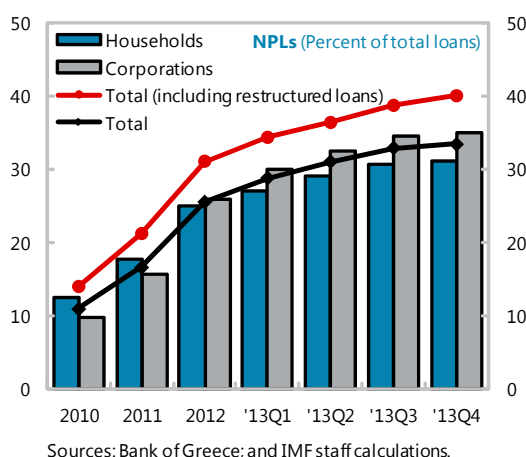
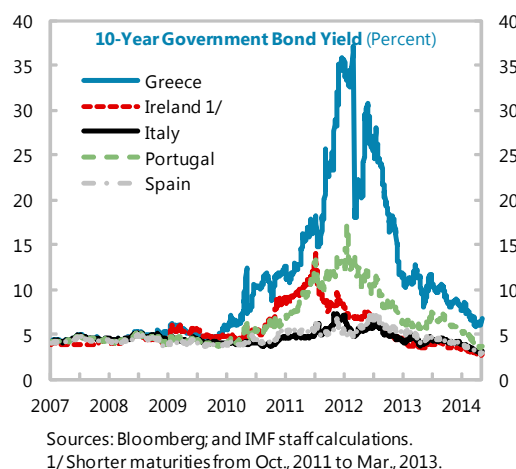
9. Investor interest has increased, and the government re-accessed markets for the first time in four years. Yields on long-term Greek government bonds have fallen to below pre-program levels. The government raised €3 billion in 5-year bonds at a yield of 4.95 percent in mid-April, providing a benchmark yield for banks and corporate seeking to re-access markets. Two pillar banks, Alpha and Piraeus, raised capital from the private sector, to cover not only relatively small baseline capital needs identified by the stress test (see below) but also the preference shares held by the government since 2009. The two other pillar banks, NBG and

¹ The surplus is smaller than the estimate reported in the April 2014 WEO and Fiscal Monitor owing to statistical adjustments made by Elstat and Eurostat on the timing of recording certain items.

² The index is computed using a principal component analysis to capture in a single variable the information content of several financial indicators, such as interest rates, asset prices, and credit (see Manning, Jonathan, and Maral Shamloo, 2014, "A Financial Conditions Index for Greece," IMF mimeo).

Eurobank, also raised their substantial baseline capital needs from the private sector. Moreover, Piraeus borrowed from the markets in March 2014, the first issuance by a Greek bank in four years, followed by NBG in April.

10. Bank balance sheets remain fragile with very high nonperforming loans (NPLs) and low quality capital (Table 8, Figures 11–12). Although financial stability has been maintained through this fiscal crisis by substantial injections of public capital and massive central bank liquidity support, the precipitous decline in output has inflicted a severe toll on private sector balance sheets. NPLs and restructured loans (which according to Blackrock's asset quality review have a high risk of renewed default) reached 40 percent of total loans by end-2013, the coverage ratio (provisions over NPLs) was 49 percent, and NPLs net of provisions exceeded banks' capital (138 percent). Collateral values continue to fall apart, adding to the debt burden of the private sector. Further, part of banks' capital is of low quality, consisting of negative goodwill and deferred tax assets that cannot absorb losses if their financial conditions were to deteriorate.

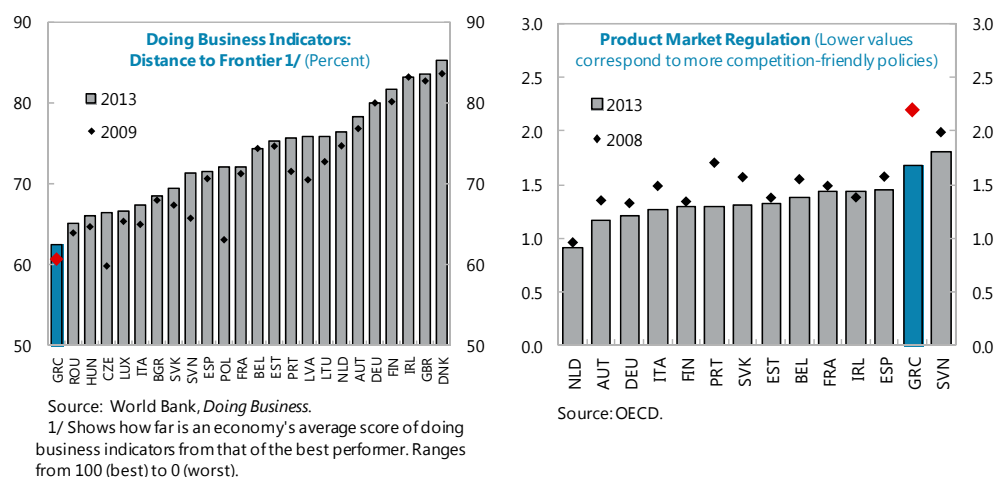


11. There has been progress, albeit uneven, on fiscal institutional reforms.

- **Tax administration.** Key performance indicators (KPIs) improved in 2013 relative to 2012 (TMU Annex Table I.1), but fell short of the targets owing to delays in transferring experienced staff from other public bodies and completing new recruitments, continued political interference in operations, and slow roll-out of reforms to local tax offices.
- **Public financial management.** Legislative and IT improvements have reduced delays in payment processes and reduced discrepancies in reporting (TMU Annex Table I.2). But arrears clearance has been delayed. According to the program definition, the stock of general government arrears fell from €8.2 billion at end-2012 to €3.9 billion at end-2013, compared with targeted elimination, due in part to a lack of funds from delayed program reviews and reflecting €3.4 billion in new arrears accumulation (importantly from the social budget, including hospitals). As a consequence, the end-2013 performance criterion on the narrowly-defined domestic arrears and the indicative target on the broadly-defined stock were missed.

- Public administration.** The overall headcount has been reduced by 161,000 since 2010 (19 percent reduction).³ On the mobility and exit scheme, which is aimed at helping rejuvenate the administration by bringing in motivated workers with needed skills and tackling the legacy of patronage hiring, the end-March 2014 exit and end-2013 mobility targets were reportedly met as prior actions. Exits were mostly from narrow groups, including the closure of the public broadcasting company, doctors in the public healthcare system who chose to exit rather than accept full-time public sector jobs, school guards, and disciplinary cases. But beyond these focused one-offs, exits have not been based on performance and constitutional restrictions against mandatory, performance-based dismissals remain an impediment. The authorities have undertaken other initiatives, such as passage of a new annual performance system to limit the share of employees receiving a top grade.

12. Key structural reform commitments are being implemented, but with delays, while some others are being re-phased (Table 10). Greece has had one of the largest improvements since the crisis on the World Bank's Doing Business indicator and the OECD's overall Product Market Regulations index. However, the improvements are from a low base, and under both indicators, Greece remains far from the euro area average. Key program commitments targeted for the second half of 2013 were implemented as prior actions, such as the OECD competition assessment ("toolkit") to liberalize four key sectors, the reduction in social security contribution (SSC) rates to lower the high tax wedge, nuisance tax reform, and opening regulated professions. Others related mainly to the labor markets are being re-phased to late 2014.



13. All but one end-2013 program performance criteria were met, but all indicative targets and most structural benchmarks were missed (MEFP Tables 1 and 2). The authorities have requested a waiver of nonobservance for the missed quantitative performance criterion on

³ Of this reduction, 87,000 were permanent public sector staff (12 percent reduction) and 75,000 were contractual (66 percent reduction). The reduction is not comparable to the MEFP target of 150,000 between 2010 and 2015 because changes in coverage increased the starting base by 105,000 which now also includes state enterprise workers. There has been a further significant increase in the hiring of EU-financed temporary workers. Nonetheless, Greece appears on track to meet the 150,000 target.

domestic arrears clearance. Several of the missed structural benchmarks are being implemented as prior actions or re-phased, or corrective actions are being taken (MEFP Tables 3 and 6).

DISCUSSIONS

A. Outlook

14. With economic developments broadly in line with the program, the macroeconomic framework is largely unchanged (Table 11). Growth is projected to pick up to about ½ percent in 2014, as the economy benefits from less fiscal adjustment this year, strong tourism bookings, and improving market access for Greek banks and corporates. Over the medium term, reflecting a rebound from very compressed levels, growth is projected above the estimated long-term potential growth of about 2 percent per year, assuming strong reform implementation. Given ample spare capacity and recent developments, inflation and GDP deflator projections have been revised down to -0.8 and -0.7 percent for 2014. With the output gap not projected to close before 2019, price dynamics in Greece are expected to trail those of its trading partners. The external current account should remain strong in 2014 on the back of another good tourism season and a recovery in shipping, but will likely face headwinds in 2015 as imports rebound with domestic demand, official interest payments increase, and EU funds fall with the new cycle.

15. Growth risks could be tilting to the upside for 2014, but are tilted to the downside over the medium term. An upside risk in the near term is a faster improvement in investor interest, boosting investment. But several downside risks could derail the expected recovery or weigh on growth, especially over the medium term: domestic political instability, including from adjustment fatigue; slippages in reform implementation, as vested interests push back; the failure to deal effectively with bank balance sheet vulnerabilities; longer than expected deflation that will be a further drag on private balance sheets; and external factors such as lower euro area growth, monetary tightening that reduces global risk appetite, and a potential escalation of the crisis in Ukraine that could hit Greece through the trade channel.

16. Public debt dynamics remain broadly unchanged (Annex I). After peaking at about 174 percent of GDP this year, debt is expected to decline to 128 percent in 2020 and 117 percent of GDP in 2022, before additional contingent relief measures from Greece's European partners. This rapid decline is predicated on primary surpluses of over 4 percent of GDP being achieved and sustained for several years as well as relatively high nominal GDP growth. Sustainability remains subject to notable downside risks, in particular, to fiscal slippages, delayed structural reforms that slow competitiveness gains, and higher than expected deflation.

B. Economic Policies

17. Discussions focused on policies to bring the program back on track, notably reforms to underpin economic growth. The priorities are ensuring the financial sector is adequately capitalized to start extending credit and supporting the economy (rather than

continue deleveraging), and implementing structural reforms to improve the investment climate and boost productivity. Amid limited progress on labor market reform commitments for this review, discussions emphasized redoubling efforts on product and service markets, where progress has thus far lagged. Absent an acceleration of these reforms, wage adjustment is likely to overshoot to compensate for the limited price adjustment, and Greece faces a risk of remaining stuck in a low-growth trap over the medium term. On fiscal policies, discussions centered on ensuring an adequate basis for meeting fiscal targets in line with the agreed debt sustainability framework, and modernizing the tax system and fiscal institutions.

Fiscal policy

18. The authorities are on track to achieve the 2014 primary surplus target of 1.5 percent of GDP (MEFP ¶4). They are distributing a one-off “social dividend” at a gross cost of €525 million, comprising largely well-targeted cash transfers to low-income households as well as €38 million for the homeless and uninsured and €37 million for security personnel. They are also lowering SSC rates and eliminating some nuisance charges (¶22 below) at a net cost of about ¼ percent of GDP. The (limited) fiscal space for these actions comes from a number of measures that the authorities are implementing to meet the target, including: (i) locking in part of the under-execution of the 2013 spending by revising spending ceilings in the 2015–18 Medium-Term Fiscal Strategy (€320 million); (ii) taking other structural measures worth about €220 million, such as

reducing spending ceilings of extra-budgetary funds (€100 million) and scaling back military procurement (about €50 million); (iii) continuing implementing the new Income Tax Code (over €350 million) that, inter alia, tightens depreciation rules and shifts professionals and small businesses under a new tax status; and (iv) applying a withholding tax on pensions (over €400 million) that brings forward tax collection to yield one-off revenue gains phased over two years.

Fiscal Policies, 2014–15

	2014	2015	2014	2015
	Billions of euros		Percent of GDP	
Primary fiscal balance target	2.7	5.6	1.5	3.0
Baseline (excluding new measures and re-quantification)	1.1	2.1	0.6	1.1
Select measures to achieve target				
Marginal effect of 2013 measures	1.7	1.3	1.0	0.7
Income tax reform	0.4	0.4	0.2	0.2
Withholding tax on pensions	0.4	0.4	0.2	0.2
Extension of claw-back on health spending	0.4	0.4	0.2	0.2
Untaxed reserves	0.3	0.0	0.2	0.0
Revised spending ceilings	0.3	0.2	0.2	0.1
2014 measures	0.1	0.3	0.0	0.1
Reduction in SSC rates	-0.4	-0.7	-0.2	-0.4
Elimination of nuisance taxes	0.0	-0.1	0.0	0.0
Social dividend	-0.5	0.0	-0.3	0.0
Court decision on judges	-0.2	-0.1	-0.1	0.0
Reductions in OAED family and training allowances	0.1	0.2	0.1	0.1
Savings in Public Investment Budget	0.2	0.0	0.1	0.0
Strengthen SSC collections and broaden the base	0.4	0.4	0.2	0.2
Administrative actions	0.3	0.3	0.2	0.2
Other (structural)	0.2	0.2	0.1	0.1
Residual primary fiscal gap		2.0		1.1

Source: IMF staff estimates and projections of net effects of fiscal measures.

19. Risks to the 2014 fiscal outlook are broadly balanced. Upside risks include higher-than-projected tax buoyancy as the economy recovers. The track record of under-executing the

budget also points to the possibility of over-performance. Downside risks include adverse court rulings on past wage cuts and property levies, the uncertain impact of new tax policy initiatives, notably those introduced in the income tax code, potential shortfalls in property taxes (the new regime became effective only earlier this year), and health sector spending. The authorities reaffirmed their commitment to take compensating measures if downside risks materialize.

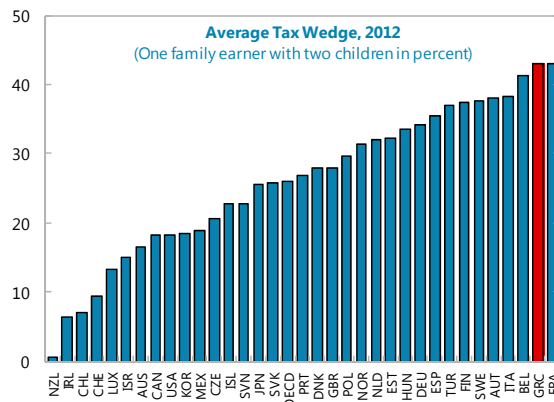
20. Additional measures are needed to close projected gaps in 2015–16, reflecting the ambitious medium-term targets to restore debt sustainability (MEFP ¶15). Preliminary staff estimates indicate a gap of around 1 percent of GDP in 2015 relative to the primary surplus target of 3 percent of GDP—the projected pickup in revenues with the cycle is, in staff’s view, insufficient to deliver the targeted increase in the primary surplus. Moreover, expiring measures add to the gap. If the 2015 gap were to be closed with permanent measures, there would be a further gap of around $\frac{3}{4}$ percent of GDP in 2016 relative to the 4.5 percent of GDP target. But the authorities estimate smaller gaps, given more optimistic projections of tax administrative gains. They and staff agreed to re-visit the projections at the time of the 2015 budget preparations. Nevertheless, the authorities reaffirmed their commitment to implement the necessary policies to achieve the fiscal targets, including by extending expiring measures as needed.

21. Modernization of tax policy and the tax system is underway, but the authorities must guard against pressures to roll back progress.

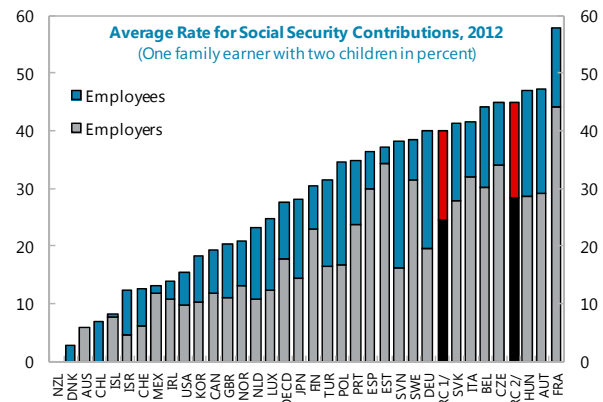
- **Income tax and tax procedures codes** (MEFP ¶19). The authorities amended the codes, aimed at simplifying policy, broadening the base, making tax administration easier, and combating evasion. But there already are pressures to roll back progress, including through new exemptions (e.g., revamping the capital gains tax on properties to exempt most of the base and reinstating or introducing further exemptions to target specific groups), and inefficient procedures that over-burden the tax administration and hinder tax debt recovery. Besides resisting pressures, in the coming months, the authorities need to close remaining loopholes, overhaul incentives, and address the remaining significant procedural bottlenecks.
- **New property tax** (MEFP ¶11). The authorities introduced a new property tax at end-2013, on a broader base (than previously collected via the utility bill) that includes commercial buildings, non-urban land, and industrial and agricultural properties. The tax includes a progressive wealth tax component, levied on the total value of property rights above €300,000. They reduced the distortionary transaction tax on properties from 10 to 3 percent.
- **VAT reform** (MEFP ¶17). The VAT system is riddled with preferential rates and exemptions that distort consumption choices and provide poorly-targeted subsidies; this is reflected in a sizeable policy gap. The authorities committed to reform VAT policy and administration.

22. To promote growth, the authorities are reducing the labor tax wedge, which is one of the highest in the OECD.

- **Cutting SSC rates** (MEFP ¶16). The authorities are cutting rates in one step, rather than over 2014–16—employers' non-pension contributions (to IKA) by 2.9 pp and employees' non-pension contributions by 1 pp. They will review the need for further cuts in mid-2015. The authorities are broadening the base and strengthening collections through mandatory declarations, penalties, and reminders, which should yield about €400 million annually.
- **Nuisance charges** (MEFP ¶17). Moreover, to improve efficiency and transparency, the authorities have abolished a number of small nuisance charges on particular transactions that were earmarked for use by certain groups. However, more work is needed to identify the full set of charges, including those that are excessive and have important fiscal implications.



Source: OECD.

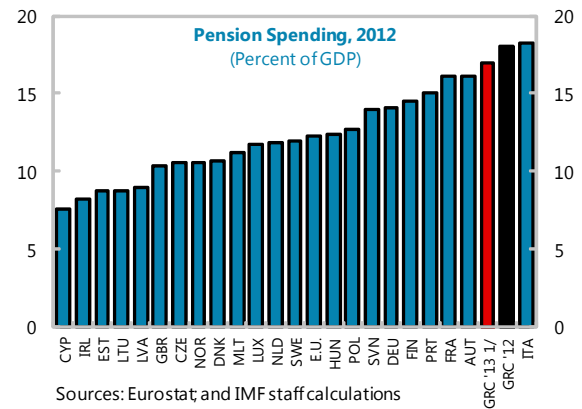


Sources: OECD; and IMF staff calculations.

1/As of July 1, 2014

2/Prior to September 2012.

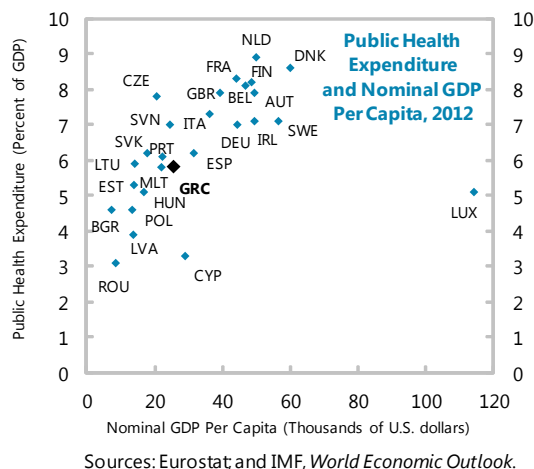
- 23. The authorities will review the need to further reform pensions to ensure viability and increase actuarial fairness** (MEFP ¶16). The progressive cuts since 2010, which were targeted at the higher pensions, have helped to contain the long-term increase in pension spending. But a number of concerns remain unaddressed: at around 17 percent of GDP, spending is among the highest in the EU, requiring very large state subsidies; the link between contributions and benefits of individuals is weak, resulting in diminished incentives to contribute; and the pension system is fragmented with varying contribution payment and benefit rules, especially in the self-employed fund. The authorities committed to address these concerns in the coming months.

Sources: Eurostat; and IMF staff calculations
1/ Data for 2013 based on IMF staff projections.

- 24. The strengthening of the social safety net has been subject to delays** (MEFP ¶18). The pilot project on a means-tested income support scheme is expected to start in September 2014, as opposed to early 2014 targeted initially. To ensure that the national rollout of the pilot can take place in 2015 as targeted, the authorities will conduct by end-June 2014 a review of their social protection and assistance systems, and identify savings to create fiscal space for additional

targeted support to the most vulnerable. The social community work program that targets the long-term unemployed in jobless households is being expanded by another 50,000 persons.

25. The authorities are taking steps to increase the transparency of government financial operations and reduce fiscal risks (MEFP ¶12). This includes restructuring state-owned enterprises (ELVO, HDS, and LARCO). In the energy sector, arrears are being cleared; financial sustainability is being restored to the renewable energy sector; energy prices will be adjusted to ensure full cost recovery and reduce cross-subsidies; and structural measures are being taken to reduce costs (¶142). Although public spending in the health sector is broadly in line with GDP per capita (albeit somewhat low considering the relatively older population), structural inefficiencies persist, e.g., the low usage and high prices of generics, which are being addressed through reforms, such as reducing excessive profit margins of pharmacies, reducing prices of medicine and diagnostic tests, and setting prescription budgets for doctors. The budgetary ceiling has been increased by €100 million to accommodate additional spending on vaccinations and medicines for the uninsured.



26. On public administration reform, the authorities are opposed to setting further quantitative targets for exits (MEFP ¶13). They consider such targets as distracting attention from other reforms. With exits so far coming mostly from one-offs (¶11), staff's concern relates to whether the taboo on dismissals has fundamentally been broken and therefore whether the efforts are durable to rejuvenate a public sector with a legacy of patronage hiring. The authorities committed to several steps in the coming months, including to: determine the appropriate size of the wage bill and employment within the public sector; decompress the wage distribution in a fiscally-neutral way (as high-skilled and high-performance workers are paid less well, while low-skilled workers are relatively well paid compared to the private sector); align non-wage benefits with best practices in the EU; undertake exits to meet this year's target of 11,000 workers as well as an indicative estimate of 2,000 exits in Q1 of 2015, and review whether to formally set targets going forward; and outsource some activities at lower cost to the private sector.

Fiscal institutional reforms

Revenue administration

27. Progress is gradually being made in bolstering the autonomy and effectiveness of the revenue administration, but gains are fragile (MEFP Annex I ¶2). The authorities adopted a new organizational structure and grading and promotion systems. But inadequate staffing, insufficient budgetary autonomy, an incomplete legal framework for merit-based and open

hirings of senior managers, and diversion from core activities remain problematic. For example, the large taxpayers' unit has many fewer staff than intended, and their work has been diverted to transfer pricing cases rather than generally targeting large taxpayers. Political interference remains a problem. Effectiveness is also hampered by a lack of clarity on the potential personal liabilities of tax officials.

28. Steps are being taken to tackle tax evasion, improve debt collection, and better process tax refunds, among others (MEFP Annex I ¶13). Amendments were adopted to facilitate information exchange between the revenue administration and the Financial Intelligence Unit that can investigate possible money laundering related to tax evasion and freeze assets. The joint SSC debt collection center is operational, but lacks a full complement of staff and social security funds need to transfer collectible debt. The authorities committed to address these issues and resist continuing pressures to weaken payment installment schemes. They are also improving the processing of tax refund claims, including taking a risk-based approach to audits of refunds.

29. New targets for key performance indicators (KPIs) have been established (MEFP Annex I ¶14). The 2014 targets maintain the positive momentum from 2013. Full-scope audits of large taxpayers have been re-defined to direct scarce resources to the audit of major taxes only. New KPIs in tax refunds and anti-money laundering will track performance on servicing taxpayers and tackling tax evasion. New KPIs have also been established to monitor progress in improving SSC collection capacity and the information infrastructure.

Public financial management

30. The authorities are strengthening the budget framework, streamlining payment processes, and improving reporting (MEFP Annex I ¶15). On the budget framework (organic budget law), binding multi-year expenditure ceilings are being set for line ministries and the health sector, binding balanced budget targets are being introduced for local governments, and performance targets are being set for state-owned enterprises. Later this year, the organic budget law will be amended to bring it further in line with best international practice. The public investment budget will also be reformed, to develop integrated monitoring with the ordinary budget over the medium term. On further streamlining payment processes, the authorities committed to enhance support for line ministries, modernize information systems, and reduce ex-ante audit volumes. On improving reporting, the first monthly fiscal report with complete above-the-line data for all subsectors of general government was recently published. Next steps are to reduce the discrepancies between the above- and below-the-line items.

31. Arrears in the social sector are a particular challenge (MEFP Annex I ¶15). Although the health-insurance fund, EOPYY, has launched external audits on claims of private entities (such as hospitals, clinics and diagnostic centers), EOPYY has not been paying claims to public hospitals on time. This is due to a lack of funding that in turn is partly a result of unclear rules of health insurance premium transfers from the social security funds to EOPYY. Public hospitals have thus been dis-incentivized to submit claims, as they expect lump-sum grants from the government to

cover their losses ex post. To rebuild the normal validation and payment process, the authorities are developing a comprehensive action plan, including a new law to ensure electronic submission of claims from all hospitals to EOPYY starting 2015.

32. To focus on the more challenging areas of public financial management, the KPIs have been re-designed (MEFP Annex I ¶6). A new KPI has been established on the timely payment of invoices. Three social sector KPIs have been introduced to monitor the timeliness of the health insurance premium transfer from the social security fund IKA to EOPYY, public hospitals' submission of claims to EOPYY, and EOPYY's audits of private entities' claims.

Financial sector policies

33. Greece faces a major challenge in resolving its private sector debt overhang. The crisis has, thus far, been a fiscal crisis. But six years of deep recession, ongoing deflation of wages and prices, rising tax burdens, and shrinking credit have severely strained private sector balance sheets. The payment culture has been weakened, including through repeated moratoria on auctioning foreclosed assets. And the insolvency framework has been unable to deal with either the rehabilitation of viable entities or the liquidation of non-viable entities. Unless resolved upfront, this overhang of debt will dampen growth, as resources remain trapped in unproductive or inefficient activities. For, unlike others, Greece does not have the luxury of waiting for growth to lift the overhang: Greece has one of the highest levels of NPLs globally (far above levels that resulted in systemic crises in a number of other countries); the economy is not competitive (the REER is overvalued and non-tourism exports are stagnant); and price adjustment will take time, especially given piecemeal and hesitant structural reforms, with added risks of debt deflation.

34. The banking sector will likely require additional capital, if it is to deal robustly with high NPLs and pave the way for economic recovery (MEFP ¶15).

- **Stress test.** In its stress test results, the Bank of Greece estimated capital needs at €6.4 billion under the baseline scenario and €9.4 billion under the adverse scenario. Staff sees upside risks to these estimates, particularly from higher credit loss projections in the adverse scenario (Box 2) and from weaknesses in the payment culture.
- **Low end of the range.** The common practice is to recapitalize banks to the adverse scenario, which ensures they have sufficient capital to cope with difficult circumstances and not have to deleverage. But in Greece's case, following the SSM, the *baseline scenario* is used to determine capital needs. In effect, the lower end of capital needs estimates—or, equivalently, a favorable view of growth and institutional reform—is being taken to recapitalize banks.
- **Not a robust strategy.** This approach should be sufficient to ensure there is no acute crisis risk (banks currently exceed prudential solvency requirements). But it is unlikely to be robust enough to ensure NPLs are written down and prolonged deleveraging is avoided, as growth cannot simply be assumed to materialize exogenously in an economy with a long-standing competitiveness gap and weak track record on reforms.

- **Regulatory forbearance.** In practice, NPL resolution can be spread over many years through regulatory forbearance, and banks may make oligopolistic profits by imposing high loan spreads and fees. But this would come at the expense of the real economy.
- **First step.** Staff preferred a more robust approach—with larger upfront recapitalization of banks—to ensure that the banks have enough capital to write-down NPLs expeditiously and soon become able again to extend new credit to growing and more efficient sectors. Nevertheless, staff considers the authorities' approach to be a first step in the right direction that allows Greek banks to get a head start on recapitalization ahead of the SSM comprehensive assessment in late 2014.

35. Capital needs will be revisited in the context of the forthcoming SSM assessment; meanwhile, the authorities committed to intensify supervision and preserve the HFSF buffer. The authorities have set aside the resources expected to remain in the HFSF after the completion of the current recapitalization round and potential resolutions of some small non-core banks, to deal with contingencies that may arise during the program or from any additional capital needs identified by the SSM assessment later this year. This reinforces the stability of the sector, and the SSM assessment provides another opportunity to review the adequacy of bank capital. The authorities also committed to strengthen supervision (MEFP ¶18), including reviewing the appropriateness of banks' loan forbearance practices and recognition of income from NPLs and monitoring banks' progress in reducing their large NPLs. The Bank of Greece may need to go beyond the minimum accounting standards for provisioning and NPL income recognition and require banks to adhere to a more conservative interpretation, given the systemic nature of NPLs.

36. Improving the private debt resolution framework and arresting the deterioration of asset quality are major focus areas going forward. The approach includes:

- **Framework for private debt resolution** (MEFP ¶19). Three key reforms are foreseen: (i) designing an out-of-court debt restructuring framework, based on international best practices, to complement the formal in-court system and facilitate the early rehabilitation of viable yet debt distressed firms; (ii) introducing a new code of conduct to regulate banks' engagement with debtors and type of restructuring tools; and (iii) reviewing the household and corporate insolvency laws to identify and close gaps that inhibit rapid rehabilitation of viable entities and quick liquidation of non-viable entities. In addition, the institutional setting needs to be strengthened, including by establishing a profession of insolvency practitioners that is adequately supervised, monitored, and appropriately incentivized.
- **Banks' strategies and capacity to work out debt.** Following BlackRock's Troubled Asset Review of September 2013, banks are improving their internal organization through specialized units to manage NPLs. Efforts in the pipeline include improvements in affordability assessment techniques and the development of new products for long-term loan restructuring. As a major shareholder, the HFSF is seeking to employ staff with commercial banking and NPL resolution experience that will enable it to engage more actively through their presence in key committees (MEFP ¶20).

37. The HFSF law was amended to allow for further official assistance to banks and to improve the effectiveness of the HFSF (MEFP ¶15, 20). To normalize the state's involvement with the financial sector, the new recapitalization law provides for full voting rights with new state investments (private sector management rights associated with the previous recapitalization were specific to the circumstances of large capital injections in banks with negative equity). It also implements European state-aid rules on burden sharing. Moreover, the law better reflects the HFSF's status. While the HFSF was initially set up with a strong degree of autonomy to insulate management of banks from political interference, the setup has not worked as intended, in part because of the need for political involvement and accountability in major decisions. Changes to the law reflect the responsibilities of the institution in maintaining financial stability by making it explicitly bound by MEFP commitments within its remit.

Privatization

38. Performance on privatization continues to fall short of expectations. Receipts for 2013 were just over €1 billion, short of the €1.6 billion indicative target (the target had been lowered in the fourth review). Several factors underpin the delays, including: de facto lack of control of the privatization agency (HRADF) over some of its assets; gaps in its tools for the sale of minority stakes; hurdles to preparing real estate for sale (clearing land titles and granting permits); lengthy regulatory processes; the need for regulatory structures for network industries; and the need for sustained support from different ministries, which is often not assured. Many factors lie beyond the HRADF's competence, and offer opportunities for resistance by vested interests. Despite the challenges, there has been some notable progress, including the conclusion of the tender for the old Hellenikon airport and the launching of the tender process for Piraeus port, while other tender processes appear to be nearing completion (regional airports and the Thessaloniki water company). Nonetheless, a more focused and coordinated effort is essential.

39. The authorities committed to remedial actions (MEFP ¶23). These actions are focused on three areas—corporate governance, real estate, and stronger government support (Box 3). Key objectives in corporate governance include strengthening the control of the HRADF over its corporate assets to ensure alignment of management with privatization objectives, and augmenting the HRADF's independence and tools. In real estate, the authorities will launch a review of land use policies (and take near-term actions such as reforms of the forestry and spatial planning laws), and are strengthening the public property management company to accelerate the maturing and transfer of properties to the HRADF. Government support initiatives are intended to increase government ownership and accountability in actions under its control; this includes the completion of 8 government actions as a prior action under the review.

40. Although the strengthened privatization process should help the HRADF meet its targets over time, the 2014 target has been revised down (MEFP ¶24). Several corporate asset sales are now expected to be finalized only in 2015, including the concessions for the Athens and Thessaloniki ports and Athens International Airport. As a result, the target for 2014 has been scaled down from €2.7 billion to €1.5 billion, with most of this reduction expected to be

recovered in 2015–16. New monitoring tools agreed with the authorities will provide for continuous tracking of progress towards meeting the revised targets. Overall projections through 2022 were lowered by €3.9 billion to €22.4 billion.

Structural reforms

41. This review emphasized product and service market reforms, where progress so far has been slower, to develop a critical mass of reforms for sustained growth (Table 12, MEFP ¶25). The design and monitoring of conditionality on growth-critical reforms continues to benefit from collaboration with other institutions, including the OECD and the World Bank.

- **Promoting competition.** The authorities committed to address nearly all 329 recommendations of the OECD regarding the liberalization of four key sectors—tourism, retail trade, building materials, and food processing (see “OECD Competition Assessment Reviews: Greece”)—with benefits from higher efficiency and lower prices. Many were adopted as prior actions; others are to be adopted during 2014. A number of measures that the OECD estimated would yield significant benefits to consumers are being implemented only partially, such as the elimination of advertising charges, removal of excessive restrictions on milk, liberalization of prices and channels of distributions of over-the-counter drugs and food supplements, and liberalization of Sunday trading. The authorities committed to review the impact of these reforms during 2014, and take steps as needed to achieve the intended benefits by Q1 2015. The authorities also committed to review restrictions in four other sectors in a similar exercise and liberalize them as needed in late 2014.
- **Reducing red tape.** The authorities committed to simplify the current burdensome and highly discretionary regime of investment licensing. They also adopted some recommendations of an OECD team to reduce administratively burdensome procedures in 13 sectors (the overall recommendations aim at reducing burdens by about 25 percent), such as simplifying labor reporting requirements, and will implement the remainder by end-June.
- **Liberalizing rentals.** The authorities reduced excessive restrictions on commercial and tourist rentals. They reduced the minimum contract duration of commercial rentals (binding only for owners) from 16 years to 3 years, which should help clear the market. To facilitate short-term tourist rentals and reduce informality, they reduced restrictions on the duration of leases, and committed to take additional measures as needed in the coming months to align the framework with EU best practice.
- **Liberalizing transport.** The authorities are taking steps to reduce excessive operating costs in maritime and air transport, which are important segments of the tourism sector. Reforms in maritime include suspending sectoral labor agreements while strengthening firm-level agreements to allow for greater competition (as was done for other sectors in 2012). On air transport, measures are to be adopted to cut costs (limiting public sector obligations only to the non-tourist season) and increase competition (leveling the playing field for entry in the domestic market by non-domestic airlines).

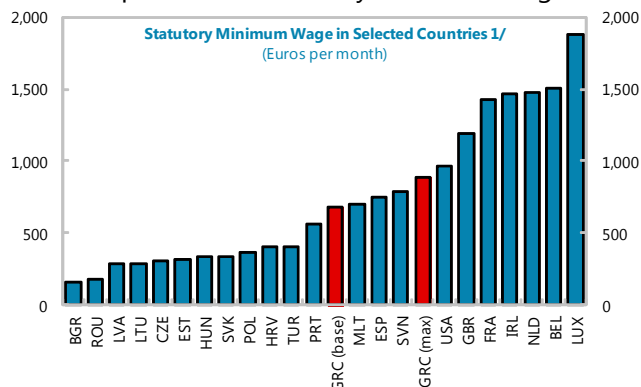
42. Wide-ranging reforms in the energy sector are aimed at reducing costs, improving competition and efficiency, and providing better incentives for investment (MEFP ¶26). The electricity transmission company ADMIE, which has already been split off from the Public Power Company (PPC), will be privatized. This should facilitate investment to connect the islands to the mainland system and reduce costs. PPC will be split into two generation and retail companies. The “small PPC” (which will take about 30 percent of PPC assets) will be privatized, which should stimulate private investment and competition. The government will also sell 17 percent share in the legacy PPC, which will reduce its holdings to 34 percent. The “capacity payment” system for gas-fired producers is being reformed to facilitate a more efficient production mix (peak demand is met by expensive gas-fired producers, who received excessively generous payments at the expense of higher user costs). Finally, the gas market is being liberalized. Gas consumption in Greece is among the lowest in the EU in per capita or per GDP terms, indicating scope for increased consumption to reduce costs and provide cleaner energy. The three local gas distribution monopolies will be opened to competition, and the gas transmission company has been sold (the deal is awaiting regulatory approval).

43. The authorities are taking further steps to open up regulated professions (MEFP ¶27). These include opening up the mediation profession (which will help reduce the high inflow of new cases in courts), eliminating remaining excessive restrictions relating to lawyers, eliminating excessive reserved activities for engineers, and adopting secondary legislation on a number of important professions and activities (including electricians, actuaries, and chartered valuers). Future steps include a follow-up review of professions that have not been fully liberalized, with identified restrictions to be addressed in the context of the next review.

44. The authorities were unable to deliver on most labor market reform commitments, given political realities (MEFP ¶28–9). Although significant reforms were adopted in this area earlier in the program, excessive restrictions remain that raise the cost of doing business and inhibit the establishment or expansion of larger-sized firms. The authorities committed to take up legislative reforms on collective dismissals and industrial actions in the next review.

- **Collective dismissals.** Disputed collective dismissals are de facto not allowed. They require the approval of the Minister of Labor, but no such approval has been granted since 1982, forcing companies to offer very high voluntary severance packages or resort to bankruptcy. Aligning the framework with good international practice requires legislative change to establish simple and easily verifiable statutory requirements, remove the required approval of the Minister of Labor, and ensure that the employer internalizes the social cost of its actions. The authorities have adopted administrative changes by moving the approval from the Minister of Labor to the Secretary General. But it is to be seen whether these changes can durably resist political pressures once the spotlight on the issue has shifted.
- **Industrial action.** The rules for strikes by unions have remained unchanged for over three decades, and Greece is an outlier in the EU in prohibiting lockouts, even as a defensive tool for employers during labor negotiations. The rules for trade union operations will be reviewed in the coming months and brought in line with EU best practices by end-October.

- Minimum wage.** The statutory minimum wage consists of a base wage and maturity allowances that add from 10 percent for 3 years of experience up to 30 percent for employees with 9 or more years of experience. This effectively brings the minimum wage for employees with at least 9 years of experience to a level that is higher than most of Greece's peers. While these maturity allowances will not be part of the statutory minimum wage from 2017, the current system is particularly problematic for less-educated, long-term unemployed with previous work experience. Full removal of these maturity allowances at least for the long-term unemployed would reduce distortions, but as a transitory step to their removal in 2017, the authorities are cutting the maturity allowance for long-term white-collar unemployed workers by 50 percent.



Source: Eurostat.

1/ In Greece, the statutory minimum wage varies from €684/month for employees without work experience to €889/month for those with more than 9 years of work experience.

- 45. Judicial reform and anti-corruption efforts are starting to yield results** (MEFP ¶30). The administrative courts' backlog (including tax cases) is being reduced steadily, although the civil courts' backlog continues to increase. To address the structural problems that are preventing civil courts from working efficiently, the authorities are committed to adopt by end-May 2014 a new and modern Code of Civil Procedure. In addition, court fees will be increased selectively (while upholding access to justice principles). The authorities recently adopted new anti-corruption legislation, aligning the legal and regulatory framework with international standards.

PROGRAM MODALITIES

Program Monitoring

- 46. The authorities have implemented 14 prior actions to set the stage for Board consideration of the much-delayed fifth review** (MEFP Table 3). These measures are geared to ensure that the program remains on track towards achieving its objectives:

- Restoring fiscal sustainability.** Prior actions cover: (i) revising expenditure ceilings in the 2015–18 MTFS (MEFP ¶4); (ii) restoring fiscal sustainability of the RES account (MEFP ¶12); and (iii) placing 25,000 staff into the mobility scheme and achieving 5,000 exits (MEFP ¶13).
- Strengthening fiscal institutions.** Prior actions cover: (i) adopting secondary legislation on the ITC and TPC (MEFP ¶10); (ii) taking steps to implement the new structures for the revenue administration (MEFP Annex I ¶2); and (iii) implementing a repo borrowing framework with general government entities to help alleviate financing constraints in 2014 (MEFP Annex I ¶5).

- **Preserving financial stability.** Prior actions cover: (i) adopting legislation governing the injection of public resources into banks through the HFSF (MEFP ¶15); and (ii) improving the debt resolution framework (MEFP ¶19).
- **Supporting privatization.** A prior action covers adopting legislation to strengthen HRADF's control in companies in which it is the majority shareholder, implementing pending government actions in the privatization process, and launching the tender process for Thessaloniki port (MEFP ¶23).
- **Supporting structural reforms.** Prior actions cover: (i) legislating a reduction of SSC rates by 3.9 p.p. (MEFP ¶6); (ii) abolishing nuisance taxes (MEFP ¶7); (iii) adopting OECD recommendations to promote competition (MEFP ¶25); (iv) liberalizing the legal profession (MEFP ¶27); and (v) adopting minimum wage legislation to increase incentives to hire long-term unemployed workers (MEFP ¶29).

47. New structural benchmarks are proposed to be established (MEFP Table 6). These are broadly aimed at: (i) securing fiscal sustainability; (ii) preserving financial stability; (iii) supporting growth and competitiveness; (iv) promoting employment; and (v) enhancing fiscal transparency.

48. The authorities are requesting a re-phasing of reviews. In light of the delays in completing this review and to reflect a realistic review schedule going forward, the authorities are requesting a reduction to 12 reviews and re-phasing of three purchases evenly over the remaining reviews in 2014. The sixth review is scheduled on or after August 31, 2014, and the seventh review on or after November 30, 2014 (Table 13). Quantitative performance criteria have been proposed for three subsequent test dates, through end-2014.

Exceptional access criteria, financing assurances, and capacity to repay

49. The program continues to satisfy the substantive criteria for exceptional access with little to no margin (Box 4). Delays in the implementation of structural reforms raise concerns about the capacity of the authorities to implement the program in a difficult political environment. Nevertheless, continued adherence to the core fiscal goals and efforts undertaken in the form of strong prior actions mitigate these concerns and allow the program to satisfy the criteria for exceptional access. The continued commitment of euro area member states to support Greece, including by providing additional official financing to fill future financing and through further debt relief as necessary, is an essential part of meeting the criteria.

50. Financing assurances are in place for the fifth review (Table 14–15). The program is fully financed for the next 12 months. With only €1.9 billion remaining in committed financing

from European partners following the completion of the current review,⁴ the authorities have mobilized alternative resources to meet prospective gross financing needs, including through:

- **Market re-access.** The authorities have taken advantage of favorable financing conditions and re-accessed international capital markets with a 5-year bond issuance of €3 billion at yield of 4.95 percent (about half of the issuance was reportedly purchased by asset managers and about one-third by hedge funds).
- **Buyback of bank preference shares.** In March 2014, Alpha Bank and Piraeus Bank raised enough new private capital to repurchase preference shares held by the government for €940 million and €750 million, respectively. A corresponding amount of the Pillar I bonds falling due in May will therefore be cancelled.
- **Intra-governmental borrowing.** The authorities have set up a repo framework using state government assets as collateral to draw on excess liquidity in general government subsectors for up to €3 billion.
- **Cancellation of uncalled guarantees.** In 2009, the government issued bonds to an extra-budgetary fund (ETEAN) to support bank lending to SMEs. Fewer guarantees have been called than expected, allowing the government to cancel about €430 million of the ETEAN bonds upon maturity in August.

The Eurogroup's commitment in February and November 2012, reiterated in the statement of April 1, 2014, to provide adequate support to Greece during the life of the program and beyond provides good prospects that future financing gaps can be closed.

51. Greece's capacity to repay the Fund remains adequate (Table 16). The macroeconomic outlook, debt service to the Fund, and peak access remain broadly unchanged. Euro area member states remain committed to an official support package that will help keep debt on a sustained downward path as long as Greece adheres to all program policies. Therefore, capacity to repay the Fund also depends on the authorities' ability to implement in full an ambitious program. If the program were to go irretrievably off-track and euro area member states did not continue to support Greece, the capacity to repay the Fund would likely be insufficient.

STAFF APPRAISAL

52. Fiscal adjustment continues to impress. Greece has gone from having the weakest to the strongest cyclically-adjusted fiscal position within the euro area in just four years. This is an extraordinary achievement by any international comparison. This, above all, speaks to the government's determination to pull Greece out of the crisis.

⁴ About €0.8 billion left over from the PSI facility has been cancelled.

53. But more fiscal adjustment is needed to restore debt sustainability. And once there, the primary surplus will have to be maintained at above four percent of GDP over the full political cycle for many years to come. The adjustment fatigue now evident and the “social dividends” and “no new measures” promised by political leaders suggest that the political commitment to the debt strategy will be severely tested going forward. This strategy leaves no scope for any notable increases in wages and pensions from current levels in the run-up to national elections in 2016. On the contrary, with tax rates already high and discretionary spending compressed, achieving the necessary additional fiscal adjustment without further cuts in wages and social transfers, not least pensions, which remain high relative to GDP, will only be possible with a dramatic improvement in the efficiency of the public sector. This is why the program is heavy on structural measures to build modern fiscal institutions and overhaul Greece’s still exceptionally inefficient public sector. In this regard, while there are finally signs of improvement in tax administration, progress still disappoints. This challenge continues to pose a critical risk to the program.

54. Structural reforms are progressing, although unevenly. The redoubling of efforts to liberalize products and service markets are much welcomed, as this is the area where reforms have been most unsatisfactory to date. The bold move to reduce the tax wedge by cutting social security contributions in one go, rather than in a phased manner, is also a major step forward. On the other hand, labor market reforms are delayed. It is critical in the context of the next review that restrictions on collective dismissals are eliminated—no such dismissal has been approved for thirty years—and that employers are afforded the right of defensive lockouts. These are areas where Greece remains an extreme outlier and where introduction of normal European practice could significantly improve the investment climate.

55. NPLs now pose a serious threat to banks’ ability to support a recovery. The asset quality review revealed NPLs much above levels at which other advanced countries have found it difficult to avoid systemic crisis. In staff’s view, given the constraints of currency union and structural impediments to growth, the Bank of Greece targets for additional capital reflect optimistic assumptions about banks’ ability to grow their way out of the NPL problem as the economy recovers. While there is no acute stability risk, staff is concerned that banks will struggle to do so and that capital constraints will force them into prolonged de-leveraging, with attendant risk to the economy. In view of the limited competition, staff is also concerned that banks will seek to repair balance sheets by extracting rents from the real economy through excessive spreads and fees. In staff’s view, it is critical that regulators do not shy away from forcing banks to recognize losses on the basis of more realistic assumptions about loan recovery. Greece is an outlier in this regard within the euro area and tackling this problem could provide an early test of the new Single Supervisory Mechanism.

56. Debt sustainability remains a serious concern. Debt to GDP is yet to peak, and the extraordinary levels projected well into the next decade suggest that sustainability concerns will remain an obstacle for the recent improvement in investor sentiments to translate into a durable recovery, especially if doubts resurface about the political resolve to maintain a high primary surplus. With debt projected to exceed the targeted path, it is, therefore, essential that Greece’s

European partners reaffirm their commitments to the agreed debt strategy by standing ready to provide the additional relief needed to keep debt on this path.

57. Overall, recent developments suggest grounds for cautious optimism. Investor sentiments are improving faster than expected, and staff is increasingly confident that a modest recovery will take hold this year, after six years of deep recession. There are even signs that short-term risks might be tilting to the upside, suggesting that Greece could be at the start of a virtuous cycle. This is very good news, and it reflects above all the government's determination, which has taken Grexit risks off the table for now. However, recent developments—especially the fact that exports have failed to become a strong driver of growth, contrary to other countries in the periphery—underscore that structural reforms are still well away from the critical mass needed to achieve a more durable improvement in investor sentiments. A determined implementation of structural reforms, in particular a continuation of the product and service market liberalization that is finally becoming a main focus of the program, and repair of private and public balance sheets, is needed to ensure that the turn-around now in sight will become a robust, sustained, and balanced recovery. In this regard, it is imperative that the authorities guard against complacency setting in, and avoid long delays in implementing reforms and completing program reviews.

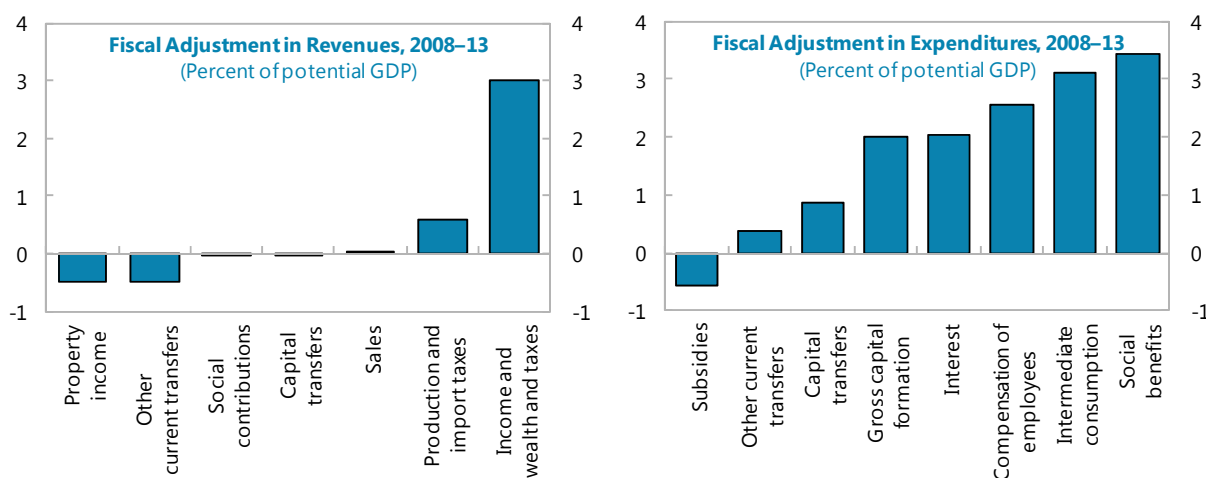
58. On the basis of reforms undertaken in the context of this review, and the government's policy commitments going forward, staff supports the completion of the fifth review. Staff supports the authorities' requests for the waiver on the missed performance criterion on domestic arrears clearance, given the delay in program disbursements and corrective actions taken by the authorities, and for re-phasing of three purchases evenly over the remaining reviews in 2014.

Box 1. Magnitude and Quality of Greece's Fiscal Adjustment

Over the past five years, Greece has implemented a very ambitious fiscal adjustment. The estimated output gap swung from about +10 to -10 percent of potential output between 2008 and 2013. The ESA deficit that had steadily increased through the 2000's skyrocketed to -15½ percent of GDP by 2009, raising the general government debt to about 130 percent of GDP. Against this background, bringing the ESA balance (according to the program definition) to -3.2 percent in GDP in 2013 required a very significant structural adjustment.

The adjustment has been largely expenditure led. The figure below provides a decomposition of the change in the cyclically-adjusted balance into the revenue and expenditure components that in total amount to about 16½ percent of potential GDP during 2008–13.

- *Revenue policies have concentrated on direct taxes on income and wealth*, reflecting a series of reforms to, inter alia, steepen the rate structure and streamline income tax exemptions, introduce the social solidarity surcharge, strengthen taxation of pensions and social benefits, and considerably scale up taxes on properties. Structural efforts among other revenue items have been more equally balanced and are based on increases in the rate structure of social contributions and VAT as well as on measures to enhance compliance.
- *Contributions of spending components to fiscal adjustment have been more broad-based.* The two largest spending items—compensation of employees and social benefits—account for about half of primary adjustment in spending, though at the same time have contributed less relative to their size. Compensation of employees has adjusted in line with actual GDP, whereas social benefits have increased considerably as a share of actual GDP, reflecting automatic stabilizers. In contrast, intermediate consumption and capital formation have fallen very sharply as a share of actual GDP. Public capital formation has been cut to 2.1 percent of GDP in 2013, which is low by international standards. Measures have been implemented as parametric reforms or reductions in binding budget ceilings, thus ensuring credibility of the adjustment.

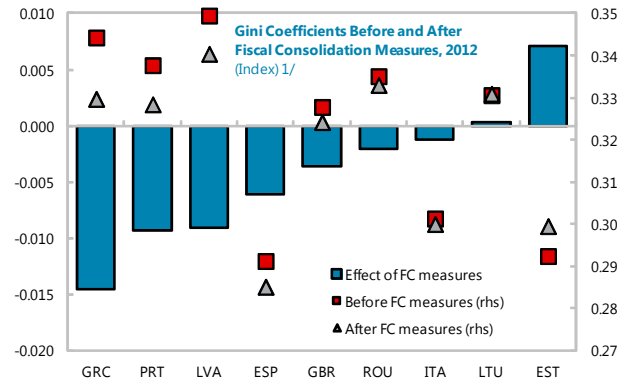


Sources: Eurostat; and IMF staff calculations.

Box 1. Magnitude and Quality of Greece's Fiscal Adjustment (concluded)

Efficiency considerations are mixed. Where stabilizing public debt and alleviating financing constraints is an overarching objective, fiscal adjustment of this magnitude is bound to touch a wide range of instruments of public finance, making the net growth effects hard to disentangle. Spending-led consolidations are usually found to be more durable, with public wage cuts supporting needed adjustment in the real exchange rate. Shifting the tax-structure toward property taxation and VAT is commonly found to be growth enhancing or contributing to internal devaluation. On the other hand, increasing the statutory corporate income tax rate, although bolstering revenues, can hinder capital investment and lower productivity.

Overall, the fiscal adjustment in Greece has been progressive. Evaluating the redistributive impact of fiscal policies requires netting out their effect from other factors affecting the income distributions. Avram and others (2013)¹ use a tax-benefit micro-model to simulate the direct effect of fiscal consolidations on household disposable income. The resulting impact on the Gini coefficient suggests that fiscal measures have been able to counteract increases in the inequality induced by the market. Public wage and pension cuts hurt the low income earners less, pension and other benefits were subjected to progressive taxation, and taxation of immovable property has been strengthened and includes progressive wealth-tax component. These policies have more than offset the potentially regressive measures such as hikes in VAT rates.



Sources: Avram *et al.* (2013), "The Distributional Effects of Fiscal Consolidation in Nine Countries," EUROMOD Working Paper No. EM 2/13; and IMF staff calculations.
1/ The effect of fiscal consolidation measures equals the difference between Gini coefficients before and after the fiscal consolidation measures.

Further policies should be tailored to address remaining imbalances and balance efficiency and equity outcomes:

- *Combat tax evasion.* While debt collection is improving with higher capacity and new tools in place, tax evasion by high-wealth individuals and self-employed remains rampant.
- *Streamline VAT reduced rates and set a sufficiently high registration threshold.* Avoiding differential rates enhances efficiency and eliminates badly targeted subsidies. A sufficiently high registration threshold will reduce compliance costs and enhance equality by reducing taxes on small traders.
- *Introduce targeted guaranteed minimum income (GMI) program while means-testing other welfare benefits.* Well-designed GMI programs provide last-tier social assistance to most vulnerable. Other welfare programs should be means-tested to reduce duplication and further increase progressivity.
- *Continue with structural reforms in the health sector to reduce inefficiencies, but take action to expand coverage to low-income households.* Against the background of very high long-term unemployment, concerns remain over the uninsured with limited access to medicines and hospital care.
- *Finalize pension reforms.* The pension system remains fragmented and reliant on state transfers.
- *Strengthen incentives for employment.* Boosting employment can achieve the dual goal of yielding efficiency and equity gains. Such features include making use of in-work benefits, conditioning benefits on participation in active labor market policies, and improving actuarial fairness in the pension system.
- *Review and streamline all income tax exemptions,* including taxation of investment vehicles and their participants to safeguard revenue and increase fairness of the tax system.

¹ Avram and others (2013), "The distributional effects of fiscal consolidation in nine EU countries," EURMOD Working Paper No. EM 2/13.

Box 2. Greece: Stress Test

The Bank of Greece conducted a follow-up stress test in the second half of 2013, based on end-June 2013 data, to update banks' estimated capital needs. The results were announced on March 6, 2014 (see the "Capital Needs" table below). The main features of the exercise are reproduced in the table below.

The exercise comprised: an Asset Quality Review (AQR) of the banks' loan portfolios conducted by BlackRock; and a Capital Needs Assessment, conducted by the Bank of Greece. In addition, an independent Troubled Assets Review (TAR) was conducted by BlackRock to assess the operations of the banks in dealing with their large stock of NPLs.

- *AQR and Credit Loss Projections.* The AQR was a qualitative review of the adequacy of banks' lending procedures and the quality of their loan portfolios. BlackRock developed statistical models that used loan-level characteristics as well as macroeconomic variables (real GDP, unemployment, and residential and commercial real estate prices) to estimate credit losses on banks' loan portfolios over the stress test horizon and the lifetime of the loans for both the baseline and adverse scenarios. The findings of the TAR and AQR informed the design and underlying assumptions for the models.
- *Capital Needs Assessment.* Two scenarios were used: the baseline scenario reflects program projections as of the fourth review, while the adverse scenario developed by the Bank of Greece assumed that the economic recovery is delayed further and is weaker (details are on the Bank of Greece's website). The Bank of Greece used a bottom-up approach, similar to the previous exercise, to estimate banks' capital needs, using as inputs banks' restructuring plans for the stress test horizon period.

Staff considered certain assumptions of the Bank of Greece to be on the more optimistic side, including:

- *Proportion of lifetime losses.* The Bank of Greece chose the concept of losses at the time-of-realization for calculation of capital needs under the adverse scenario (meaning banks can defer full provisioning to the time when the loan is written off, rather than upfront when a default occurs), but imposed provisions for at least 85 percent of lifetime losses. Staff believes that the time-of-default is the more appropriate concept. Under the adverse scenario, using this concept would imply provisions for an average of about 95 percent of lifetime losses and yields additional capital needs of over €4 billion.
- *Losses on the residential portfolios.* Peak unemployment assumed in the adverse case increased from 18 percent in 2011 to 27 percent in 2013; house price peak-to-trough has increased from 22 percent in 2011 to 49 percent in 2013; and starting-point NPLs rose from 22 percent of total loan balances in 2011 to 35 percent in 2013. Nevertheless, estimates of lifetime losses implied significant recovery of NPLs in the adverse scenario, which seems inconsistent with the large deterioration in the assumed macro environment and portfolio performance. Using more prudent estimates of recovery rates yields additional capital needs of at least €2 billion.
- *Payment culture.* Although a lifting of the two blanket moratoria on execution of collateral was assumed (and one has already been partially extended by one more year), a key ongoing risk relates to whether the deterioration in the payment culture has been stemmed.

Box 2. Greece: Stress Test (concluded)**Capital Needs Under the Baseline and Adverse Scenarios**

(Millions of euros)

Bank	Capital Needs Under the Baseline Scenario	Capital Needs Under the Adverse Scenario
Alpha	262	560
Eurobank	2,945	4,980
NBG	2,183	2,502
Piraeus	425	757
Sub total	5,815	8,799
Attica	397	434
Panellinia	169	186
Total	6,382	9,418

Source: Bank of Greece.

Note: The exercise showed no additional capital needs for ABB, Credicom, and IBG.

Main Features of the 2013 Bank of Greece Stress Test Exercise

	Bank of Greece Exercise	EBA 2014 EU-Wide Exercise
Horizon	3.5 years Jun., 2013 – Dec., 2016	3 years Dec., 2013 – Dec., 2016
Balance sheet assumption	Dynamic balance sheet	Static balance sheet
Reference point	Jun., 2013	Dec., 2013
Binding scenario	Baseline	Baseline
Coverage	All Greek commercial banks covering 95 percent of banking system assets.	All "significant" credit institutions (130 banks in 18 countries covering 85 percent of euro area bank assets). Covers four core banks in Greece.
Pass/fail threshold	8 percent and 5.5 percent under the baseline and adverse scenarios, respectively	8 percent and 5.5 percent under the baseline and adverse scenarios, respectively
Capital definition	Core tier 1	Common equity tier 1

Source: IMF staff.

Box 3. Findings of Privatization Review

The HRADF, together with the EC/ECB/IMF, reviewed the status of privatization efforts across its portfolio to identify reasons for delays and find remedies. The obstacles and remedies can be grouped into three areas:

Corporate governance. Although the HRADF owns a majority stake in most of its assets, it lacks effective control over their boards and management and is thus not able to ensure the companies are following policies conducive to privatization (e.g., avoiding entrance into long-term contracts or implementing restructuring plans to reduce costs and improve value to bidders). To address this, the HRADF will assess management teams at companies based on criteria approved by its board, and take necessary remedies; and it will appoint at least one board member to each of its companies. Legislation was passed requiring the HRADF to exercise its shareholder rights through frameworks of cooperation that will govern its relations with its companies and set targets and goals linked to the privatization process. Further, the HRADF law has been amended to enhance the autonomy of its board and give it more tools to effect asset sales.

Real estate. The government owns more than 70,000 unutilized properties that can be sold. However, its information on these properties is outdated and many are occupied or subject to competing ownership claims. Once it establishes clear legal title, it must secure an array of permits (including spatial or town planning, forest, environmental, archaeology, and coast), each of which typically is time consuming, before the property is mature for sale. To address these issues, the authorities are strengthening the Public Property Company (ETAD), which will launch a project to establish information and clear property rights over its holdings, including through a pilot project focused on 1,000 most promising properties, to be completed in the near term. The authorities will pass legislation to reform spatial planning, forestry, and coastal use laws to streamline the permitting process, and to create a framework for selling illegally occupied property to the occupants. This will be followed by a more comprehensive review of land-use policies—with the help of external experts—whose objective will be to formulate an action plan for improving legal clarity and reducing drastically the time and procedures needed to complete the permitting process.

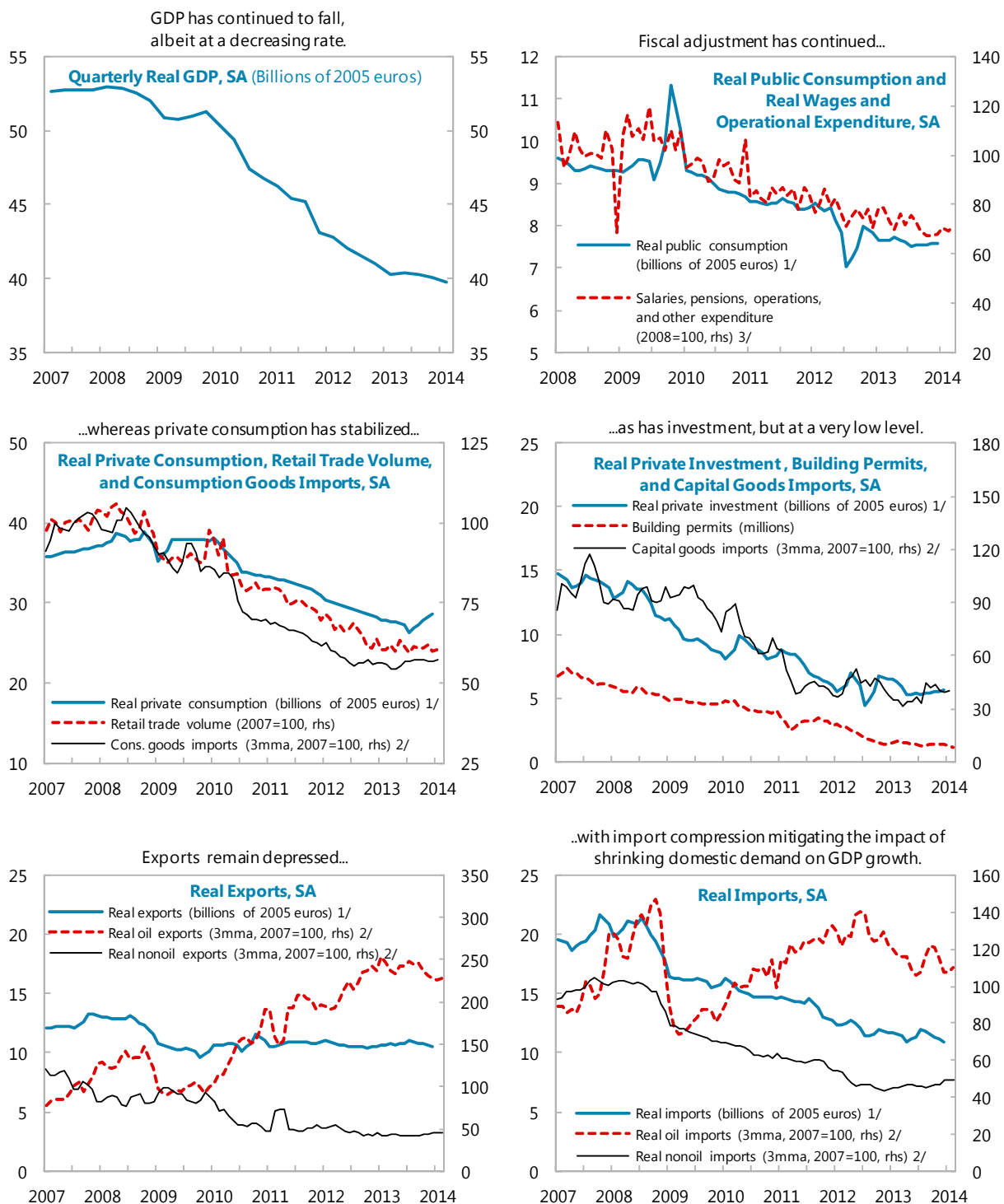
Government support. While the HRADF is in charge of privatizing assets, many of the actions needed to conclude sales are the responsibility of the Greek State. Examples include issuance of Ministerial Decisions, submission of legislation to parliament, and setting up well-functioning regulatory bodies for network industries. Delays in completing such actions have contributed to the slower-than-projected pace of asset sales. In response, the government has set up an inter-ministerial working group that will meet regularly to review and expedite government pending actions. As a prior action, eight pending government actions will be completed. To track progress on privatization and facilitate early intervention in case of slippages, the HRADF will report monthly to the EC/ECB/IMF on its project plans and timelines for completion of sales.

The actions taken as a response to the review of privatization have the potential to expedite sales, provided they are backed by political will. Even so, legal, regulatory, and procedural hurdles will likely remain factors in the speed of privatization. It will be important to continue monitoring progress closely to identify and address future obstacles that emerge.

Box 4. Greece: Exceptional Access Criteria

The program continues to satisfy the substantive criteria for exceptional access but with little to no margin. This assessment assumes that euro area member state support Greece, including by providing additional official financing to fill future financing gaps and through further debt relief, if necessary.

- **Criterion 1.** *The member is experiencing or has the potential to experience exceptional balance of payments pressures on the current or capital account, resulting in a need for Fund financing that cannot be met within the normal limits.* Balance of payments support beyond normal access limits continues to be required since external financing needs remain large and financial conditions remain adverse.
- **Criterion 2.** *A rigorous and systematic analysis indicates that there is a high probability that the member's public debt is sustainable in the medium term. However, in instances where there are significant uncertainties that make it difficult to state categorically that there is a high probability that the debt is sustainable over this period, exceptional access would be justified if there is a high risk of international systemic spillover.* In light of the commitments from euro area member states to provide additional debt relief as necessary, the baseline debt trajectory is sustainable in the medium-term but subject to significant risks. In the near term, debt will remain very high, giving rise to uncertainties that make it difficult to categorically affirm that debt is sustainable with a high probability. However, the risk of international systemic spillovers in case of a permanent interruption of the program remains high and justifies exceptional access.
- **Criterion 3.** *The member has prospects for gaining or regaining access to private capital markets within the timeframe when Fund resources are outstanding.* The government re-accessed markets for the first time in four years, which is an important milestone. Near-term prospects for further market access are strong, but large issuances at relatively short maturities and generally high yields would adversely impact debt sustainability. A gradual return to market access backstopped by official financing by euro area member states will ensure Greece has financing on a scale and timing adequate to secure repayment of Fund resources.
- **Criterion 4.** *The policy program of the member provides reasonably strong prospect of success, including not only the member's adjustment plans but also its institutional and political capacity to deliver that adjustment.* Program implementation has been difficult given the social and political environment, but the authorities have demonstrated program ownership and policy resolve through continued adherence to the core fiscal goals and the implementation of prior actions in key areas. Technical assistance from the EC and the IMF is supporting the authorities' efforts. On this basis, staff assesses there is a reasonably strong prospect of success of the program.

Figure 1. Greece: Demand Indicators, 2007–14

Sources: Elstat; Bank of Greece; and IMF staff estimates.

1/ Interpolated monthly.

2/ Deflated by PPI excluding energy.

3/ Deflated by CPI.

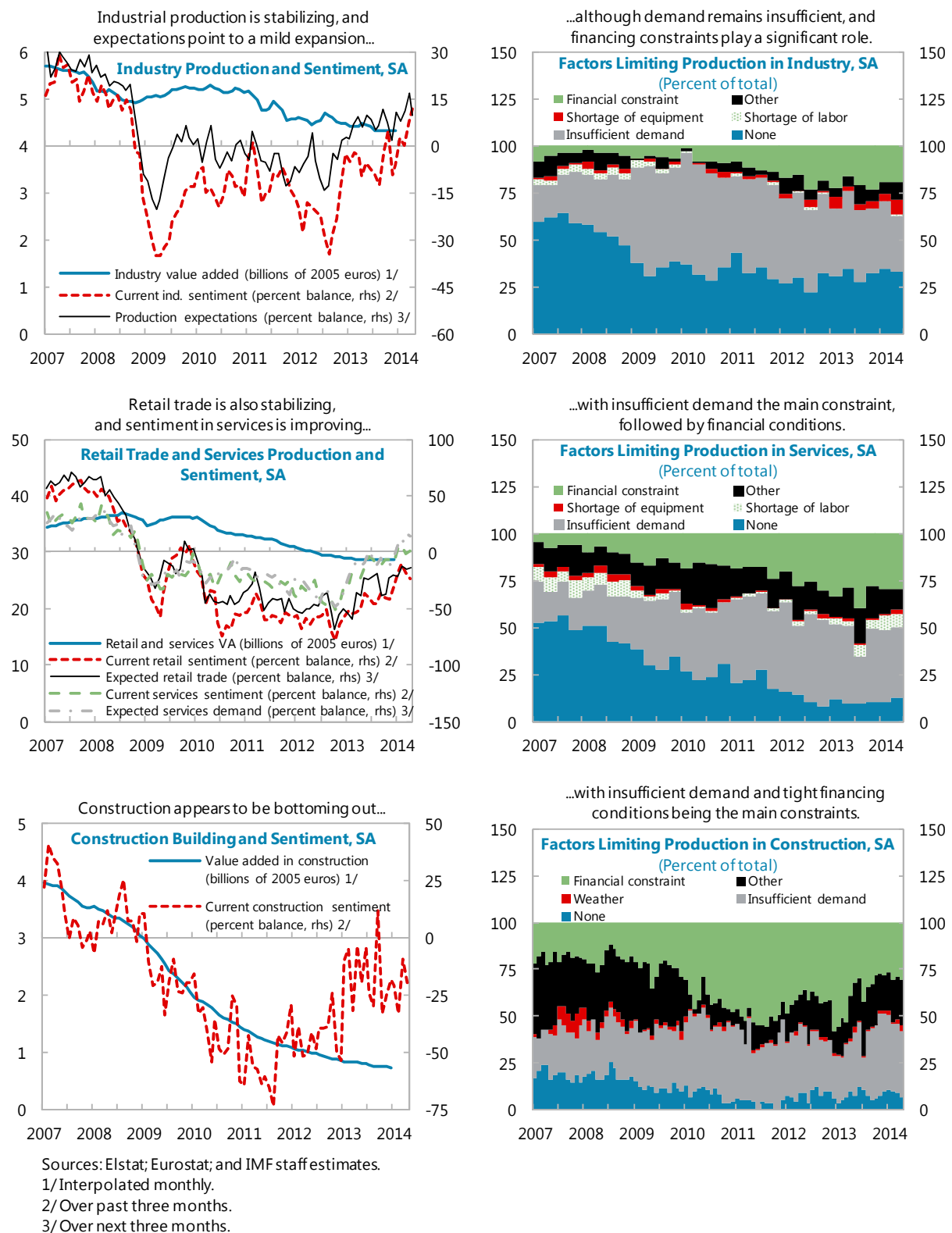
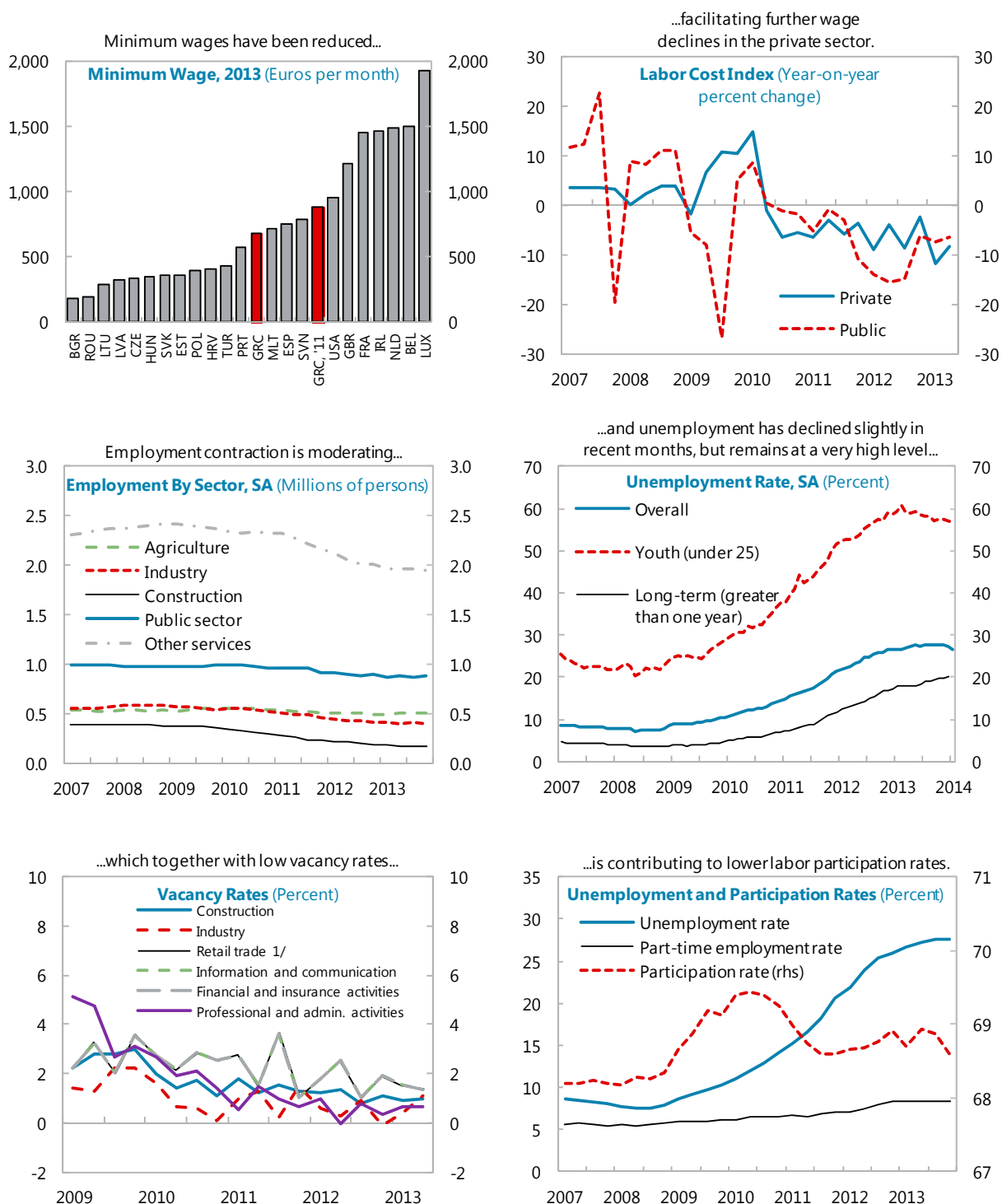
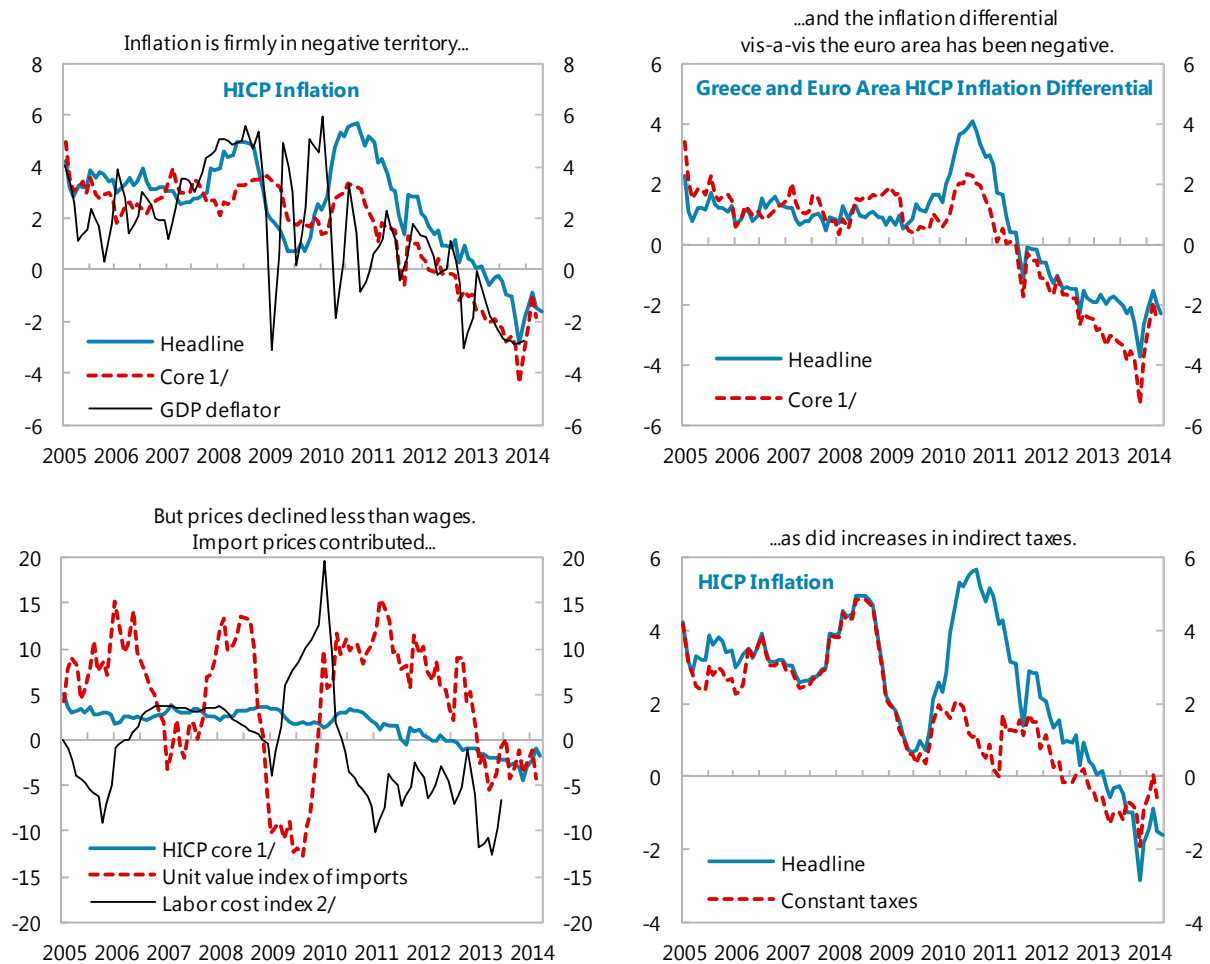
Figure 2. Greece: Supply Indicators, 2007–14

Figure 3. Greece: Labor Market Developments, 2007–13

Sources: Elstat; Eurostat; Haver Analytics; and IMF staff calculations.

1/ Includes wholesale and retail trade, transportation and storage, and accommodation and food service activities.

Figure 4. Greece: Inflation Developments, 2005–14
(Year-on-year percent change)

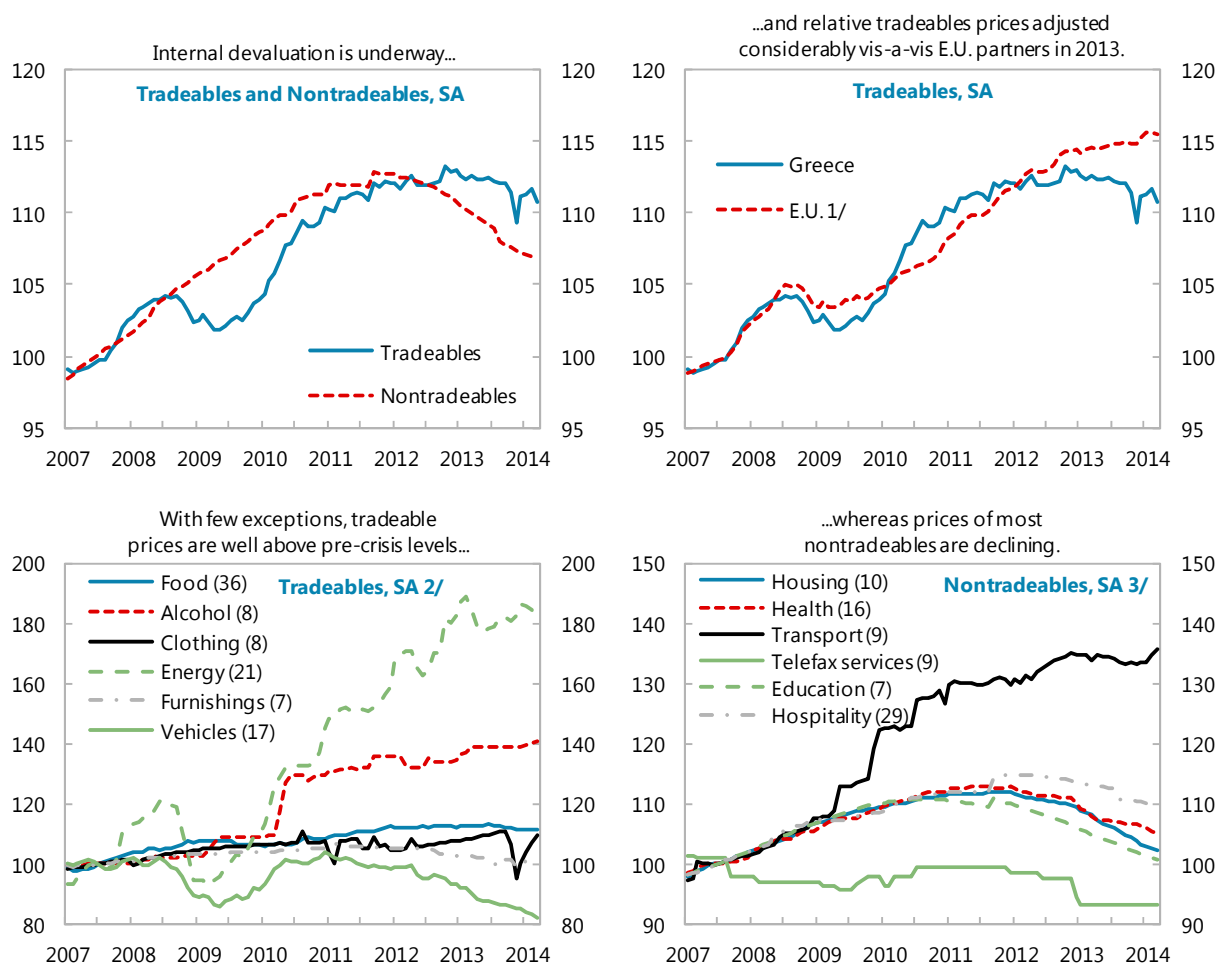


Sources: Elstat; Eurostat; Haver Analytics; and IMF staff calculations.

1/ Excludes food, alcohol, tobacco, and energy.

2/ Private sector business economy. Interpolated monthly from seasonally adjusted data.

Figure 5. Greece: Major Components of Tradeables and Nontradeables in HICP Inflation, 2007–14 (2007=100)

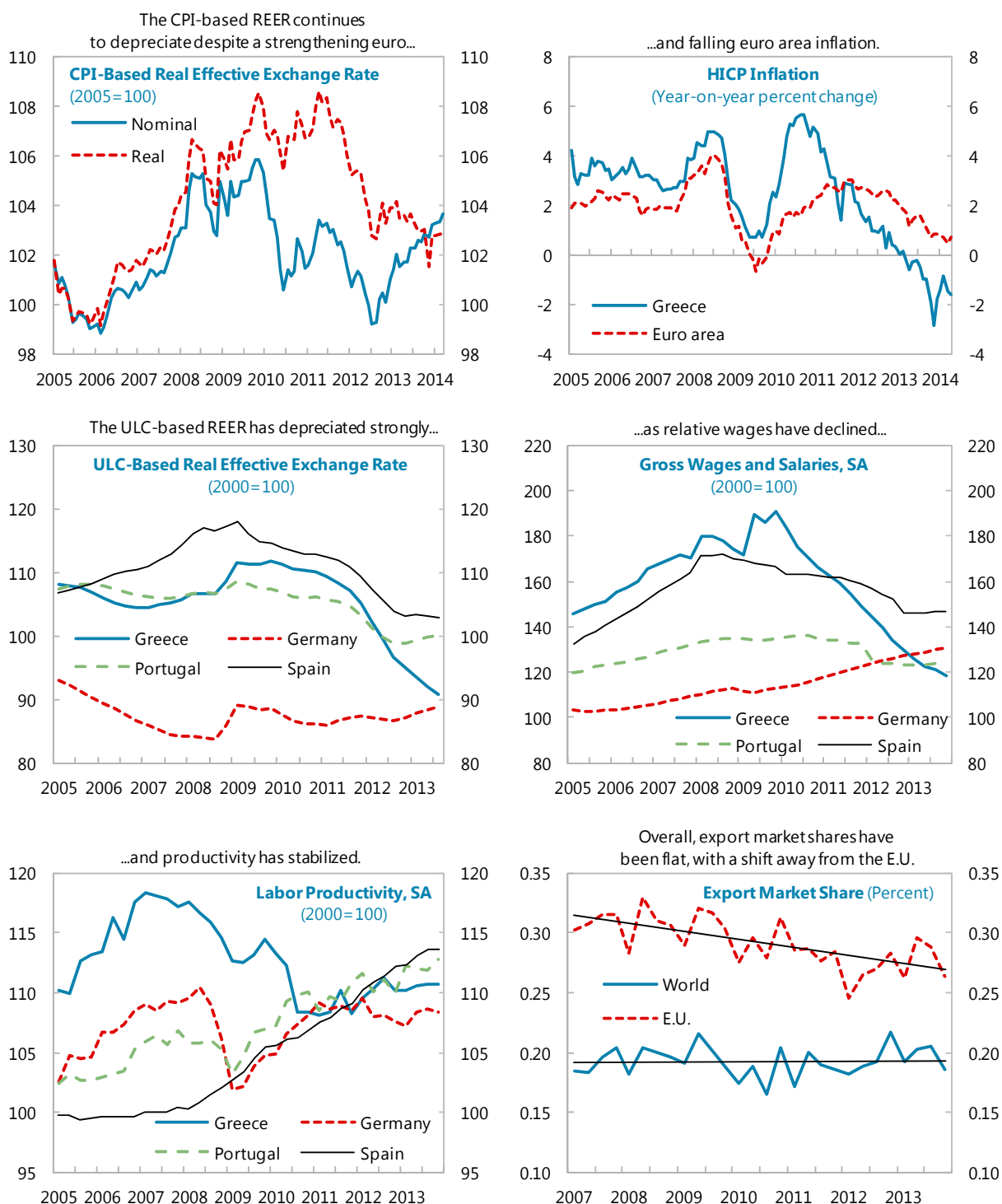


Sources: Eurostat; and IMF staff calculations.

1/ The E.U. represents nearly three-quarters of Greece's trading partners.

2/ Weights in parentheses show 2014 weight of total tradeables index.

3/ Weights in parentheses show 2014 weight of total nontradeables index.

Figure 6. Greece: Competitiveness Indicators, 2005–14

Sources: Haver Analytics; Eurostat; IMF, *Direction of Trade Statistics*; and IMF staff calculations.

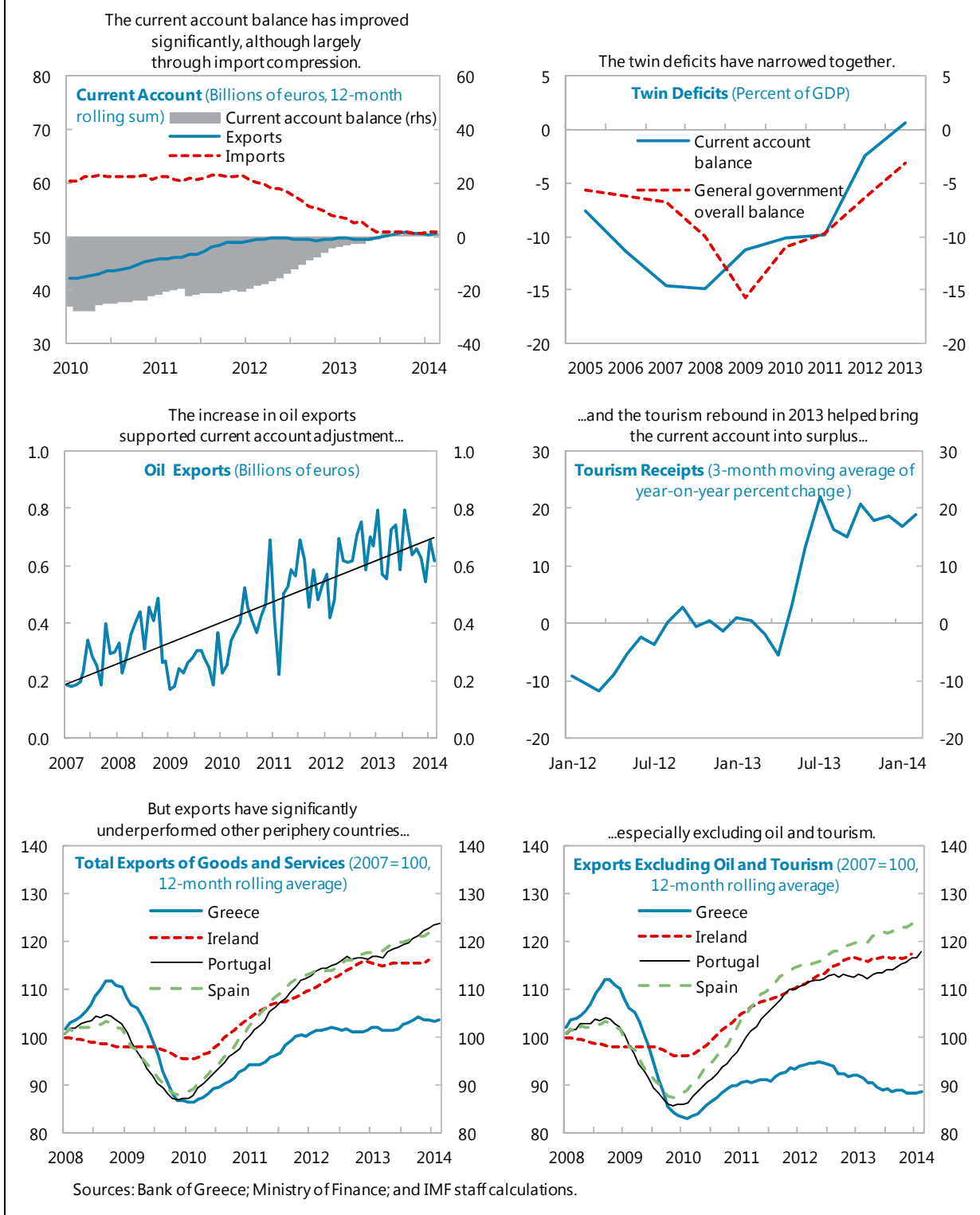
Figure 7. Greece: Balance of Payments, 2005–14

Figure 8. Greece: Revenue and Expenditure Trends, 2000–13

(Percent of GDP)

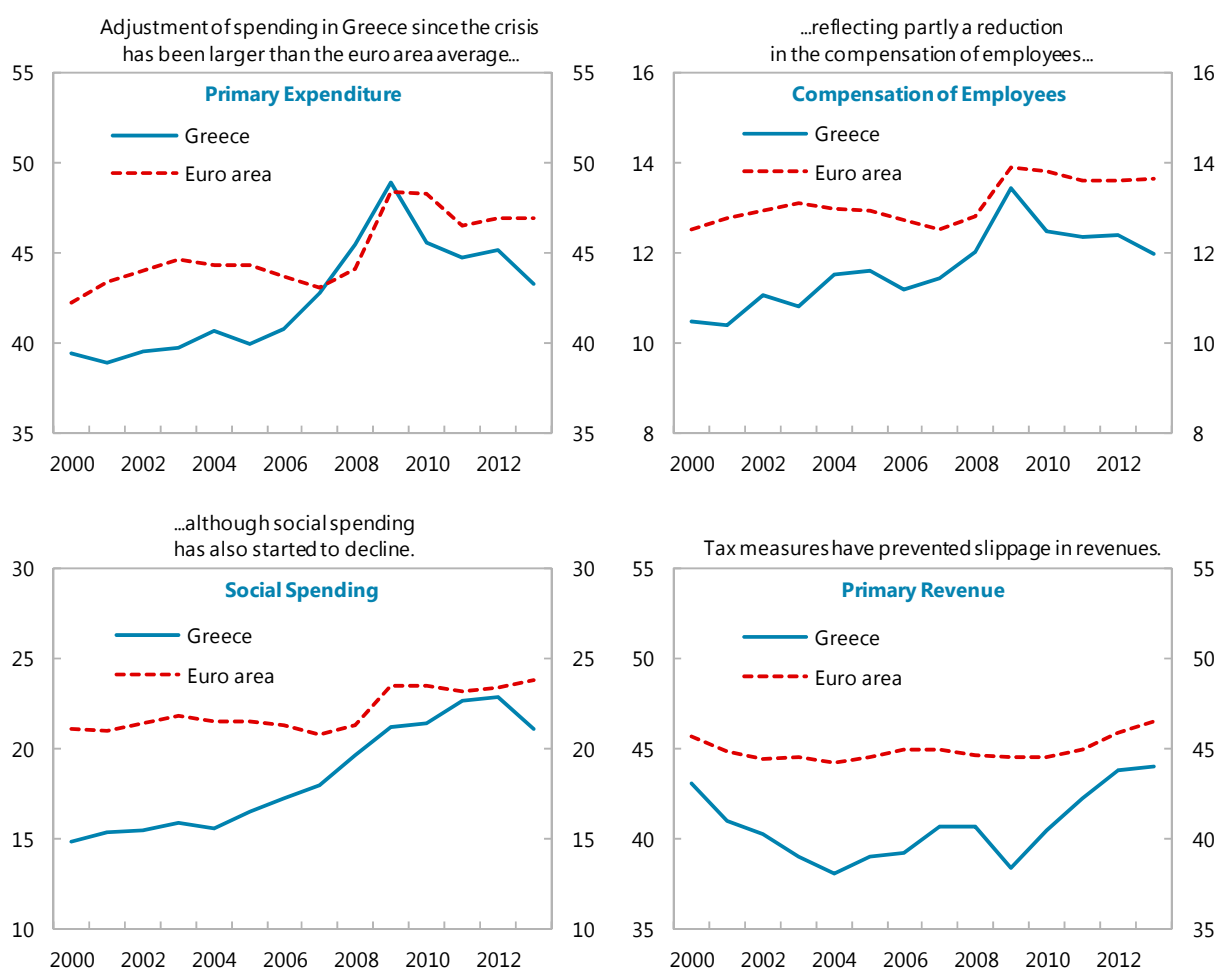
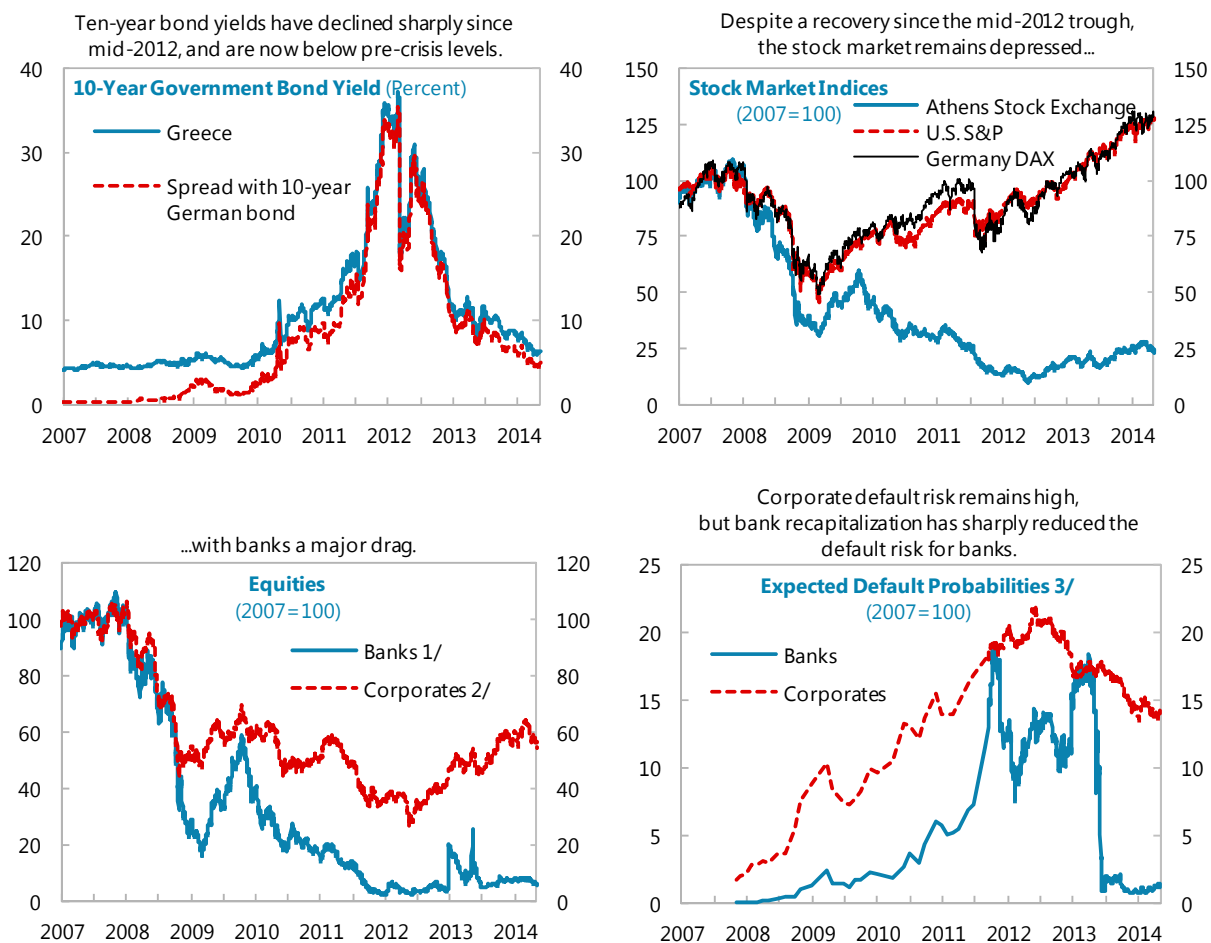
Sources: Greek authorities; IMF, *World Economic Outlook*; and IMF staff estimates and projections.

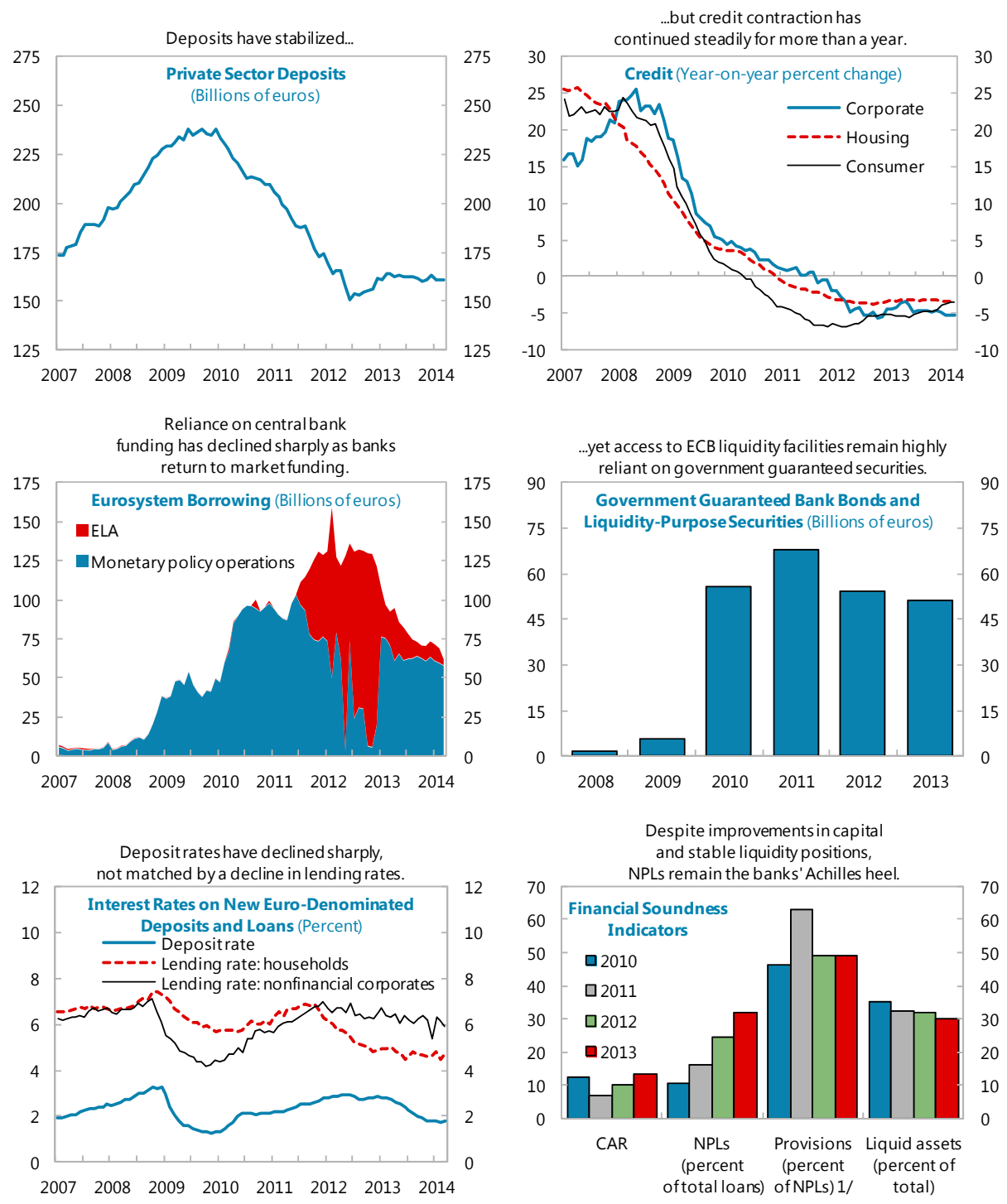
Figure 9. Greece: Financial Indicators, 2007–14

Sources: Bloomberg; InTrade; Moody's CreditEdge; and IMF staff calculations.

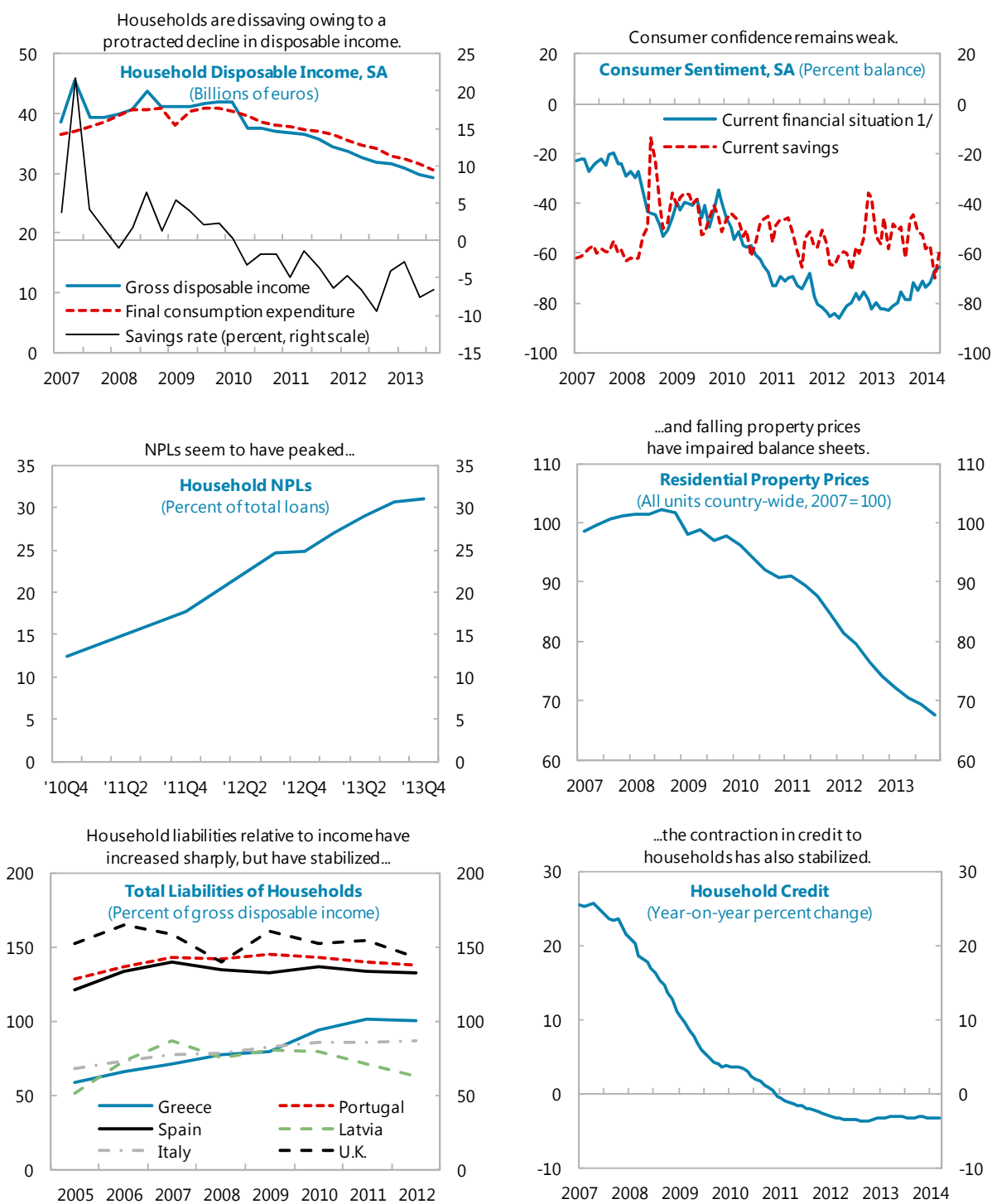
1/ Simple average of National Bank of Greece, Alpha Bank, EFG Eurobank, and Piraeus.

2/ Simple average of Coca-Cola Hellenic Bottling, Hellenic Petroleum, Hellenic Telecom, OPAP, and Titan Cement.

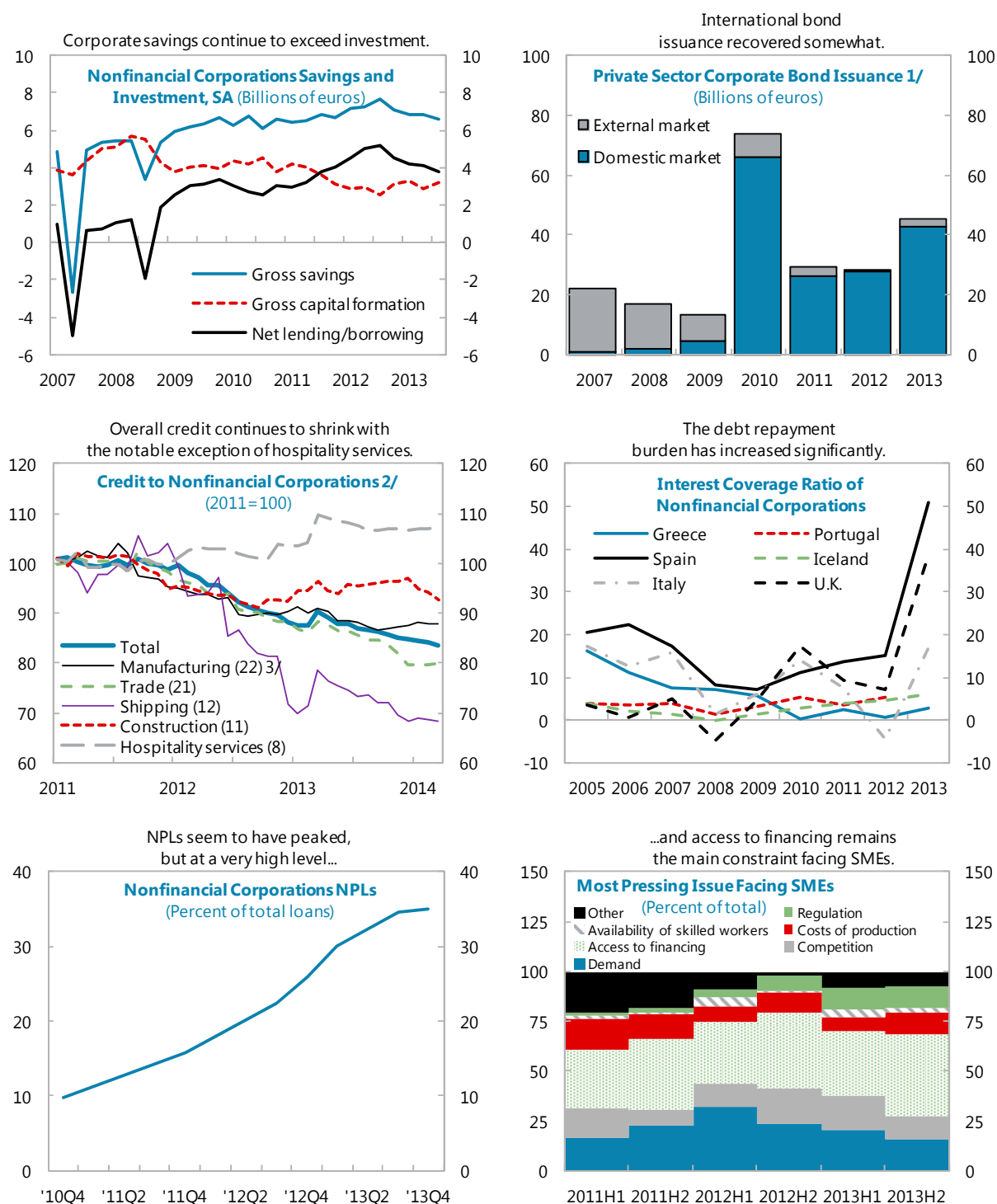
3/ Current 1-year EDF calculated by Moody's Analytics. EDF is the probability of default defined as the failure to make a scheduled debt payment. The EDF is driven by both asset volatility and market leverage.

Figure 10. Greece: Money and Banking Developments, 2007–14

Sources: Bank of Greece; Elstat; and IMF staff estimates.
1/ Nonperforming loans exclude restructured loans.

Figure 11. Greece: Household Balance Sheet, 2007–14

Sources: Bank of Greece; Eurostat; European Commission; European Central Bank; and IMF staff estimates.
1/ Over past 12 months.

Figure 12. Greece: Corporations' Balance Sheet, 2005–14

Sources: Bank of Greece; Bloomberg; Eurostat; European Commission; European Central Bank; and IMF staff estimates.

1/ Financial and nonfinancial corporations.

2/ Shares in parentheses show end-2013 share of total credit.

3/ Includes mining and quarrying.

Table 1. Greece: Selected Economic Indicators, 2010–15

	2010	2011	2012	2013	2014		2015
				Prel.	Prog.	Proj.	Proj.
(Percentage change, unless otherwise indicated)							
Domestic economy							
Real GDP 1/	-4.9	-7.1	-7.0	-3.9	0.6	0.6	2.9
Output gap (percent of pot. output)	3.2	-2.7	-8.4	-10.5	-9.5	-9.4	-6.8
Total domestic demand	-7.0	-8.7	-12.2	-5.8	-1.1	-1.0	2.0
Private consumption	-6.2	-7.7	-9.3	-6.0	-1.6	-1.8	1.7
Public consumption	-8.7	-5.2	-6.9	-4.1	-6.2	-1.7	-2.0
Gross fixed capital formation	-15.0	-19.6	-19.2	-12.8	8.4	5.9	9.7
Change in stocks (contribution)	0.7	-0.4	0.9	0.8	0.0	-0.1	-0.1
Foreign balance (contribution)	3.0	2.4	3.9	2.0	1.8	1.5	0.8
Exports of goods and services	5.2	0.3	-1.7	1.8	4.6	4.1	5.2
Imports of goods and services	-6.2	-7.3	-13.8	-5.3	-1.9	-1.3	2.2
Unemployment rate (percent) 2/	12.5	17.7	24.2	27.3	26.0	25.8	23.8
Employment 2/	-2.7	-6.8	-8.0	-4.0	0.6	1.3	2.6
Unit labor costs	0.1	-2.4	-5.1	-6.9	-1.6	-1.8	-0.3
Consumer prices (national definition), period average	4.7	3.3	1.5	-0.9	-0.4	-0.8	0.3
Consumer prices (HICP), period average	4.7	3.1	1.0	-0.9	...	...	...
Core prices, period average 3/	2.6	1.1	-0.3	-2.4	...	...	...
GDP deflator	1.1	1.0	-0.3	-2.1	-0.4	-0.7	0.4
(Percent of GDP, unless otherwise indicated)							
Balance of payments							
Current account	-10.1	-9.9	-2.4	0.7	-0.3	0.7	0.2
Structural current account balance	-8.6	-10.7	-5.3	-4.0	-4.2	-3.3	-2.5
Trade balance	-6.8	-6.0	-2.3	-0.2	1.5	1.1	2.1
Export of goods and services	20.5	23.4	25.6	27.6	28.3	28.6	29.2
Imports of goods and services	-27.3	-29.5	-27.9	-27.9	-26.8	-27.5	-27.1
Total transfers	0.1	0.3	0.7	2.5	1.5	2.2	1.5
Net income receipts	-3.5	-4.1	-0.8	-1.5	-3.2	-2.7	-3.4
Net international investment position	-98.4	-84.5	-109.1	-116.4	-117.3	-114.1	-108.7
Public finances (general government)							
Total revenues	40.4	42.2	43.8	44.0	43.6	44.6	43.2
Total expenditures 4/	51.4	51.9	50.2	47.2	46.8	47.3	45.1
Primary expenditures 4/	45.5	44.7	45.1	43.2	42.1	43.1	40.2
Overall balance	-11.0	-9.6	-6.4	-3.2	-3.2	-2.7	-1.9
Primary balance	-5.1	-2.4	-1.3	0.8	1.5	1.5	3.0
Cyclically-adjusted primary balance	-6.3	-1.3	2.5	5.7	5.9	6.0	6.1
Gross debt	148.3	170.3	157.2	175.1	174.0	174.2	171.0
Interest rates and credit							
Lending interest rate (percent) 5/	6.1	6.8	5.8	5.1	...	5.4	...
Private credit growth (percent change) 6/	0.0	-3.1	-4.0	-3.9	-4.0	-3.7	-1.6
Exchange rates, end-period (percent change) 5/							
Nominal effective exchange rate	-3.7	0.0	-0.5	2.2	...	1.2	...
Real effective exchange rate (CPI-based)	-1.2	-0.7	-2.0	-1.1	...	-1.3	...
Real effective exchange rate (man. ULC-based)	0.8	-6.1	-8.4	-2.4	...	-2.1	...
Memorandum items:							
Nominal GDP (billions of euros)	222.2	208.5	193.3	182.1	184.0	181.9	187.9
Nominal GDP (percent change)	-3.9	-6.1	-7.3	-5.8	0.2	-0.1	3.3

Sources: Elstat; Ministry of Finance; Bank of Greece; and IMF staff projections.

1/ Starting from 2013 projections GDP components are weighted using weights from the previous year.

2/ Based on Labor Force Survey.

3/ Core prices exclude energy, food, alcohol, and tobacco.

4/ Includes unidentified measures for 2015.

5/ Data for 2014 as of February.

6/ Includes securitized or otherwise transferred loans from 2010 onward.

Table 2. Greece: Summary of Balance of Payments, 2011–19

	2011	2012	2013	2014	2015	2016	2017	2018	2019
			Prel.			Proj.			
(Billions of euro)									
Current account balance	-20.6	-4.6	1.2	1.2	0.3	0.4	1.5	1.7	2.7
Balance of goods and services	-12.6	-4.5	-0.4	2.1	3.9	4.7	6.4	7.9	9.2
Goods balance	-27.2	-19.6	-17.2	-16.3	-15.9	-16.1	-16.0	-16.0	-16.5
Exports	20.2	22.0	22.5	23.1	24.0	25.0	26.4	27.6	29.0
Imports	47.5	41.6	39.8	39.4	39.9	41.1	42.4	43.6	45.5
Services balance	14.6	15.1	16.8	18.3	19.8	20.8	22.4	23.9	25.7
Credit	28.6	27.5	27.8	28.9	30.8	32.5	34.6	36.6	38.8
Debit	14.0	12.4	11.0	10.6	11.0	11.7	12.2	12.7	13.1
Income balance	-8.6	-1.6	-2.8	-4.8	-6.3	-7.0	-8.0	-8.6	-8.7
Credit	3.3	3.8	3.5	3.6	4.0	4.5	4.9	5.4	5.9
Debit	11.9	5.4	6.4	8.4	10.4	11.5	12.9	14.0	14.6
Current transfers (net)	0.6	1.4	4.5	4.0	2.7	2.7	3.1	2.4	2.2
Capital and financial account balance	-21.0	-104.9	-31.0	-15.6	-13.2	-2.8	-5.4	-5.2	-5.0
Capital account balance	2.7	2.3	3.0	3.0	3.1	3.2	3.2	2.7	1.8
Financial account	-23.7	-107.2	-34.0	-18.6	-16.3	-6.0	-8.6	-7.9	-6.7
Direct investment	-0.5	0.8	2.4	1.5	2.1	2.8	2.5	2.7	3.1
Portfolio investment	-19.8	-99.9	-6.6	1.4	-2.5	-1.5	-2.8	0.7	-1.1
Of which: government	-23.3	-57.0	-8.8	-3.5	-6.1	-2.8	-4.6	-1.2	-3.0
Other investment (excl. program financing)	-3.4	-8.1	-29.7	-21.5	-15.9	-7.4	-8.3	-11.3	-8.8
Reserve assets (increase = -)	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Net errors and omissions	0.1	-0.4	-0.7	0.0	0.0	0.0	0.0	0.0	0.0
Program financing, net	41.5	109.9	30.4	14.4	0.2	2.4	4.0	3.6	2.3
Unidentified financing	0.0	0.0	0.0	0.0	12.6	0.0	0.0	0.0	0.0
(Percent of GDP)									
Current account balance	-9.9	-2.4	0.7	0.7	0.2	0.2	0.7	0.8	1.2
Balance on goods and services	-6.0	-2.3	-0.2	1.1	2.1	2.4	3.1	3.6	4.0
Goods balance	-13.1	-10.1	-9.5	-8.9	-8.5	-8.2	-7.7	-7.4	-7.2
Services balance	7.0	7.8	9.2	10.1	10.6	10.6	10.8	11.1	11.3
Income balance	-4.1	-0.8	-1.5	-2.7	-3.4	-3.5	-3.9	-4.0	-3.8
Current transfers	0.3	0.7	2.5	2.2	1.5	1.4	1.5	1.1	1.0
Capital and financial account balance	-10.1	-54.3	-17.0	-8.6	-7.0	-1.4	-2.6	-2.4	-2.2
Capital account balance	1.3	1.2	1.7	1.6	1.7	1.6	1.5	1.2	0.8
Financial account	-11.3	-55.5	-18.7	-10.2	-8.7	-3.1	-4.2	-3.6	-2.9
Direct investment	-0.2	0.4	1.3	0.8	1.1	1.4	1.2	1.3	1.4
Portfolio investment	-9.5	-51.7	-3.6	0.8	-1.3	-0.7	-1.4	0.3	-0.5
Of which: government	-11.2	-29.5	-4.8	-1.9	-3.3	-1.4	-2.2	-0.5	-1.3
Other investment	-1.7	-4.2	-16.3	-11.8	-8.4	-3.7	-4.0	-5.2	-3.8
Reserve assets (increase = -)	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Net errors and omissions	0.1	-0.2	-0.4	0.0	0.0	0.0	0.0	0.0	0.0
Program financing	19.9	56.8	16.7	7.9	0.1	1.2	1.9	1.6	1.0
Unidentified official financing / market access	0.0	0.0	0.0	0.0	6.7	0.0	0.0	0.0	0.0
Gross external debt	225.5	233.5	233.4	230.3	212.5	198.6	188.3	181.7	172.3
Public sector 1/	173.5	183.6	179.8	175.9	159.3	147.1	138.9	133.8	126.2
Private sector	52.0	49.9	53.6	54.4	53.2	51.5	49.4	47.9	46.1
Memorandum item:									
Current account balance in cash terms	-9.9	-2.4	1.2	1.6	2.1	2.6	3.3	3.4	3.8
Structural current account balance	-10.7	-5.3	-4.0	-3.3	-2.5	-1.6	-0.3	0.5	1.2

Sources: Bank of Greece; and IMF staff estimates.

1/ Includes debt of the monetary authority.

Table 3: Greece: General Government Operations, 2011–17 1/

	2011	2012	2013	2014	2015	2016	2017
			Prel.	Proj.			
(Billions of euros)							
Revenue	88.1	84.7	80.2	81.1	81.2	83.5	87.1
Indirect taxes	26.7	24.2	23.5	23.1	23.9	25.0	25.7
Direct taxes	18.2	19.2	18.5	20.3	20.5	20.3	20.9
Social contributions	27.3	26.4	24.4	24.9	25.1	26.0	26.6
Other current revenue	5.5	4.6	4.4	3.5	3.4	3.5	3.7
Sales	5.3	5.2	4.7	5.1	4.9	4.9	5.6
Capital revenue	5.1	5.0	4.7	4.2	3.4	3.8	4.5
Primary expenditure	93.2	87.3	78.7	78.2	77.6	78.4	79.6
Social benefits	47.2	44.2	38.3	38.1	38.1	38.5	39.1
Subsidies	1.0	0.5	0.6	1.4	1.3	1.3	1.1
Other current expenditure	2.7	2.4	2.9	2.3	2.7	2.5	2.8
Compensation of employees	25.7	23.9	21.8	21.2	20.8	20.7	20.8
Intermediate consumption	9.8	9.6	8.2	8.2	7.7	7.9	8.3
Investment	6.7	6.5	7.0	7.0	7.0	7.5	7.5
Unidentified measures	0.0	0.0	0.0	-0.2	2.0	3.7	1.8
Primary balance	-5.1	-2.6	1.5	2.7	5.6	8.9	9.3
Interest	15.0	9.7	7.2	7.6	9.1	10.1	10.8
Overall balance	-20.1	-12.3	-5.8	-4.9	-3.5	-1.3	-1.5
Gross debt (Maastricht)	355.2	303.9	318.7	317.0	321.2	316.3	314.0
(Percent of GDP)							
Total primary revenue	42.2	43.8	44.0	44.6	43.2	42.4	42.2
Indirect taxes	12.8	12.5	12.9	12.7	12.7	12.7	12.4
Direct taxes	8.7	9.9	10.2	11.2	10.9	10.3	10.1
Social contributions	13.1	13.7	13.4	13.7	13.3	13.2	12.9
Other current revenue	2.6	2.4	2.4	1.9	1.8	1.8	1.8
Sales	2.6	2.7	2.6	2.8	2.6	2.5	2.7
Capital revenue	2.4	2.6	2.6	2.3	1.8	1.9	2.2
Total primary expenditure	44.7	45.1	43.2	43.0	41.3	39.8	38.5
Social benefits	22.7	22.9	21.1	20.9	20.3	19.5	18.9
Subsidies	0.5	0.3	0.3	0.8	0.7	0.7	0.6
Other current expenditure	1.3	1.3	1.6	1.2	1.5	1.3	1.3
Compensation of employees	12.3	12.4	12.0	11.7	11.1	10.5	10.1
Intermediate consumption	4.7	5.0	4.5	4.5	4.1	4.0	4.0
Investment	3.2	3.4	3.8	3.8	3.7	3.8	3.6
Unidentified measures	0.0	0.0	0.0	-0.1	1.1	1.9	0.9
Primary balance	-2.4	-1.3	0.8	1.5	3.0	4.5	4.5
Interest	7.2	5.0	4.0	4.2	4.9	5.1	5.2
Overall balance	-9.6	-6.4	-3.2	-2.7	-1.9	-0.6	-0.7
Gross debt (Maastricht)	170.3	157.2	175.1	174.2	171.0	160.5	152.0
Nominal GDP (billions of euros)	208.5	193.3	182.1	181.9	187.9	197.1	206.6

Sources: Ministry of Finance; and IMF staff projections.

1/ Calculations based on program definitions as outlined in the TMU.

Table 4. Greece: Modified General Government Cash Balance, 2012–17 1/

	(Billions of euros)								
	2012	2013	2014 (cumulative)				2015	2016	2017
			Mar.	Jun.	Sep.	Dec.			
	Act.	Prel.	Proj.						
I. State budget									
Revenue	51.6	50.3	12.4	22.6	36.9	53.1	51.1	51.1	53.8
Ordinary budget (A + B + C - D)	48.0	45.7	10.3	20.4	33.6	47.9	47.3	48.3	49.7
A. Recurrent revenue	49.7	47.2	10.8	21.3	35.0	49.5	49.0	50.3	51.9
1. Direct taxes	21.1	20.1	4.2	8.5	15.6	22.4	21.4	21.3	22.1
Income taxes	13.3	11.5	1.9	5.0	9.6	13.7	14.0	14.0	14.7
PIT	10.0	8.0	1.4	3.1	6.3	8.9	9.4	9.2	9.6
CIT	1.7	1.7	0.0	0.9	1.7	2.6	2.5	2.7	2.8
Other	1.6	1.8	0.5	1.0	1.6	2.1	2.2	2.1	2.2
Property taxes	2.9	3.0	0.9	1.1	2.4	3.6	2.7	2.7	2.7
Tax arrears collection	1.8	2.8	0.9	1.3	1.7	2.0	2.3	3.0	3.1
Other direct taxes	3.1	2.8	0.5	1.0	1.9	3.1	2.3	1.6	1.6
2. Indirect taxes	26.1	24.5	5.4	11.0	17.1	24.1	24.8	26.0	26.7
Transaction taxes	15.7	14.7	3.4	6.7	10.4	14.1	14.6	15.4	15.8
VAT	15.0	13.8	3.3	6.5	10.1	13.6	14.1	14.9	15.4
Other	0.7	0.8	0.1	0.2	0.3	0.5	0.5	0.5	0.5
Consumption taxes	9.6	9.0	1.8	3.8	5.9	9.0	9.2	9.4	9.6
Tax arrears collections	0.5	0.5	0.2	0.3	0.5	0.6	0.7	0.8	0.8
Other indirect taxes	0.3	0.4	0.1	0.2	0.3	0.4	0.4	0.4	0.4
3. Tax Installment Scheme	0.0	0.0	0.0	0.1	0.1	0.2	0.2	0.1	0.0
4. Transfers EU	0.2	0.2	0.0	0.0	0.1	0.3	0.2	0.2	0.2
5. Nontax revenue	2.2	2.4	1.1	1.8	2.3	2.8	2.6	2.8	2.9
B. One-off revenue	1.5	1.6	0.3	0.6	0.8	1.2	0.9	0.9	0.9
C. Revenue from concession and rights	0.0	0.1	0.0	0.0	0.0	0.2	0.0	0.0	0.0
D. Tax refunds	3.2	3.1	0.7	1.5	2.3	3.1	2.9	3.0	3.2
Investment budget	3.6	4.6	2.0	2.2	3.3	5.2	3.8	2.9	4.1
A. EU flows	3.4	4.5	2.0	2.1	3.2	5.0	3.6	2.7	3.9
B. Own revenues	0.2	0.1	0.0	0.1	0.1	0.2	0.2	0.2	0.2
Expenditure	68.1	58.8	...	...	...	56.3	54.3	54.2	54.6
Ordinary spending	62.0	52.2	...	...	...	49.5	47.9	47.5	47.9
Ordinary primary spending (includes guarantees to entities inside the general government)	49.7	45.8	10.3	20.8	31.2	43.7	42.5	42.0	42.4
A. Remuneration and pensions	20.5	18.4	4.6	9.2	13.7	18.4	18.1	17.9	18.0
B. Insurance and healthcare	17.1	15.9	3.3	6.8	9.9	13.6	12.5	12.2	12.2
C. Operating and other expenditure	6.4	6.3	1.1	2.3	3.7	5.6	5.5	5.2	5.1
D. Earmarked revenue	3.5	3.5	0.9	1.9	2.8	3.8	3.9	4.3	4.3
E. Reserve	0.0	0.0	0.0	0.0	0.3	0.9	1.2	1.2	1.2
F. Guarantees to entities inside the general government	0.7	0.5	0.4	0.4	0.4	0.5	0.4	0.4	0.9
G. Guarantees to entities outside the general government	0.1	0.4	0.0	0.1	0.2	0.2	0.2	0.1	0.2
H. EFSF commitment fee	0.5	0.1	0.0	0.0	0.0	0.1	0.0	0.0	0.0
I. Spending on military procurement	0.4	0.5	0.0	0.1	0.2	0.5	0.7	0.6	0.5
J. Arrears clearance 2/	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest	12.2	6.4	...	...	...	5.9	5.4	5.5	5.5
Investment	6.1	6.7	0.9	2.2	3.1	6.8	6.4	6.7	6.7
A. Co-Financed	0.0	0.0	0.9	1.9	2.6	6.1	5.7	6.0	6.0
B. Own revenues	0.0	0.0	0.1	0.3	0.5	0.7	0.7	0.7	0.7
State overall balance	-16.5	-8.5	...	...	...	-3.3	-3.2	-3.1	-0.8
State primary balance	-4.2	-2.1	1.2	-0.3	2.6	2.6	2.2	2.4	4.7
II. Balance local governments	0.1	0.3	0.3	0.5	0.6	0.6	0.8	0.9	0.9
III. Balance social security funds	0.2	1.3	-0.1	-0.2	-0.3	-1.0	-1.6	-1.4	-1.3
IV. Balance of extra-budgetary funds	...	...	0.1	0.2	0.3	1.2	1.5	1.4	1.6
V. Balance of state-owned enterprises (incl. guarantees)	0.3	0.9	0.1	0.4	0.4	0.6	0.4	0.5	1.0
General government primary cash balance (before measures)	-3.6	0.4	1.6	0.6	3.6	4.0	3.3	3.9	7.0
Unidentified measures	0.0	0.0	0.0	0.0	0.0	0.0	2.0	3.7	1.8
General government primary cash balance (after measures)	-3.6	0.4	1.6	0.6	3.6	4.0	5.3	7.6	8.8
General government primary cash balance (excl. PIB related to EU funds, program definition)	...	...	...	0.4	3.1	5.1	7.5	...	...
State primary spending (includes guarantees to entities inside the general government), program definition	55.4	52.4	10.3	21.0	31.7	44.4	42.1	40.8	42.2
Memorandum items:									
Floor on the modified general government primary cash balance	...	-0.3	...	0.4	3.1	5.1	7.5	...	...
Ceiling on state primary spending	...	53.2	...	21.0	31.8	44.4	42.1	...	...
State overall balance (after measures)	-16.5	-8.5	...	...	...	-3.3	-2.2	-1.2	0.1

Sources: Ministry of Finance; and IMF staff projections.

1/ Calculations based on program definitions as outlined in the TMU.

2/ Arrears clearance going forward is modelled below the line.

Table 5. Greece: General Government: Statement of Operations (GFSM 2001, flows), 2011–16 1/

(Millions of euros)

	2011	2012	2013	2014	2015	2016
			Prel.	Proj.		
Revenue	88,090	84,656	80,163	81,124	81,232	83,535
Taxes	45,161	43,541	42,257	43,389	44,406	45,315
Social contributions	27,272	26,435	24,369	24,891	25,061	25,974
Grants and other revenue	15,657	14,680	13,537	12,844	11,765	12,246
Expenditure	108,183	96,966	85,930	85,776	86,743	88,547
Expense	111,152	99,629	88,828	88,296	89,375	91,257
Compensation of employees	25,700	23,946	21,782	21,199	20,815	20,689
Use of goods and services	9,802	9,637	8,153	8,237	7,664	7,928
Consumption of fixed capital	5,793	6,282	6,761	7,209	7,614	7,967
Interest	15,018	9,707	7,225	7,613	9,125	10,136
Subsidies	1,032	518	575	1,410	1,282	1,299
Social benefits	47,248	44,196	38,323	38,081	38,091	38,518
Grants and other expenses	6,559	5,343	6,009	4,547	4,784	4,721
Net acquisition of nonfinancial assets	-2,969	-2,663	-2,898	-2,520	-2,633	-2,710
Gross capital formation 2/	2,824	3,619	3,863	4,689	4,982	5,257
(-) Consumption of fixed capital	5,793	6,282	6,761	7,209	7,614	7,967
Unidentified measures	0	0	0	-232	2,022	3,744
Gross operating balance 3/	-17,269	-8,691	-1,904	-195	1,494	3,989
Net operating balance 4/	-23,062	-14,973	-8,665	-7,404	-6,121	-3,978
Net lending (+)/borrowing (-) 5/	-20,093	-12,310	-5,767	-4,884	-3,488	-1,268
Primary Net lending (+)/borrowing (-)	-5,075	-2,603	1,458	2,729	5,636	8,868
Net acquisition of financial assets	621	44,840	-11,634	....	....	....
Monetary gold and SDRs	0	0	0	....	....	....
Currency and deposits	-2,032	6,263	965	....	....	....
Debt securities	-48	12,051	-654	....	....	....
Loans	832	-4,995	-400	....	....	....
Equity and investment fund shares	652	29,607	-11,316	....	....	....
Insurance, pensions, and standardized guarantee schemes	1	1	-1	....	....	....
Financial derivatives and employee stock options	0	0	0	....	....	....
Other accounts receivable	1,216	1,913	-228	....	....	....
Net incurrence of liabilities	20,143	62,223	11,505	....	....	....
SDRs	0	0	0	....	....	....
Currency and deposits	-184	-46	44	....	....	....
Debt securities	-2,981	-46,246	-14,224	....	....	....
Loans	26,877	107,856	30,102	....	....	....
Equity and investment fund shares	0	0	0	....	....	....
Insurance, pensions, and standardized guarantee schemes	0	0	0	....	....	....
Financial derivatives and employee stock options	166	-1,499	1,171	....	....	....
Other accounts payable	-3,735	2,158	-5,588	....	....	....

Sources: IMF, Government Finance Statistics; and IMF staff projections.

1/ Calculations based on program definitions as outlined in the TMU. Adjustments for the program definition were only made for revenue, expenditure, and balance items, but not to the financing transactions or stocks.

2/ Acquisition less disposals of nonfinancial assets.

3/ Revenue minus expense (excluding consumption of fixed capital).

4/ Revenue minus expense (including consumption of fixed capital).

5/ Revenue minus expenditure.

Table 6. Greece: Monetary Survey, 2011–15

	2011	2012	2013	2014	2015
				Proj.	
(Billions of Euros)					
Aggregated balance sheet of Monetary Financial Institutions (MFIs)					
Total assets	646.1	602.5	517.6	490.9	474.8
Cash (held by credit institutions)	2.4	2.5	2.0	1.8	1.8
Claims on Bank of Greece	5.1	3.1	4.0	3.3	3.5
Claims on other MFIs	198.8	170.7	107.3	92.5	77.1
Claims (Loans) on non MFIs	275.9	250.1	238.9	228.9	226.2
Domestic	269.5	244.8	233.8	223.8	220.9
General government	22.3	17.4	15.9	14.1	14.6
Other sectors 1/	247.2	227.5	217.9	209.7	206.4
Other countries	6.4	5.2	5.2	5.1	5.2
Securities 2/	93.0	100.4	94.3	93.6	93.9
Other assets	65.9	70.6	66.0	66.0	67.4
Fixed assets	5.0	5.0	5.1	4.8	5.0
Total Liabilities	646.1	602.5	517.6	490.9	474.8
Liabilities to Bank of Greece	128.9	121.2	73.0	57.1	42.1
Liabilities to other MFIs	154.4	133.2	93.0	80.7	67.2
Deposits and repos of non MFIs	237.5	225.2	218.9	217.9	226.3
Domestic	187.7	179.1	182.6	182.3	188.5
Other countries	49.8	46.1	36.3	35.5	37.8
Capital and reserves	54.8	56.0	63.6	66.2	67.2
Banknotes and coins in circulation	23.7	24.3	25.4	28.8	29.4
Other liabilities	46.8	42.6	43.7	40.1	42.7
Money and credit					
Broad money	199.2	188.4	193.2	196.6	204.9
Credit to the private sector 3/ 4/	248.1	227.3	217.5	209.3	206.0
Credit to government 3/	59.1	28.2	21.8	20.8	21.5
(Annual percentage change)					
Broad money	-14.6	-5.3	2.7	1.8	4.2
Domestic private sector deposits	-17.0	-7.3	1.4	-0.5	3.4
Credit to the private sector 3/ 4/	-3.1	-4.0	-3.9	-3.7	-1.6
Credit to government 3/	2.0	-7.9	-18.1	-4.8	3.7
(Percent of GDP)					
Broad money	95.6	97.4	106.1	108.1	109.1
Domestic deposits	90.1	92.6	100.3	100.2	100.3
Credit to the private sector 4/	119.1	117.5	119.5	115.1	109.6
Credit to government	28.4	14.6	12.0	11.4	11.5
Memorandum items: (Percent)					
Capital to assets	6.9	5.7	6.0	6.8	7.2
Loans to customer deposits	117.0	111.6	110.6	104.3	99.1
Velocity	1.0	1.0	0.9	0.9	0.9

Sources: Bank of Greece; and IMF staff estimates and projections.

1/ As of June 2010, securitised assets are no longer derecognised from the balance sheet of banks that have adopted the International Accounting Standards. The counterpart of these assets is recorded on the liabilities side as deposit liabilities to non-euro area residents.

2/ Holdings of securities other than shares and derivatives.

3/ Projected growth rates are calculated from differences in outstanding amounts and do not take into account write-offs, valuation changes, or reclassifications.

4/ Credit to domestic non-MFI residents by domestic MFIs excluding the Bank of Greece, including securitized loans and corporate bonds.

**Table 7. Greece: Monetary Financial Institutions (excl. BoG)—
Uses and Sources of Funds, 2011–16**

	2011	2012	2013	2014	2015	2016
				Proj.		
	(Billions of euros)					
Assets	476.9	442.2	407.4	395.5	393.3	403.9
Cash	2.4	2.5	2.0	1.8	1.8	1.9
Claims on other MFIs	68.7	48.3	33.0	33.7	33.4	33.4
Claims on non-MFIs	338.4	321.3	304.8	293.4	290.0	298.4
General government	59.1	28.2	21.8	20.8	21.5	22.6
Private sector 1/	246.8	227.1	217.5	209.3	206.0	213.4
Corporate	113.0	100.8	96.6	95.6	96.2	101.9
Households	133.8	126.3	120.9	113.8	109.7	111.5
Other countries	32.4	66.0	65.5	63.3	62.5	62.4
Other assets	67.4	70.0	67.7	66.6	68.1	70.2
Liabilities	476.9	442.2	407.4	395.5	393.3	403.9
Liabilities to other MFIs	44.5	31.7	37.9	41.6	43.3	45.7
Deposits of non-MFIs	232.3	218.9	212.8	212.5	220.7	232.8
Central government	4.1	7.1	7.5	8.0	8.3	8.7
Private sector	178.7	166.2	169.5	169.4	175.1	183.8
Other countries 2/	49.5	45.6	35.8	35.0	37.3	40.3
Other liabilities	70.1	17.2	25.4	23.4	25.4	28.9
Capital and reserves	53.1	53.2	58.3	60.9	61.8	63.5
Eurosysteem liquidity support	76.9	121.2	73.0	57.1	42.1	33.1
	(Percent of GDP)					
Assets	228.9	228.6	223.8	217.4	209.3	204.9
Cash	1.1	1.3	1.1	1.0	1.0	1.0
Claims on other MFIs	33.0	25.0	18.1	18.6	17.8	16.9
Claims on non-MFIs	162.4	166.1	167.4	161.3	154.4	151.4
General government	28.4	14.6	12.0	11.4	11.5	11.5
Private sector 1/	118.5	117.4	119.4	115.1	109.6	108.3
Corporate	54.3	52.1	53.1	52.5	51.2	51.7
Households	64.2	65.3	66.4	62.5	58.4	56.6
Other countries	15.6	34.1	36.0	34.8	33.3	31.7
Other assets	32.4	36.2	37.2	36.6	36.2	35.6
Liabilities	228.9	228.6	223.8	217.4	209.3	204.9
Liabilities to other MFIs	21.4	16.4	20.8	22.9	23.0	23.2
Deposits of non-MFIs	111.5	113.2	116.9	116.8	117.5	118.1
Central government	2.0	3.7	4.1	4.4	4.4	4.4
Private sector	85.8	85.9	93.1	93.1	93.2	93.3
Other countries 2/	23.7	23.6	19.7	19.3	19.9	20.4
Other liabilities	33.7	8.9	14.0	12.8	13.5	14.6
Capital and reserves	25.5	27.5	32.0	33.5	32.9	32.2
Eurosysteem liquidity support	36.9	62.7	40.1	31.4	22.4	16.8
Memorandum items:						
Domestic private sector deposit growth (percent)	-17.0	-7.3	1.4	-0.5	3.4	5.0
Private credit growth (percent change) 3/	-3.1	-4.0	-3.9	-3.7	-1.6	3.6
Eurosysteem liquidity support (percent of total assets)	16.1	27.4	17.9	14.4	10.7	8.2

Sources: Bank of Greece; and IMF staff estimates and projections.

1/ As of June 2010, securitised assets are no longer derecognised from the balance sheet of banks that have adopted the International Accounting Standards. The counterpart of these assets is recorded on the liabilities side as deposit liabilities to non-euro area residents.

2/ June 2010 reclassification related to liabilities associated with assets disposed of in a securitisation but still recognised on the statistical balance sheet.

3/ Projections do not take into account write-offs, valuation changes, or reclassifications.

Table 8. Greece: Core Set of Financial Soundness Indicators for Deposit-Taking Institutions, 2009–13

(Percent, unless otherwise indicated)

	2009	2010	2011	2012	2013			
					Mar.	Jun.	Sep.	Dec.
Core set								
Regulatory capital to risk-weighted assets 1/	11.9	12.3	7.0	10.0	11.6	11.7	11.7	13.6
Regulatory tier I capital to risk-weighted assets 1/	10.9	11.2	5.8	9.3	11.3	11.4	11.4	13.2
Nonperforming loans net of provisions to capital	37.9	46.9	...	152.0	156.5	152.9	158.0	138.4
Nonperforming loans to total gross loans	7.8	10.5	16.0	24.5	27.8	29.3	31.2	31.9
Bank provisions to nonperforming loans	42.0	46.2	62.9	49.1	48.6	48.3	47.4	49.3
Return on assets (after taxes) 2/	-0.1	-0.6	...	...	...	...	...	...
Return on equity (after taxes) 2/	-1.7	-8.8	...	...	...	...	...	...
Interest margin to gross income 2/	75.8	91.0	93.7	103.1	75.2	82.0	80.9	78.8
Non-interest expenses to gross income 2/	57.4	62.2	66.1	93.9	87.3	77.9	75.0	73.6
Liquid assets to total assets 3/	45.2	35.2	32.3	32.1	30.7	30.4	31.3	29.9
Liquid assets to short-term liabilities 3/	56.9	46.9	43.1	41.9	41.2	41.5	42.0	40.0
Net open position in foreign exchange to capital 1/ 4/	11.6	11.3	...	15.7	10.6	9.5	5.9	5.3
Encouraged set								
Spread between reference lending and deposit rates (end-of-period, basis points) 5/	5.2	6.4	7.5	7.1	7.1	7.1	6.9	6.9
Customer deposits to total (noninterbank) loans 3/	125.7	96.6	85.5	89.6	90.7	89.9	90.8	90.4
Foreign currency-denominated liabilities to total liabilities 3/	10.8	9.0	7.7	6.5	6.3	5.7	5.9	5.9
Market liquidity								
Average bid-ask spread in the securities market (basis points)	60.6	126.0	87.2	193.0	194.0	193.0	192.0	192.0
Households								
Household debt to GDP	52.1	60.0	61.3	63.7	66.2	65.6	64.9	64.9
Real estate markets								
Residential real estate loans to total loans 3/	20.3	21.1	22.8	25.5	26.0	26.4	25.7	25.7
Memorandum items:								
Assets (billions of euros)								
Banks	440.3	465.5	412.7	389.7	400.9	393.3	395.1	383.0
Branches of foreign banks	38.3	36.9	52.0	39.1	12.3	12.0	11.7	10.8
General insurance companies 6/	15.6	15.7	14.9	15.6	15.9	15.9	16.1	16.2
Other credit institutions	11.6	11.4	11.5	12.6	12.9	13.0	13.2	12.9
Deposits (billions of euros)								
Banks	248.6	220.3	172.4	164.0	182.7	176.4	178.2	177.2
Branches of foreign banks	21.9	18.7	20.9	18.1	3.7	3.7	3.8	3.5

Source: Bank of Greece.

1/ Data on a consolidated basis. For end-2011 and 2012Q1, C.A.R. ratios are affected by the PSI and include only the first tranche of €18 billion HFSF recapitalization. In addition, C.A.R. ratios are affected by the negative supervisory own funds of two banks (ATEbank and TT Hellenic Post Bank).

2/ From 2004 in accordance with IFRS.

3/ On an aggregate resident-based approach (i.e. commercial banks, cooperative banks, and foreign branches).

4/ Based on revised figures from 2002 onwards.

5/ Spread between rate on credit lines and savings deposit rate.

6/ There are no specialised life insurance companies in Greece. General insurance companies offer general insurance and life insurance products.

Table 9. Greece: Financial Balance Sheet (GFSM 2001, stocks), 2010–13 1/

(Millions of euros)				
	2010	2011	2012	2013
				Prel.
Stock positions				
Net worth	....	....	....	....
Nonfinancial assets	....	....	....	....
Net financial worth	-209,534	-151,539	-196,868	-215,479
Financial assets	81,500	78,050	124,183	114,448
Monetary gold and SDRs	0	0	0	0
Currency and deposits	16,933	14,744	20,691	21,643
Debt securities	741	693	12,732	12,227
Loans	5,407	6,238	1,243	843
Equity and investment fund shares	37,533	34,270	65,497	55,943
Insurance, pensions, and standardized guarantee schemes	47	48	49	48
Financial derivatives and employee stock options	0	0	0	0
Other accounts receivable	20,839	22,057	23,971	23,744
Liabilities	291,034	229,589	321,051	329,927
Monetary gold and SDRs	0	0	0	0
Currency and deposits	1,005	820	774	819
Debt securities	190,632	104,586	79,170	65,246
Loans	75,192	102,891	216,255	244,237
Equity and investment fund shares	0	0	0	0
Insurance, pensions, and standardized guarantee schemes	0	0	0	0
Financial derivatives and employee stock options	1,311	2,134	3,536	3,897
Other accounts payable	22,894	19,158	21,316	15,728
Memorandum items:				
Debt at market value	289,723	227,455	317,515	326,030
Debt at face value	352,408	374,299	325,252	334,431
Maastricht debt	329,514	355,141	303,936	318,703
Other economic flows				
Change in net worth from other economic flows	....	....	....	....
Nonfinancial assets	....	....	....	....
Change in net financial worth from other economic flows	55,136	77,517	-27,946	4,528
Financial assets	-2,559	-4,071	1,293	1,899
Monetary gold and SDRs	0	0	0	0
Currency and deposits	40	-157	-316	-13
Debt securities	0	0	-12	149
Loans	2	-1	0	0
Equity and investment fund shares	-2,604	-3,915	1,620	1,762
Insurance, pensions, and standardized guarantee schemes	1	0	0	0
Financial derivatives and employee stock options	0	0	0	0
Other accounts receivable	2	2	1	1
Liabilities	-57,695	-81,588	29,239	-2,629
Monetary gold and SDRs	0	0	0	0
Currency and deposits	0	-1	0	1
Debt securities	-57,241	-83,065	20,830	300
Loans	165	822	5,508	-2,120
Equity and investment fund shares	0	0	0	0
Insurance, pensions, and standardized guarantee schemes	0	0	0	0
Financial derivatives and employee stock options	-620	657	2,901	-810
Other accounts payable	1	-1	0	0

Sources: Ministry of Finance; and IMF staff projections.

1/ No adjustments for program definitions were made to financing transactions or stocks.

Table 10. Greece: Implementation of Structural Reforms

Measures	Description	MEFP Deadline	Status
Labor market			
Reducing tax wedge on labor	The government completes by September 2013 actuarial studies on social security funds, and adopts a plan by November 2013 to reduce the employer share of social security contributions by 5 ppt (in a budget-neutral way and phased manner during 2014-16) by broadening the base for social security contributions; simplifying the contribution schedule across various funds; and phasing out nuisance taxes.	Sep-13 and Nov-13	The actions on social security contribution rates and nuisance taxes are being introduced as prior action (MEFP Table 3).
Reduce entry/exit costs	The government completes by November 2013 a study comparing Greece's regulations on temporary employment, scope for temporary employment agencies, and collective dismissal rules and procedures with those in other in other EU member states, and adopt by end-2013 reforms to bring the legal and regulatory framework in these areas in line with EU best practices.	Dec-13	The reforms on temporary employment and temporary employment agencies being implemented as prior action for the review (MEFP Table 3), whereas the reforms on collective dismissals are rephased for end-October 2014 (MEFP Table 6).
Product and service markets			
Liberalization of regulated professions	Adopt a new Code of Lawyers, which will include removal of exclusivity for lawyers for the research of mortgage books and land registry.	Jul-13	Code of Lawyers adopted in September 2013.
	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.	Jul-13	Study on regulated professions completed in July 2013 but did not assess impact of reforms on new entrants and price changes.
	Liberalize the remaining list of regulated professions (IMF Country Report No. 13/241, TMU 139).	H2-13	Actions on many professions rephased (TMU Table 4).
Transportation services	Adopt additional steps to increase the flexibility of labor arrangements and reduce manning obligations in the domestic shipping industry.	Oct-13	Reforms on labor arrangements and manning obligations adopted in the context of the 5th EFF review (MEFP 125).
Retail trade	Adopt legislation to liberalize further the retail market, including: removing restrictions against discount sales outside sale periods; increasing flexibility in retailers' opening days; and replacing the current system of fixed margins for over-the-counter drugs with maximum margins.	Jun/Jul-13	Reforms on retail sales introduced in July 2013, and the maximum margins vitamins introduced in March 2014. Further OTC reforms are being introduced in the context of this review (MEFP 125).
	Government to allow the sales of selected over-the-counter products in other points than pharmacies.	Sep-13	Sale of vitamins outside pharmacies started in March 2014.
Product market liberalization	Based on OECD findings, Government to prepare draft legislative amendments aimed at reducing regulatory barriers to competition for construction materials, machinery and food processing industries, and tourism sector.	Sep-13	Reforms to implement OECD recommendations on competition barriers are being introduced partly as prior actions for the 5th EFF review and partly during the second half of 2014 (MEFP 125).
	Government to propose legislative amendments to reduce administrative burdens in 13 key sectors based on the findings of the OECD Standard Cost Model.	Dec-13	Legislative amendments to reduce administrative burdens based on OECD recommendations targeted to be implemented by end-June 2014 (MEFP 125).
Business environment and judicial reform			
Trade facilitation	Increase the working shifts to 24/7 in the Athens airport, and expand service to two shifts in the Piraeus port for imports.	Jul-13	Service of custom offices extended to two shifts in both Athens airport and Piraeus port.
	Adopt risk-based audits for imports in line with EU practices.	Nov-13	Progress made but further improvements needed to ensure consistency with EU best practice.
	Adopt e-custom system (allowing for electronic submission and e-signature) for imports.	Nov-13	Done.
Reduction of case backlog in courts	Government to present to EC/ECB/IMF a first assessment of the operations of the magistrates' courts.	Jul-13	Assessment of magistrates' courts included in the study for the Civil Justice in Greece submitted on July 31, 2013.
	Reallocate judges to the administrative courts with the highest backlog, and adopts an action plan to reduce civil and commercial cases backlogs, including draft legislation providing for compulsory mediation of small claims.	Sep-13	Judges have been relocated to the administrative courts with highest backlog contributing to backlog reduction, and compulsory mediation of small claims is included into the draft new Code of Civil Procedure.
Reforming the Code of Civil Procedure	Adopt a new Code of Civil Procedure.	Mar-14	Rephased for end-May 2014.
Anti-corruption			
Anti-corruption legislation and action plan	Prepare draft legislation to bring anti-corruption legal framework in line with relevant international standards, and start the implementation of all outstanding anti-corruption actions.	Jul-13	The legislation adopted in March 2014 in the context of the Omnibus Law (MEFP 130).

Source: IMF staff.

Table 11. Greece: Medium-Term Macro Framework, 2012–19

	2012	2013	2014	2015	2016	2017	2018	2019
		Prel.				Proj.		
(Percentage change, unless otherwise indicated)								
Domestic economy								
Real GDP	-7.0	-3.9	0.6	2.9	3.7	3.5	3.3	3.6
Output gap (percent of pot. output)	-8.4	-10.5	-9.4	-6.8	-4.4	-2.6	-0.9	0.5
Total domestic demand	-12.2	-5.8	-1.0	2.0	3.5	2.8	2.8	3.2
Private consumption	-9.3	-6.0	-1.8	1.7	2.2	1.6	2.2	2.5
Public consumption	-6.9	-4.1	-1.7	-2.0	-0.5	0.4	2.0	2.0
Gross fixed capital formation	-19.2	-12.8	5.9	9.7	13.7	11.0	7.6	7.1
Change in stocks (contribution)	0.9	0.8	-0.1	-0.1	0.2	0.0	-0.3	0.0
Foreign balance (contribution)	3.9	2.0	1.5	0.8	0.2	0.7	0.5	0.4
Exports of goods and services	-1.7	1.8	4.1	5.2	4.6	5.2	4.4	4.0
Imports of goods and services	-13.8	-5.3	-1.3	2.2	3.9	2.9	2.8	2.6
Unemployment rate (percent) 1/	24.2	27.3	25.8	23.8	20.9	18.6	15.8	12.7
Employment	-8.0	-4.0	1.3	2.6	4.0	2.9	3.3	3.6
Unit labor costs	-5.1	-6.9	-1.8	-0.3	1.7	1.5	1.3	0.0
Consumer prices (national definition), period average	1.5	-0.9	-0.8	0.3	1.1	1.2	1.2	1.7
Consumer prices (HICP), period average	1.0	-0.9	...	...	...	...	...	...
GDP deflator	-0.3	-2.1	-0.7	0.4	1.1	1.3	1.4	1.8
Monetary survey								
Private credit growth 2/	-4.0	-3.9	-3.7	-1.6	3.6	...	...	...
Domestic private sector deposit growth	-7.3	1.4	-0.5	3.4	5.0	...	...	...
Liabilities to the Bank of Greece (billions of euros)	121.2	73.0	57.1	42.1	33.1	...	...	...
(Percent of GDP, unless otherwise indicated)								
Balance of payments								
Current account	-2.4	0.7	0.7	0.2	0.2	0.7	0.8	1.2
Structural current account balance	-5.3	-4.0	-3.3	-2.5	-1.6	-0.3	0.5	1.2
Trade balance	-2.3	-0.2	1.1	2.1	2.4	3.1	3.6	4.0
Export of goods and services	25.6	27.6	28.6	29.2	29.2	29.5	29.7	29.7
Export of goods	11.4	12.4	12.7	12.8	12.7	12.8	12.8	12.7
Exports of services	14.2	15.3	15.9	16.4	16.5	16.7	16.9	17.0
Imports of goods and services	-27.9	-27.9	-27.5	-27.1	-26.8	-26.4	-26.0	-25.7
Imports of goods	-21.5	-21.8	-21.6	-21.3	-20.9	-20.5	-20.2	-20.0
Imports of services	-6.4	-6.0	-5.8	-5.8	-5.9	-5.9	-5.9	-5.8
Total transfers	0.7	2.5	2.2	1.5	1.4	1.5	1.1	1.0
Net income receipts	-0.8	-1.5	-2.7	-3.4	-3.5	-3.9	-4.0	-3.8
Net international investment position	-109.1	-116.4	-114.1	-108.7	-101.8	-94.8	-88.5	-82.0
Gross external debt	233.5	233.4	230.3	212.5	198.6	188.3	181.7	172.3
Private sector capital flows (net)	-21.6	11.7	-0.5	8.2	1.7	-1.8	-4.3	-2.5
Public finances (general government)								
Total revenues	43.8	44.0	44.6	43.2	42.4	42.2	42.2	42.2
Total expenditures 3/	50.2	47.2	47.3	45.1	43.0	42.9	43.0	43.4
Primary expenditures 3/	45.1	43.2	43.1	40.2	37.9	37.7	37.9	38.5
Overall balance	-6.4	-3.2	-2.7	-1.9	-0.6	-0.7	-0.9	-0.6
Primary balance	-1.3	0.8	1.5	3.0	4.5	4.5	4.2	4.2
Cyclically-adjusted primary balance	2.5	5.7	6.0	6.1	6.4	5.6	4.6	4.0
Privatization receipts	0.1	0.6	0.8	1.2	1.7	1.4	1.4	1.5
Gross debt	157.2	175.1	174.2	171.0	160.5	152.0	144.6	135.3

Sources: Elstat; Ministry of Finance; Bank of Greece; and IMF staff projections.

1/ Based on Labor Force Survey.

2/ Projections do not take into account write-offs, valuation changes, or reclassifications.

3/ Includes unidentified measures.

Table 12. Greece: Selected Structural Reforms Ahead, 2014

Measures	MEFP Deadline	Description	Macroeconomic Implications
Product and Service Markets			
Elimination of regulatory barriers to competition	Jun-14	Adopt (i) 6 recommendations from the OECD competition toolkit through several sectoral laws (maritime and tourism sectors); and (ii) secondary legislation to fully implement the 237 OECD recommendations passed as prior action for this review (MEFP ¶125).	Fosters competition, improves price flexibility and competitiveness.
	Sep-14	Adopt best practice codes on (i) sales and offers and (ii) foodstuff traditional definitions.	
	Oct-14	Based on findings of a follow OECD study on regulatory barriers to competition in 4 sectors (wholesale trade, manufacturing, telecommunications, and e-commerce), Government to prepare draft legislative amendments aimed at reducing regulatory barriers to competition.	
	Jun-14 and Dec-14	Government to conduct follow-up studies on experience with reforms on OTC prices, Sunday trading in select areas, and milk pasteurization and sale procedures, and to take immediately corrective steps as needed to achieve the reform objectives.	
Reduction of administrative burdens	Jun-14	Adopt legislative amendments to reduce administrative burdens in 13 key sectors based on the recommendations of the OECD Standard Cost Model.	Fosters competition, improves price flexibility and competitiveness.
Liberalization of regulated professions	Q2-Q4 2014	Continue liberalization of selected regulated professions (MEFP ¶127 and TMU Table 4).	Fosters competition, lowers intermediate costs and promotes investment and growth.
Simplification of investment licensing	Sep-14	Government to adopt all pending secondary legislation to fully implement the environmental licensing law (MEFP ¶125).	Promotes investment and growth.
	Dec-14	Government to adopt secondary legislation to fully implement the new investment licensing law (structural benchmark; MEFP ¶125).	Promotes investment and growth.
Labor Market			
Reduction of labor exit costs	Oct-14	The government completes by September 2014 a study comparing Greece's regulations on collective dismissal rules and procedures with those in other in other EU member states, and adopt by end-October 2014 reforms to bring the legal and regulatory framework in these areas in line with EU best practices (structural benchmark; MEFP ¶129).	Improves competitiveness, and promotes employment and growth.
Modernizing industrial relations	Oct-14	The government reviews by end-June 2014 industrial relations in Greece, and adopts by end-October 2014 the changes needed to bring its framework in line with EU best practices (MEFP ¶129).	Improves competitiveness, and promotes employment and growth.
Justice/Anti-Corruption			
Reforming the Code of Civil Procedure	May-14	Adopt a new Code of Civil Procedure (MEFP ¶130).	Improves justice system efficiency
Improving courts' effectiveness	Sep-14	Submit a selective increase of court fees (MEFP ¶130).	Improves efficiency of courts.
Strengthening anti-corruption legislation	Jun-14	Adopt legislation on the funding of political parties and on increasing transparency for public and elected officials (MEFP ¶130).	Reduces informal market transactions.
Source: IMF staff.			

Table 13. Greece: Schedule of Proposed Purchases under the Extended Arrangement, 2012–16

Review	Availability Date	Action	Purchases		Disbursements
			Millions of SDRs	Percent of quota	Billions of euros 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	July 25, 2013	Observance of end-June 2013 performance criteria, completion of fourth review	1,506.8	136.8	1.8
Fifth Review	February 28, 2014	Observance of end-December 2013 performance criteria, completion of fifth review	3,013.6	273.5	3.5
Sixth Review	August 31, 2014	Observance of end-June 2014 performance criteria, completion of sixth review	3,013.6	273.5	3.5
Seventh Review	November 30, 2014	Observance of end-September 2014 performance criteria, completion of seventh review	3,013.6	273.5	3.5
Eighth Review	February 28, 2015	Observance of end-December 2014 performance criteria, completion of eighth review	1,506.8	136.8	1.8
Ninth Review	May 31, 2015	Observance of end-March 2015 performance criteria, completion of ninth review	1,506.8	136.8	1.8
Tenth Review	August 31, 2015	Observance of end-June 2015 performance criteria, completion of tenth review	1,506.8	136.8	1.8
Eleventh Review	November 30, 2015	Observance of end-September 2015 performance criteria, completion of eleventh review	1,506.8	136.8	1.8
Twelfth Review	February 29, 2016	Observance of end-December 2015 performance criteria, completion of twelfth review	1,506.4	136.7	1.8
Total			23,785.3	2,158.8	28.0

Source: IMF staff projections.

1/ Exchange rate of January 5, 2012.

Table 14. Greece: State Government Financing Requirements and Sources, 2013–16

(Billion of euros)

	2013	2014	2015	2016
	Prel.	Proj.		
Gross borrowing need	49.4	39.7	35.0	18.5
Overall balance (cash)	8.5	3.3	2.2	1.2
Amortization	31.0	38.0	34.5	22.3
Short-term	18.4	15.0	18.0	15.0
Medium and long-term (non-official) 1/	11.0	15.6	7.9	4.3
Official creditors	1.7	7.4	8.6	3.1
IMF	1.7	7.4	8.6	3.1
EC	0.0	0.0	0.0	0.0
Other	9.9	-1.5	-1.8	-5.0
Bank recapitalization (FSF)	7.2	0.0	0.0	0.0
PSI-related costs	0.0	0.0	0.0	0.0
Arrears clearance	5.5	2.0	2.5	0.0
Privatization	-1.0	-1.5	-2.2	-3.3
ECB related income	-2.7	-2.5	-2.0	-1.7
ANFA	-0.6	-0.5	-0.5	-0.6
SMP	-2.1	-1.9	-1.5	-1.1
ESM capital	0.9	0.5	0.0	0.0
Debt buyback	0.0	0.0	0.0	0.0
Gross financing sources	49.4	39.7	22.4	18.5
Short-term	15.0	18.0	15.0	15.0
T-bills	15.0	15.0	15.0	15.0
Intra-governmental borrowing	0.0	3.0	0.0	0.0
Market access	0.0	3.0	0.0	0.0
Official financing (including disbursed and committed)	32.1	20.8	7.1	1.8
EC bilateral loans/EAMS	25.3	10.2	0.0	0.0
IMF	6.8	10.6	7.1	1.8
Deposit financing	2.3	-2.1	0.3	1.8
Financing gap 2/	0.0	0.0	12.6	0.0

Sources: Ministry of Finance; and IMF staff projections.

1/ Reflects the buyback of preference shares by commercial banks and corresponding cancellation of Pillar I bonds.

2/ The financing gap opens after May 2015.

Table 15. Greece: External Financing Requirements and Sources, 2011–19

(Billions of euros, unless otherwise indicated)

	2011	2012	2013	2014	2015	2016	2017	2018	2019
			Proj.						
Gross financing requirements	239.0	203.7	176.7	135.0	120.3	95.9	86.8	82.1	89.6
Current account deficit	20.6	4.6	-1.2	-1.2	-0.3	-0.4	-1.5	-1.7	-2.7
Medium and long-term debt amortization	35.5	17.5	14.2	20.6	18.7	9.8	10.1	7.4	15.2
Public sector	22.5	10.6	11.1	16.6	14.7	5.8	6.1	3.4	11.0
Of which: EC/IMF	0.0	0.0	1.7	7.4	8.6	3.1	0.7	1.7	3.5
Banks	10.7	5.6	1.2	1.2	1.2	1.2	1.2	1.2	1.4
Other	2.3	1.4	1.9	2.8	2.8	2.8	2.8	2.8	2.8
Short-term debt amortization	182.9	181.5	163.8	115.6	101.9	86.5	78.2	76.4	77.1
Public sector and Bank of Greece	88.2	106.5	99.8	53.2	37.2	20.5	10.5	8.3	8.6
Bank of Greece 1/	87.1	104.8	98.4	51.6	35.6	18.9	8.9	5.9	5.7
Public sector	1.2	1.8	1.4	1.6	1.6	1.6	1.6	2.4	2.9
Banks 2/	93.4	74.4	63.0	61.7	64.0	65.3	66.9	67.3	67.6
Other	1.3	0.6	1.0	0.7	0.7	0.7	0.8	0.8	0.9
Source of financing	197.4	93.8	144.1	112.4	97.0	89.5	81.6	76.4	83.6
Capital account (net)	2.7	2.3	3.0	3.0	3.1	3.2	3.2	2.7	1.8
Foreign direct investment (net)	-0.5	0.8	2.4	1.5	2.1	2.8	2.5	2.7	3.1
Equities (net)	-0.2	-0.2	2.6	4.8	2.8	1.1	1.3	1.3	1.4
Assets drawdown (- increase)	12.4	-43.3	18.9	-4.6	11.4	0.3	-5.9	-12.5	-8.9
New borrowing and debt rollover	183.5	135.3	118.5	107.8	77.5	82.0	80.5	82.1	86.2
Medium and long-term borrowing	2.0	-28.5	2.8	5.8	-9.0	3.7	4.0	5.0	9.0
Public sector 3/	-3.1	-31.6	-2.1	2.7	-12.6	0.0	0.0	0.0	3.9
Banks	3.8	0.0	5.8	0.5	1.0	1.1	1.3	2.2	2.4
Other	1.2	3.1	-0.9	2.6	2.6	2.6	2.7	2.7	2.8
Short-term borrowing	181.5	163.8	115.6	101.9	86.5	78.2	76.4	77.1	77.2
Public sector and Bank of Greece	106.5	99.8	53.2	37.2	20.5	10.5	8.3	8.6	9.0
Bank of Greece 1/	104.8	98.4	51.6	35.6	18.9	8.9	5.9	5.7	5.5
Public sector 4/	1.8	1.4	1.6	1.6	1.6	1.6	2.4	2.9	3.5
Banks 2/	74.4	63.0	61.7	64.0	65.3	66.9	67.3	67.6	67.9
Other	0.6	1.0	0.7	0.7	0.7	0.8	0.8	0.9	0.2
Other	-0.6	-1.2	-1.4	0.0	0.0	0.0	0.0	0.0	0.0
Program financing	41.5	109.9	33.1	22.6	10.8	6.4	5.3	5.7	6.0
Of which: interest deferral	...	0.0	0.9	1.7	3.7	4.6	5.2	5.7	6.0
Unidentified official financing / market access	0.0	0.0	0.0	0.0	12.6	0.0	0.0	0.0	0.0

Sources: Bank of Greece; Bloomberg; and IMF staff estimates and projections.

1/ Includes liabilities to Eurosystem related to TARGET.

2/ Includes currency and deposits and securitized loans.

3/ Actual figures on public sector medium and long-term borrowing are based on non-residents amortization figures provided by GAO and net flows from the balance of payment statistics provided by Bank of Greece. Negative sign indicates debt buybacks.

4/ Includes government deposits' build-up (regardless of currency denomination for presentational purposes).

Table 16. Greece: Indicators of Fund Credit, 2012–26

(Millions of SDRs, unless otherwise specified)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Prospective drawings (4-year EFF)	1,399	5,812	9,041	6,027	1,506	...	...	...	...	...	...	...	...	...	...
Percent of quota	127	527	821	547	137	...	...	...	...	...	...	...	...	...	...
(Projected Debt Service to the Fund based on Existing and Prospective Drawings)															
Amortization	0	1,472	6,278	7,299	2,610	592	1,453	2,960	3,839	3,964	3,848	3,372	2,511	1,004	126
SBA	0	1,472	6,278	7,299	2,493	0	0	0	0	0	0	0	0	0	0
4-year EFF	0	0	0	0	117	592	1,453	2,960	3,839	3,964	3,848	3,372	2,511	1,004	126
Interest and service charge	504	455	935	971	928	875	835	754	620	458	294	141	37	9	1
Total debt service	504	1,927	7,213	8,270	3,538	1,467	2,288	3,715	4,459	4,422	4,142	3,513	2,548	1,014	127
Percent of exports of goods and services	1.2	4.5	16.3	17.8	7.2	2.8	4.2	6.4	7.4	7.1	6.5	5.3	3.8	1.5	0.2
Percent of GDP	0.3	1.2	4.7	5.2	2.1	0.8	1.2	1.9	2.2	2.1	1.9	1.5	1.1	0.4	0.0
(Projected Level of Credit Outstanding based on Existing and Prospective Drawings)															
Outstanding stock	18,941	26,294	26,044	24,772	23,669	23,077	21,624	18,664	14,825	10,861	7,014	3,641	1,130	126	0
Percent of quota	1,719	2,387	2,364	2,248	2,148	2,094	1,963	1,694	1,346	986	637	330	103	11	0
Percent of GDP	11.5	17.0	16.9	15.5	14.1	13.1	11.8	9.6	7.3	5.2	3.2	1.6	0.5	0.1	0.0
Memorandum items:															
Exports of goods and services (billions of euros)	50	50	52	55	58	61	64	68	71	73	75	77	79	82	84
GDP (billions of euros)	193	182	182	188	197	207	216	228	238	248	258	268	278	289	300
Euro/SDR rate 1/	1.177	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Quota (millions of SDRs)	1,102	...	...	...	...	...	...	...	...	...	...	...	...	...	...

Source: IMF staff projections.

1/ Program exchange rate (see TMU).

Annex I: Debt Sustainability Analysis

Public debt sustainability risks remain significant, although moderated by more favorable gross financing needs over the medium term and continued reliance on official financing. Under the baseline scenario, debt is projected to peak this year at around 174 percent of GDP before declining to about 128 percent in 2020 as fiscal adjustment continues and the economic recovery takes hold. Although gross financing needs are relatively high this year (around 23 percent of GDP in 2014), they fall quickly as a result of Greece's relatively favorable maturity profile and projected primary surplus, reaching about 6 percent of GDP by 2022, rising thereafter. The projected improvement in the debt level and gross financing needs remains fragile, however, and is conditional on continued fiscal consolidation and implementation of structural reforms. Risks from lower nominal growth, further privatization slippages, and financial sector contingent liabilities remain.

A. Public Sector DSA¹

Inputs and Assumptions

The macro and policy frameworks underlying the DSA have been updated. Relative to the DSA presented in the first and second reviews, key changes include:

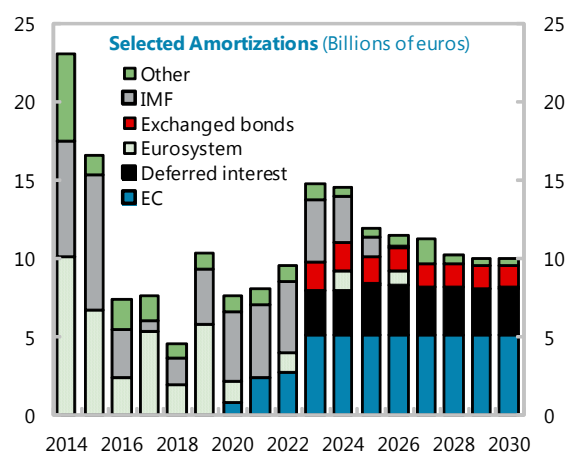
- **Lower output path.** As a result of the lower-than-expected deflator in 2013, the path of nominal GDP has been revised down. This has increased the projected debt-to-GDP ratio in 2020 under the baseline scenario by about 1 percentage point.²
- **Additional arrears clearance.** The program now provides for clearance of about €2.5 billion in tax refund arrears in 2015, which increases the projected 2020 debt ratio by 1 percent of GDP.
- **Lower privatization.** Targets have been revised down again, increasing the projected 2020 debt ratio by about 0.4 percent of GDP and the 2022 debt ratio by about 1.5 percent of GDP.
- **Fiscal over-performance.** The 2013 fiscal balance exceeded program targets, which has improved the 2020 debt level by about 1 percent of GDP.
- **Mobilization of alternative financing.** As a result of the buyback of preference shares and cancellation of ETEAN bonds (see ¶150), financing needs have been reduced, decreasing the projected debt stock in 2020 by about 1 percent of GDP in 2020.

Baseline and Realism of Projections

¹ The new DSA framework is described in <http://www.imf.org/external/np/pp/eng/2013/050913.pdf>. This DSA covers general government debt and extends through 2022 to capture the relevant program debt targets.

² The baseline scenario does not include the contingent debt relief measures outlined in the Eurogroup statement of November 2012.

- **Debt levels and gross financing needs.** Debt levels are projected to begin to decline this year (reaching about 128 percent by 2020 and 117 percent by 2022) as a result of the extraordinary fiscal effort under the program and a return to positive economic growth. Gross financing needs are projected at around 23 percent of GDP this year, but are expected to decline quickly to around 6 percent of GDP by 2022 as a result of the favorable maturity profile and the projected primary surplus, rising thereafter.



Source: IMF staff estimates.

- **Debt profile.** While the yields on Greek bonded debt have moderated from earlier highs, the spreads against the German bunds remain significant at over 400 bps. These high spreads, however, pose little risk to fiscal sustainability at present since Greece is projected to continue to rely primarily on official financing at favorable rates and maturities, which also mitigates risks posed by high external financing requirements and explains the large share of public debt held by non-residents.

- **Growth.** Until 2012, growth outcomes had been worse than projected as a result of unanticipated political developments and the associated confidence effects. Growth in 2013, however, exceeded program projections as the political and social circumstances improved. Looking forward, growth projections are more optimistic than consensus and staff expects positive growth starting in 2014.

Growth Forecasts for Greece

	July, 2013 1/			April/May, 2014		
	2013	2014	2015	2013	2014	2015
IMF	-4.2	0.6	2.9	-3.9	0.6	2.9
Consensus Forecast	-4.8	-1.0	...	-3.9	0.1	1.5
OECD	-4.8	-1.2	...	-3.9	-0.3	1.9

Sources: Consensus Forecast; OECD, Economic Outlook; IMF, World Economic Outlook; and IMF staff projections.

1/ For OECD, as of May, 2013.

- **Fiscal adjustment.** Greece has made enormous progress in restoring fiscal sustainability and even registered a primary surplus in 2013, ahead of schedule. Although most of the fiscal adjustment has already taken place, more remains to be done to achieve the targets underpinning the DSA. Rebounding growth should make this task somewhat easier going forward. But maintaining the program primary surplus of about 4 percent of GDP for several years may yet prove difficult.

Shocks and Stress Tests

- **Growth shock.** Real output growth rates are lower by 1 standard deviation for 2 consecutive years starting in 2015. As a result, the primary balance improves more slowly than the baseline. Although the weaker fiscal outlook is assumed to lead to higher interest rates, this effect is mitigated by continued reliance on official financing. The debt-to-GDP ratio increases rapidly

before returning to a downward path. Gross financing needs also remain very high. The magnitude of this shock is a direct result of the high standard deviation of growth, which reflects the recent crisis. A more plausible growth shock may entail permanently lower growth than under the baseline, perhaps by 1 percent per year, in which case debt would be around 10 percentage points of GDP higher by 2020.

- **Primary balance shock.** Reform momentum stalls and the implementation of the planned fiscal adjustment is not fully achieved. As a result, the primary balance is assumed to remain at 2.5 percent of GDP from 2015 onward. The debt-to-GDP would decline much more slowly. Gross financing needs would also be significantly above the baseline.
- **Interest rate shock.** Market concerns about medium-term debt sustainability intensify and spreads rise by 200 bps. But the effect is mitigated by continued reliance on official financing.
- **Contingent liability shock.** A bail out of the financial sector that increases public expenditures by 10 percent of banking sector assets would have a significant effect on debt and financing needs, especially if combined with a real GDP growth shock (1 standard deviation for 2 years).

B. External Sector DSA

External debt is expected to decline gradually. Gross debt, currently at 233 percent of GDP, is projected to decline to about 160 percent in 2020. Net debt would fall from 129 percent of GDP in 2014 to 78 percent in 2020. Several factors lie behind the projected improvement in external debt. Most importantly, the current account is projected to improve as competitiveness is restored and Greece continues to rely on official loans at relatively low interest rates. FDI inflows related to privatization also remain an important non-debt-creating source of financing.

Macroeconomic shocks and policy slippages could result in adverse dynamics.

- **Larger current account deficits.** Slow competitiveness improvements resulting from delayed structural reforms or a terms-of-trade shock could affect exports negatively and worsen the baseline current account projections by around 1.5 percent of GDP per year. The debt ratio would remain on a downward path, but would be 10 percentage points higher than in the baseline by 2020.
- **Deflation shock.** Larger-than-projected decreases in domestic prices would adversely affect external debt dynamics by reducing export receipts (assuming no volume increase) and the GDP deflator. For example, an additional 1 percent deflation over the medium term would result in a 2020 debt ratio that is 5 percentage points above the baseline.
- **Slippages in privatization.** Privatization delays that result in only about half of the projected privatization proceeds over the projections period would affect external debt dynamics by reducing non-debt-creating flows. The impact on the debt path would be modest since baseline privatization related inflows are small relative to the overall financial account balance. The debt ratio in 2020 would be around 4 percentage points higher than in the baseline.

Debt dynamics would be significantly worse under a combined shock involving lagged program implementation, weak competitiveness, and higher deflation. The shocks above would likely be individually manageable, but would have a more substantial impact in an adverse scenario were they to occur simultaneously. The net debt ratio would reach about 95 percent of GDP in 2020, 18 percent of GDP higher than in the baseline.

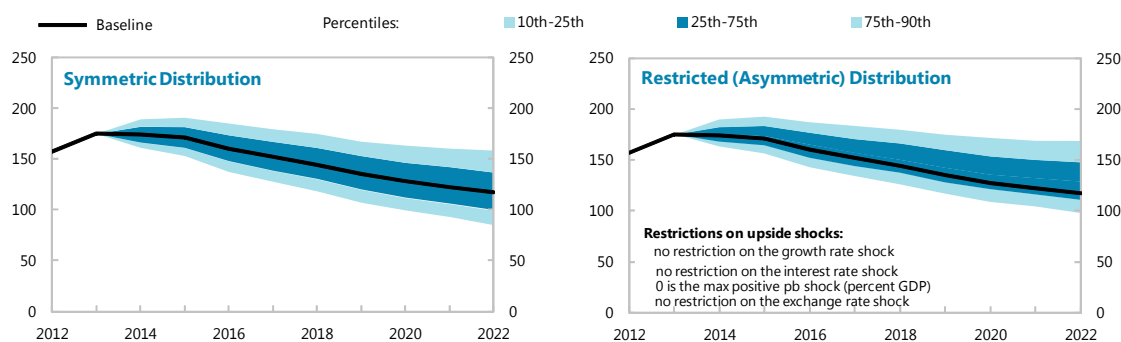
Annex Figure I.1. Greece: Public DSA Risk Assessment, 2012–30

Heat Map

Debt level 1/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs 2/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile 3/	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

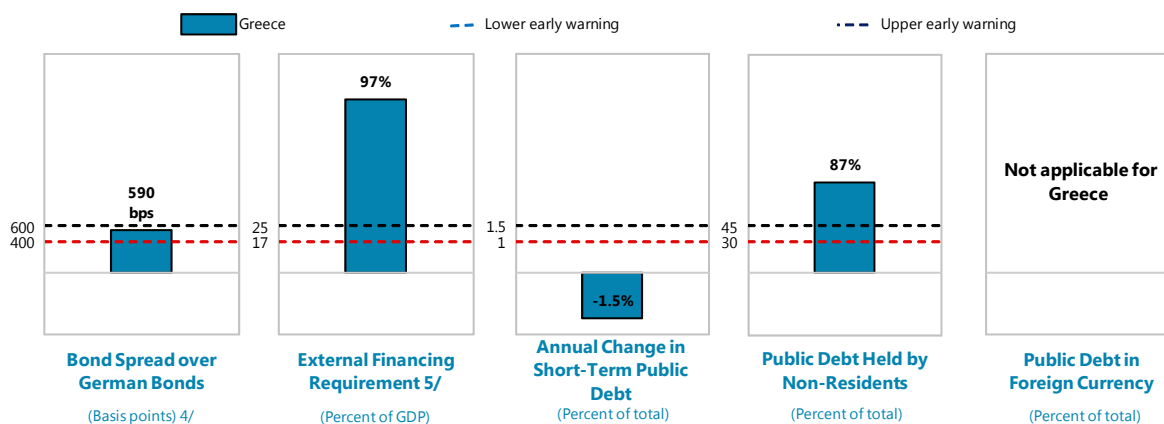
Evolution of Predictive Densities of Gross Nominal Public Debt

(Percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 85% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 20% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.

Lower and upper risk-assessment benchmarks are:

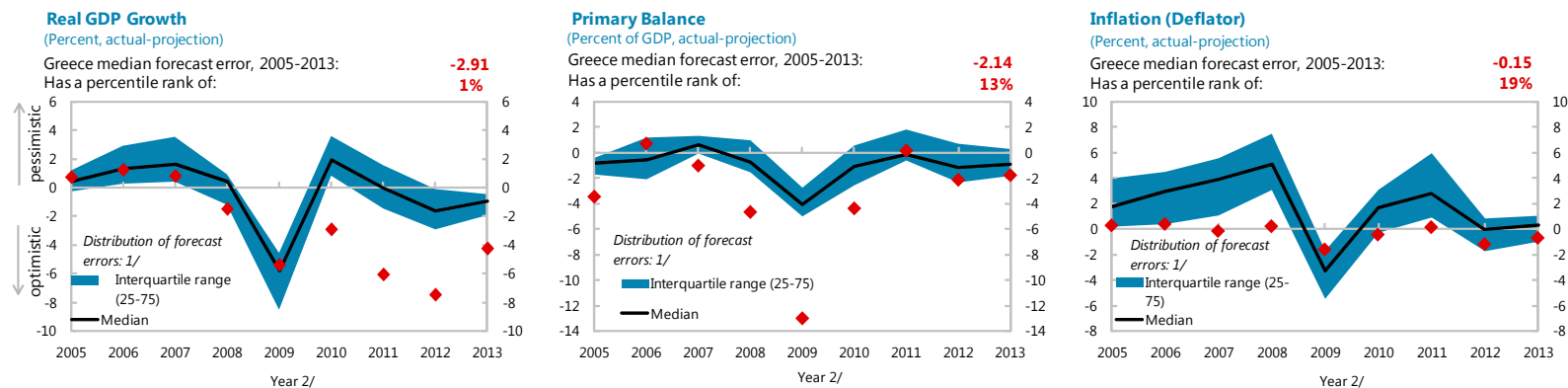
400 and 600 basis points for bond spreads; 17 and 25 percent of GDP for external financing requirement; 1 and 1.5 percent for change in the share of short-term debt; 30 and 45 percent for the public debt held by non-residents.

4/ An average over the last 3 months, 24-Jan-14 through 24-Apr-14.

5/ Includes liabilities to the Eurosystem related to TARGET.

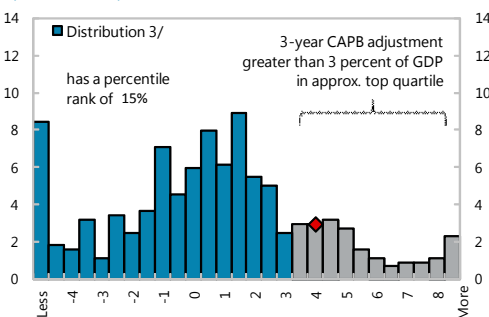
Annex Figure I.2. Greece: Public DSA—Realism of Baseline Assumptions, 2005–13

Forecast Track Record, versus program countries

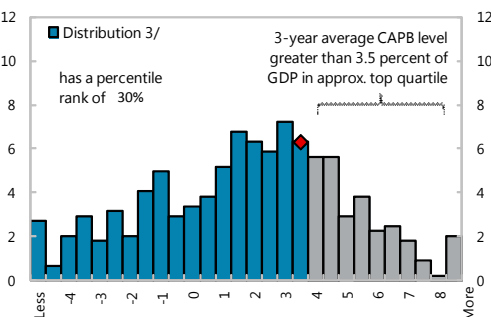


Assessing the Realism of Projected Fiscal Adjustment

3-Year Adjustment in Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)



3-Year Average Level of Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)



Source : IMF Staff.

1/ Plotted distribution includes program countries, percentile rank refers to all countries.

2/ Projections made in the spring WEO vintage of the preceding year.

3/ Data cover annual observations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Annex Figure I.3. Greece: Public DSA—Baseline Scenario, 2003–22

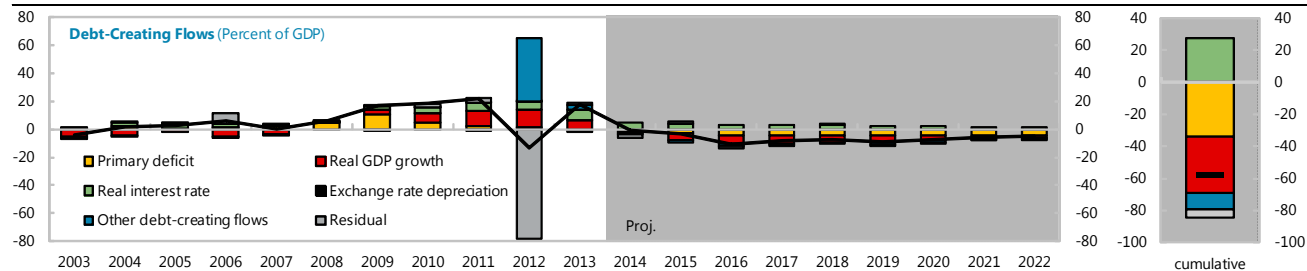
(Percent of GDP, unless otherwise indicated)

Debt, Economic and Market Indicators 1/

	Actual			Projections								As of May 15, 2014		
	2003–2011 2/	2012	2013	2014	2015	2016	2017	2018	2019	2020	2022			
Nominal gross public debt	119.3	157.2	175.1	174.2	171.0	160.5	152.0	144.6	135.3	127.7	117.2	Sovereign Spreads		
Public gross financing needs	26.2	33.9	21.4	23.5	20.2	11.9	11.5	9.9	11.9	8.7	6.4	Spread (bp) 3/		
Real GDP growth (percent)	0.7	-7.0	-3.9	0.6	2.9	3.7	3.5	3.3	3.6	2.6	1.9	CDS (bp)		
Inflation (GDP deflator, percent)	2.6	-0.3	-2.1	-0.7	0.4	1.1	1.3	1.4	1.8	1.8	2.0	Ratings		
Nominal GDP growth (percent)	3.4	-7.3	-5.8	-0.1	3.3	4.9	4.8	4.8	5.4	4.5	3.9	Moody's		
Effective interest rate (percent) 4/	4.9	2.7	2.4	2.3	2.9	3.1	3.4	3.5	3.5	3.4	3.6	S&Ps		
												Fitch		
												Foreign		
												Caa3		
												B-		
												B-		
												B-		

Contribution to Changes in Public Debt

	Actual			Projections								Cumulative	Debt-stabilizing primary balance 9/
	2003–2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2022		
Change in gross public sector debt	7.6	-13.1	17.9	-0.8	-3.3	-10.5	-8.5	-7.4	-9.3	-7.6	-5.1	-65.2	-0.4
Identified debt-creating flows	6.0	65.3	15.8	1.9	-4.9	-9.1	-8.1	-7.5	-8.4	-7.1	-4.8	-59.9	
Primary deficit	3.4	1.5	-0.8	-1.5	-3.0	-4.5	-4.5	-4.2	-4.2	-4.2	-4.0	-38.5	
Primary (noninterest) revenue and grants	39.8	44.0	44.0	44.4	43.2	42.4	42.2	42.2	42.2	42.2	42.2	425.2	
Primary (noninterest) expenditure	43.2	45.5	43.2	42.9	40.2	37.9	37.7	37.9	37.9	37.9	38.2	386.7	
Automatic debt dynamics 5/	2.6	18.4	13.2	4.2	-0.8	-2.9	-2.3	-1.9	-2.7	-1.4	-0.4	-9.8	
Interest rate/growth differential 6/	2.7	18.4	13.7	4.2	-0.7	-2.9	-2.2	-1.8	-2.6	-1.4	-0.4	-9.5	
Of which: real interest rate	2.5	5.6	7.3	5.3	4.2	3.2	3.2	2.9	2.3	2.1	1.8	28.8	
Of which: real GDP growth	0.2	12.8	6.4	-1.1	-4.8	-6.0	-5.4	-4.8	-5.0	-3.4	-2.2	-38.3	
Exchange rate depreciation 7/	0.0	0.0	-0.5	...	...	...	...	...	...	...	...	...	
Other identified debt-creating flows	-0.1	45.4	3.4	-0.8	-1.2	-1.7	-1.4	-1.4	-1.5	-1.5	-0.4	-11.6	
Net privatization proceeds	-0.1	-0.1	-0.6	-0.8	-1.2	-1.7	-1.4	-1.4	-1.5	-1.5	-0.4	-11.6	
Contingent liabilities	0.0	6.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other liabilities (bank recap. and PSI sweetener)	0.0	39.1	4.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes 8/	1.7	-78.4	2.1	-2.7	1.6	-1.4	-0.4	0.1	-0.9	-0.5	-0.4	-5.6	



Source: IMF staff projections.

1/ Public sector is defined as general government.

2/ Based on available data.

3/ Bond Spread over German Bonds.

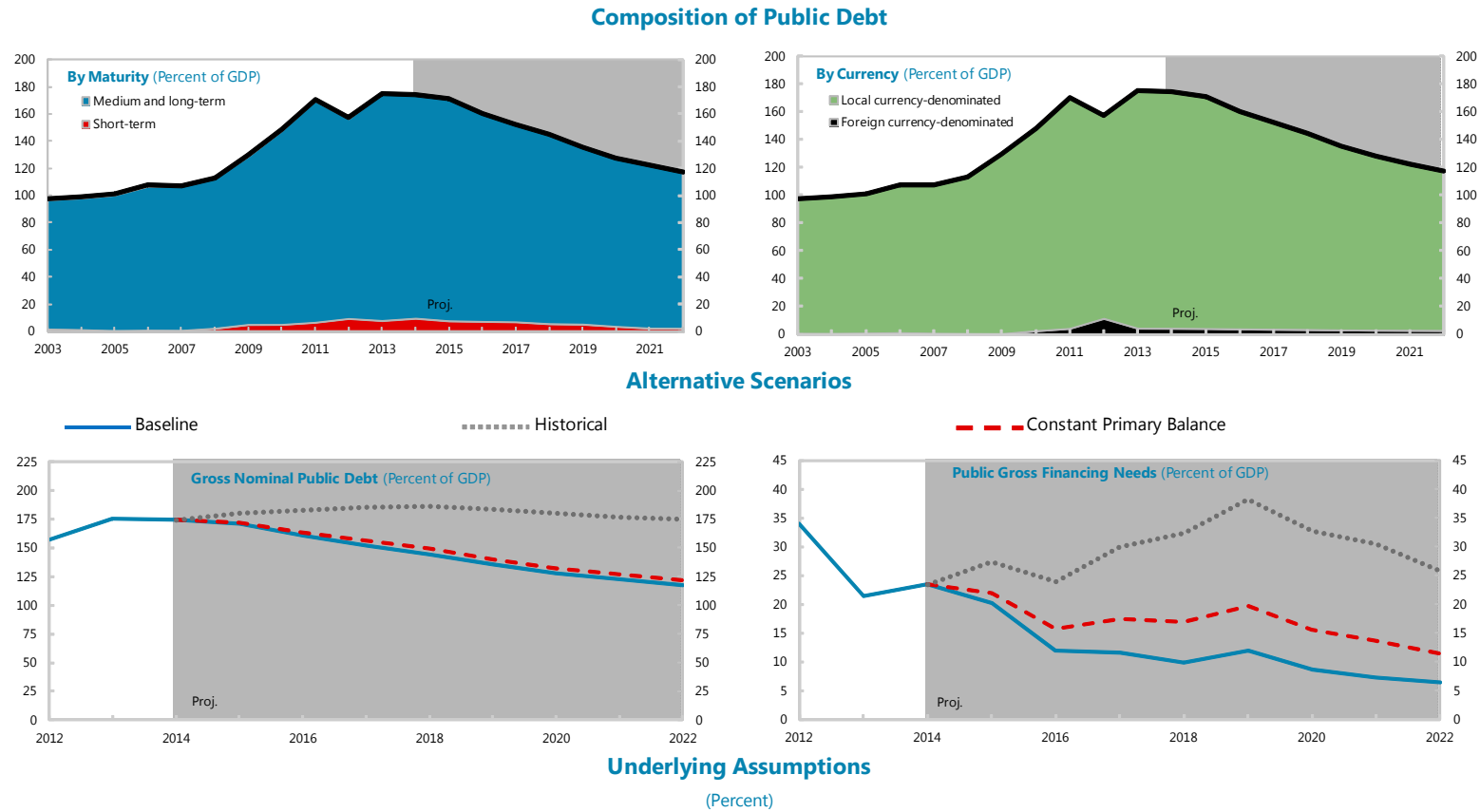
4/ Defined as interest payments divided by debt stock at the end of previous year.

5/ Derived as $(r - p(1+g) - g + ae(1+r))/(1+g+p+gp)$ times previous period debt ratio, with r = interest rate; p = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).6/ The real interest rate contribution is derived from the denominator in footnote 4 as $r - p(1+g)$ and the real growth contribution as $-g$.7/ The exchange rate contribution is derived from the numerator in footnote 2/ as $ae(1+r)$.

8/ For projections, this line includes exchange rate changes during the projection period. Also includes ESM capital contribution, arrears clearance, SMP and ANFA income, and the effect of deferred interest.

9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Annex Figure I.4. Greece: Public DSA—Composition of Public Debt and Alternative Scenarios, 2003–22

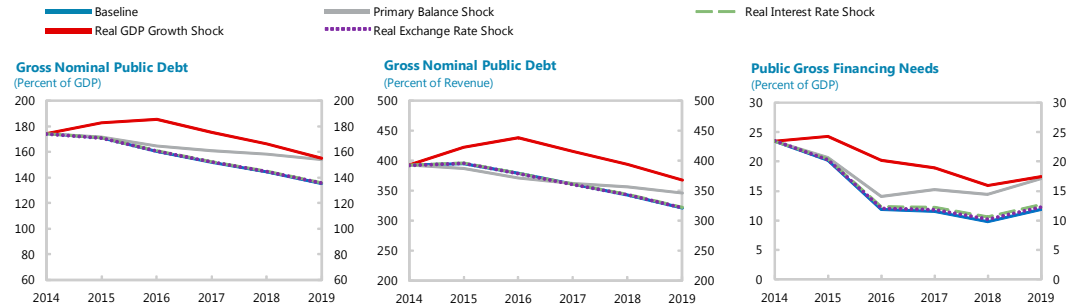


Baseline scenario	2014	2015	2016	2017	2018	2019	2020	2022	Historical scenario	2014	2015	2016	2017	2018	2019	2020	2022
Real GDP growth	0.6	2.9	3.7	3.5	3.3	3.6	2.6	1.9	Real GDP growth	0.6	-1.1	-1.1	-1.1	-1.1	-1.1	-1.1	-1.1
Inflation	-0.7	0.4	1.1	1.3	1.4	1.8	1.8	2.0	Inflation	-0.7	0.4	1.1	1.3	1.4	1.8	1.8	2.0
Primary balance	1.5	3.0	4.5	4.5	4.2	4.2	4.2	4.0	Primary balance	1.5	-3.0	-3.0	-3.0	-3.0	-3.0	-3.0	-3.0
Effective interest rate	2.3	2.9	3.1	3.4	3.5	3.5	3.4	3.6	Effective interest rate	2.3	3.0	3.3	3.5	3.7	3.7	3.6	3.7
Constant primary balance scenario																	
Real GDP growth	0.6	2.9	3.7	3.5	3.3	3.6	2.6	1.9									
Inflation	-0.7	0.4	1.1	1.3	1.4	1.8	1.8	2.0									
Primary balance	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5									
Effective interest rate	2.3	3.0	3.2	3.5	3.6	3.6	3.5	3.6									

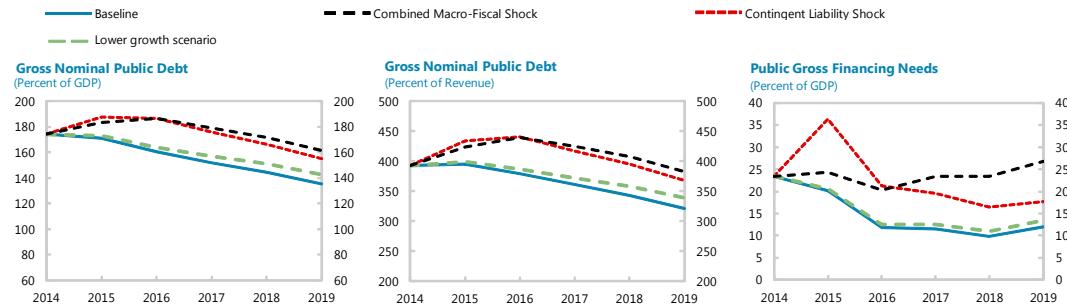
Source: IMF staff.

Annex Figure I.5. Greece: Public DSA—Stress Tests, 2014–22

Macro-Fiscal Stress Tests



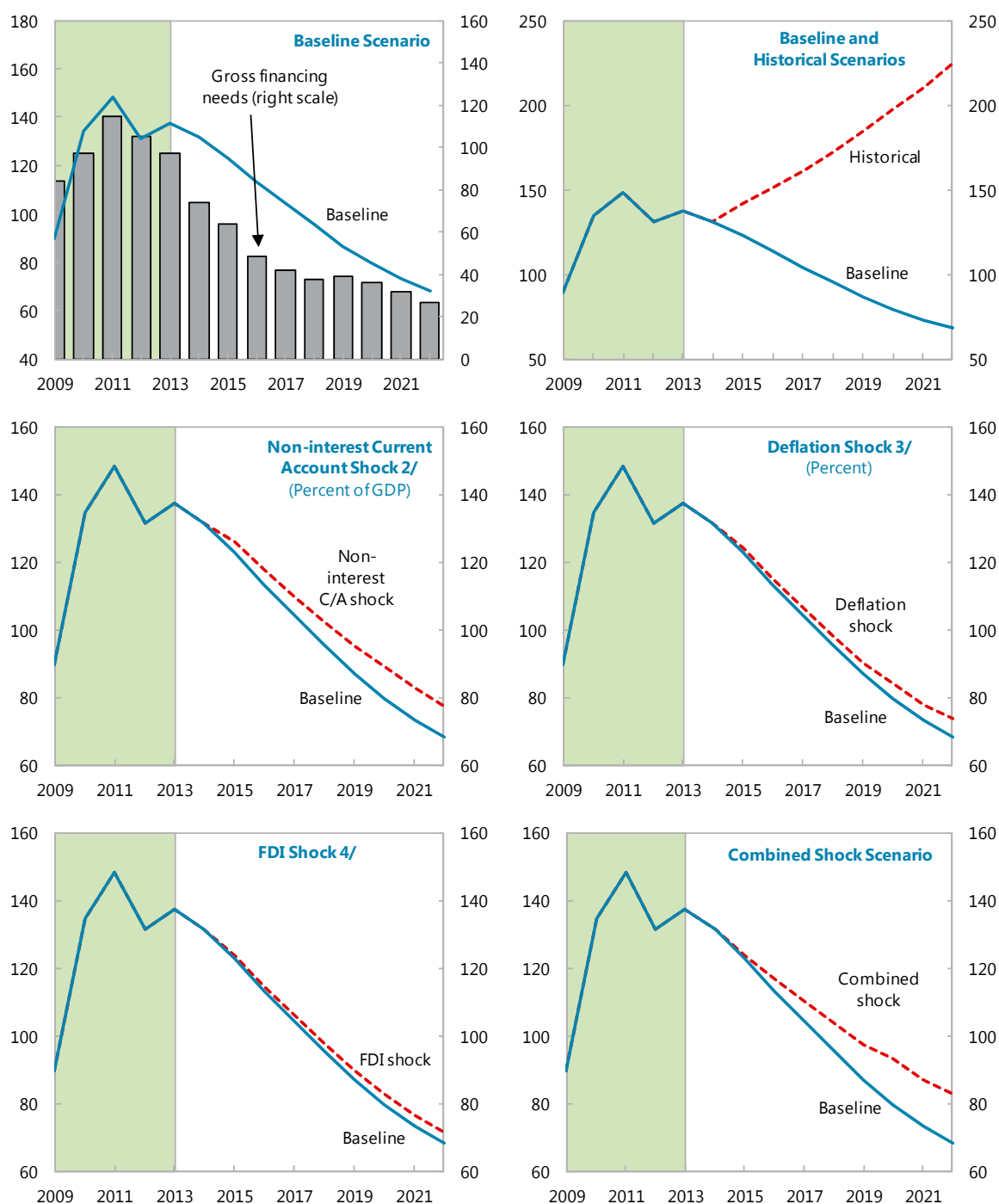
Additional Stress Tests

Underlying Assumptions
(Percent)

	2014	2015	2016	2017	2018	2019	2020	2022		2014	2015	2016	2017	2018	2019	2020	2022
Primary Balance Shock									Real GDP Growth Shock								
Real GDP growth	0.6	2.9	3.7	3.5	3.3	3.6	2.6	1.9	Real GDP growth	0.6	-1.9	-1.1	3.5	3.3	3.6	2.6	1.9
Inflation	-0.7	0.4	1.1	1.3	1.4	1.8	1.8	2.0	Inflation	-0.7	-0.8	-0.1	1.3	1.4	1.8	1.8	2.0
Primary balance	1.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	Primary balance	1.5	0.5	-0.3	4.5	4.2	4.2	4.2	4.0
Effective interest rate	2.3	2.9	3.1	3.4	3.5	3.5	3.4	3.5	Effective interest rate	2.3	3.0	3.3	3.6	3.6	3.6	3.5	3.6
Real Interest Rate Shock									Real Exchange Rate Shock								
Real GDP growth	0.6	2.9	3.7	3.5	3.3	3.6	2.6	1.9	Real GDP growth	0.6	2.9	3.7	3.5	3.3	3.6	2.6	1.9
Inflation	-0.7	0.4	1.1	1.3	1.4	1.8	1.8	2.0	Inflation	-0.7	0.7	1.1	1.3	1.4	1.8	1.8	2.0
Primary balance	1.5	3.0	4.5	4.5	4.2	4.2	4.2	4.0	Primary balance	1.5	3.0	4.5	4.5	4.2	4.2	4.2	4.0
Effective interest rate	2.3	3.0	3.3	3.6	3.7	3.7	3.6	3.7	Effective interest rate	2.3	3.0	3.2	3.5	3.6	3.6	3.5	3.6
Combined Shock									Contingent Liability Shock								
Real GDP growth	0.6	-1.9	-1.1	3.5	3.3	3.6	2.6	1.9	Real GDP growth	0.6	-1.9	-1.1	3.5	3.3	3.6	2.6	1.9
Inflation	-0.7	-0.8	-0.1	1.3	1.4	1.8	1.8	2.0	Inflation	-0.7	-0.8	-0.1	1.3	1.4	1.8	1.8	2.0
Primary balance	1.5	0.5	-0.3	0.3	0.3	0.3	0.3	0.3	Primary balance	1.5	-11.4	4.5	4.5	4.2	4.2	4.2	4.0
Effective interest rate	2.3	3.0	3.3	3.7	3.8	3.8	3.7	3.8	Effective interest rate	2.3	3.1	3.5	3.5	3.6	3.6	3.5	3.6
Lower Growth Scenario																	
Real GDP growth	0.6	1.9	2.7	2.5	2.3	2.6	1.6	0.9									
Inflation	-0.7	0.4	1.1	1.3	1.4	1.8	1.8	2.0									
Primary balance	1.5	3.0	4.5	4.5	4.2	4.2	4.2	4.0									
Effective interest rate	2.3	3.0	3.2	3.5	3.6	3.6	3.5	3.6									

Source: IMF staff.

Annex Figure I.6. Greece: External Debt Sustainability: Bound Tests, 2009–23 1/
(Net external debt in percent of GDP)



Sources: Greek authorities; and IMF staff estimates.

1/ Shaded areas represent actual/preliminary data. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year (pre-crisis) historical average for the variable is also shown.

2/ Current account balance lower by 1.5 percent of GDP due to delayed program implementation and terms-of-trade shock.

3/ Impact of 1pp negative shock to inflation rate (GDP and exports deflators). To be conservative, assumes no quantity effect.

4/ Decline in FDI due to reduced privatization receipts.

Annex Table I.1. Greece: Net External Debt Sustainability Framework, 2009–22

(Percent of GDP, unless otherwise indicated)

(Percent of GDP, unless otherwise indicated)

	Actual					Projections										Debt-stabilizing non-interest current account
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	7/	
Baseline: external debt	89.6	134.4	148.4	131.3	137.2	131.5	122.9	113.4	104.1	95.6	86.8	79.7	73.4	68.1	-4.6	
Change in external debt	12.8	44.8	14.0	-17.1	5.9	-5.7	-8.6	-9.5	-9.3	-8.6	-8.8	-7.1	-6.3	-5.2		
Identified external debt-creating flows (4+8+9)	9.2	12.5	16.7	12.4	3.2	-5.9	-9.1	-10.2	-10.2	-10.0	-10.8	-7.7	-6.9	-5.9		
Current account deficit, excluding interest payments	6.0	4.9	3.7	-1.6	-4.2	-5.2	-5.2	-5.5	-6.4	-6.6	-6.9	-6.2	-5.7	-5.6		
Deficit in balance of goods and services	7.8	6.8	6.0	2.3	0.2	-1.1	-2.1	-2.4	-3.1	-3.6	-4.0	-4.1	-4.1	-4.1		
Exports	18.3	20.5	23.4	25.6	27.6	28.6	29.2	29.2	29.5	29.7	29.7	29.7	29.4	29.2		
Imports	26.2	27.3	29.5	27.9	27.9	27.5	27.1	26.8	26.4	26.0	25.7	25.6	25.4	25.1		
Net non-debt creating capital inflows (negative)	0.0	1.4	0.3	-0.3	-2.8	-3.5	-2.6	-2.0	-1.8	-1.9	-2.0	-2.1	-2.1	-1.2		
Automatic debt dynamics 1/	3.2	6.2	12.7	14.3	10.1	2.8	-1.3	-2.7	-2.0	-1.5	-1.9	0.6	1.0	1.0		
Contribution from nominal interest rate	2.5	2.6	3.9	2.6	2.0	2.7	2.9	3.1	3.2	3.2	3.0	2.8	2.5	2.3		
Contribution from real GDP growth	2.4	4.6	10.2	11.2	5.4	-0.8	-3.7	-4.3	-3.8	-3.3	-3.3	-2.2	-1.5	-1.3		
Contribution from price and exchange rate changes 2/	-1.7	-1.0	-1.4	0.5	2.8	0.9	-0.5	-1.4	-1.4	-1.5	-1.6	-1.5	-1.5	-1.4		
Residual, incl. change in gross foreign assets (2-3) 3/	3.6	32.2	-2.7	-29.5	2.7	0.2	0.5	0.7	0.9	1.4	2.0	0.6	0.6	0.7		
External debt-to-exports ratio (in percent)	489.6	655.3	633.7	512.3	496.2	459.9	421.4	388.3	353.2	322.0	291.7	268.5	249.2	233.3		
Gross external financing need (billions of euros) 4/	194.4	216.2	239.0	203.7	176.7	135.0	120.3	95.9	86.8	82.1	89.6	86.1	78.6	69.6		
Percent of GDP	84.1	97.3	114.6	105.3	97.1	74.2	64.1	48.7	42.0	38.0	39.3	36.1	31.7	27.0		
Scenario with key variables at their historical averages 5/	...	...	...	...	...	...	142.1	151.4	161.3	172.2	184.3	197.1	210.4	224.3	5.7	
Key macroeconomic assumptions underlying baseline																
Real GDP growth (percent)	-3.1	-4.9	-7.1	-7.0	-3.9	0.6	2.9	3.7	3.5	3.3	3.6	2.6	2.0	1.9		
GDP deflator (change in percent)	2.3	1.1	1.0	-0.3	-2.1	-0.7	0.4	1.1	1.3	1.4	1.8	1.8	1.9	2.0		
Nominal external interest rate (percent) 6/	3.3	2.8	2.7	1.6	1.4	1.9	2.3	2.6	3.0	3.2	3.3	3.3	3.2	3.3		
Growth of exports (euro terms, percent)	-21.5	7.7	7.2	1.4	1.6	3.4	5.3	5.0	5.9	5.4	5.7	4.2	3.1	3.1		
Growth of imports (euro terms, percent)	-25.2	0.3	1.4	-12.1	-6.1	-1.5	1.9	3.8	3.2	3.3	4.2	3.9	3.1	2.7		
Current account balance	-11.2	-10.1	-9.9	-2.4	0.7	0.7	0.2	0.2	0.7	0.8	1.2	0.7	0.7	0.9		
Net non-debt creating capital inflows	0.0	-1.4	-0.3	0.3	2.8	3.5	2.6	2.0	1.8	1.9	2.0	2.1	2.1	1.2		

1/ Derived as $[r - g - r(1+g) + ea(1+r)] / (1+g+r+gr)$ times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in euro terms, g = real GDP growth, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as $[-r(1+g) + ea(1+r)] / (1+g+r+gr)$ times previous period debt stock. r increases with an appreciating domestic currency ($e > 0$) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ The external DSA is based on net external debt while the interest rates in the public sector DSA are based on gross debt. Nevertheless, average interest rates generally follow a rising trend, and are more closely correlated at the end of the projection period, as more new debt is contracted at higher interest rates.

7/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Appendix I: Letter of Intent

Athens, May 14, 2014

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, DC 20431

Dear Ms. Lagarde,

In the attached update of the Memoranda of Economic and Financial Policies (MEFP) from March 9 and December 21, 2012, and May 20 and July 17, 2013, we outline progress and policies toward meeting the objectives of the economic program of the Greek government that is supported by an arrangement under the Extended Fund Facility (EFF).

Recent developments suggest that the recession is bottoming out, and we project that the economy will return to growth in 2014. We registered a significant primary fiscal surplus in 2013 in program terms, well above target and ahead of schedule. The external position has also improved, with the current account showing a surplus for the first time in decades. However, the economy continues to face significant challenges, including high rates of unemployment and public debt, high non-performing loan balances and structural current account deficits, despite reforms to the business environment improving the investment climate.

We met all end-2013 quantitative performance criteria under the program, except for the one on domestic arrears (narrow definition). However, we missed the indicative targets (Table 1) and several structural benchmarks (Table 2). Against this backdrop, we are adopting key reforms and taking corrective steps, including as prior actions for this review (Table 3). Our priorities include:

- *Fiscal policy.* As a prior action, we are revising expenditure ceilings to lock in the 2013 under-spending, and implementing policies to ensure that we achieve a primary fiscal surplus of 1.5 percent of GDP in 2014. We are committed to adopting policies consistent with a primary surplus of 3 percent of GDP in 2015. The draft 2015 budget will be agreed with the EC/ECB/IMF by end-September 2014. We are also taking steps to limit fiscal risks from the energy and health sectors.
- *Fiscal structural reforms.* We have approved legislation for a new property tax and further reformed the income tax and tax procedures codes. As a prior action, we have adopted legislation to strengthen the autonomy and improve the operations of the revenue administration. We are reforming the public administration and catching up on agreed exit and mobility targets. We have taken steps to streamline payment processes and minimize the risk of further accumulation of arrears.
- *Financial stability.* The asset quality review and stress test revealed the need to further strengthen bank capital and accelerate the process of repairing bank and private sector balance sheets. To this end, the Bank of Greece required banks to raise capital identified in the stress tests by end-June 2014, preserving the HFSF buffer as a backstop. All four systemic banks successfully completed capital increases. We are accelerating, as a top

- priority, reforms of the corporate and household insolvency frameworks and strengthening of bank supervision.
- *Growth-enhancing structural reforms.* On our initiative and in agreement with the EC/ECB/IMF, we have adopted key OECD recommendations on eliminating regulatory restrictions to competition in four sectors. As prior actions, we have also implemented several actions in support of the privatization program, and frontloaded the reduction of the labor tax wedge. Additional reforms include measures to open restricted professions, improve competition in the energy sector, ease administrative burdens on business, and improve the quality of public services.

The program is fully financed through the next twelve months. Firm commitments are also in place thereafter from our euro area partners to provide adequate support during the program period and beyond, provided that we comply fully with the requirements and objectives of the program. In this regard, we remain on track to receive the first phase of conditional debt relief from our European partners, as described in the Eurogroup statements of November 27 and December 13, 2012.

On this basis, we request completion of the fifth review under the EFF arrangement. In view of the delays in the program reviews, we request the re-phasing of the undrawn purchases over the remaining reviews in 2014 (Table 4) and reduction by three reviews. We therefore request a purchase of SDR 3 billion as well as: (i) a waiver of nonobservance for the end-2013 quantitative performance criteria on government arrears; (ii) establishment of performance criteria and indicative targets for end-June, end-September, and end-2014 (Table 5); and (iii) establishment of new structural benchmarks for 2014 (Table 6).

We believe that the policies set forth in the attached MEFP are adequate to achieve the objectives under the program, and stand ready to take any measures that may become appropriate for this purpose as circumstances change. We will consult with the Fund on the adoption of any such actions and in advance of revisions to the policies contained in the Memoranda, in accordance with the Fund's policies on such consultations.

This letter is being copied to Messrs. Dijsselbloem, Kallas, and Draghi.

_____/s/_____
 Antonis Samaras
 Prime Minister

_____/s/_____
 Yannis Stournaras
 Minister of Finance

_____/s/_____
 George Provopoulos
 Governor of the Bank of Greece

Attachment I: Memorandum of Economic and Financial Policies

Developments, Outlook, and Strategy

1. **Greece has made considerable progress toward restoring fiscal and external sustainability.** We achieved a significant primary fiscal surplus in 2013, well above target and ahead of schedule. The improvement since 2009 is estimated at about 19 percent of GDP in cyclically-adjusted terms, and we have the highest cyclically-adjusted primary surplus in the euro area. The external current account also continues to improve, boosted by tourism.
2. **These efforts are bearing fruit, but significant challenges remain.** The pace of contraction is decelerating. Growth should turn positive in 2014, partly as a result of a lower fiscal drag. But growth is predicated on a revival of investment and exports, which in turn depend on the full and timely implementation of structural reforms and adequate external financing. At the same time, the economy faces major challenges, not least high unemployment, strained balance sheets, and a restrictive investment climate.
3. **Our focus therefore remains on meeting fiscal targets, safeguarding financial stability, strengthening the basis for growth and job creation, and protecting the vulnerable.** We are committed to preserving the achievements to date and to continue implementing in full the measures agreed since the start of the program or taking fiscally equivalent measures, agreed with the EC/ECB/IMF, to ensure achievement of fiscal targets. Our policies are centered on: (i) restoring fiscal sustainability (§4–13); (ii) modernizing fiscal institutions (Annex I); (iii) safeguarding financial stability (§15–22); (iv) increasing productivity through structural reforms (§23–30); and (v) protecting the vulnerable (§18).

Fiscal Policy

4. **To achieve the 2014 primary balance target of 1.5 percent of GDP, we are implementing in full the measures in the budget and are taking the following steps:**
 - *Locking in under-spending.* As a **prior action**, we locked in €320 million of lower spending from permanent savings in 2013 by revising binding expenditure ceilings in the 2015–18 medium-term fiscal strategy (MTFS).
 - *Potential court rulings.* A constitutional court ruling reversed the wage cuts of judges since August 2012, leading to an increase in gross spending of wages and pensions of €168 million in 2014, including a permanent annual increase in the wage and pension bill of €70 million that we have accommodated. We do not expect any more adverse rulings regarding special wage regimes or levies on property. Nevertheless, should such rulings occur, we are committed to taking off-setting actions.
 - *Debt reduction/spending.* In accordance with the Eurogroup statement of November 2012, we transferred over 30 percent of the over-performance in the 2013 general government primary balance in program terms, or €500 million, to the segregated account earmarked for debt reduction. We are also using the fiscal space projected with the EC-ECB-IMF for

2014 to provide in gross terms up to €525 million of one-off income support to around 730,000 households and 75,000 security personnel with low earnings and assets. We will review and agree with the EC/ECB/IMF the scope for any further one-off increase in social or pro-growth spending in the context of the next review of the program, conditional on the fiscal targets being met.

5. We are committed to achieving the 2015 fiscal target. We project a gap for 2015. In the first instance, we intend to close the gap by extending expiring measures. Under current projections, we believe that it will be necessary to extend the solidarity surcharge in full. But we will re-visit this issue in the context of the preparation of the 2015 budget. If there is sustained over-performance of revenue, contingent on the fiscal targets being met, we will in consultation with the EC/ECB/IMF consider a reduction in the high statutory tax rates while aiming to broaden the tax bases. In line with the existing legal framework, the 2015–18 MTFS was voted on by Parliament on May 9, 2014, and the draft 2015 budget will be agreed with the EC/ECB/IMF by end-September 2014.

6. We are reducing social security contribution (SSC) rates to lower the cost of business and strengthen labor demand, and enhancing the pension system to ensure its viability and support labor supply.

- *SSC rate cuts.* As a **prior action**, we legislated a reduction in SSC rates of IKA by 3.9 p.p. effective July 1, 2014. The rate cut is achieved by mostly reducing employer-paid non-pension contributions (by 2.9 p.p.). We will review, by end-June 2015, the impact on wages, employment and public finances, and assess the case, in consultation with the EC/ECB/IMF, for a further cut in employer contributions of 1 p.p. in a budget neutral way. Offsetting measures include eliminating OAED family benefits, reducing OAED training programs, rationalizing OAEE exemptions, and enhancing collectability rates by offsetting VAT and income tax refunds against SSFs' debts, yielding about €230 million in fiscal savings in 2014. We will prepare by September 2014, in consultation with the EC/ECB/IMF, a comprehensive plan to (i) unify and streamline SSC policies to eliminate loopholes, and (ii) better target lower-end contributions to improve employment incentives, including by enhancing schemes for young people and long-term unemployed financed by the EU funds. We will implement the plan by end-2014.
- *Pensions.* While the 2010 reform was a major step forward, at about 17 percent of GDP, pension spending remains one of the highest in the EU. To address remaining short- and long-term concerns, we commit to (i) consolidating pension fund administration and enhancing efficiency; (ii) ensuring that the consolidated system (excluding budgetary transfers related to social assistance functions) is actuarially balanced through the next decades; (iii) containing pension spending to ensure compatibility with the short- and medium-term fiscal program targets that underpin the agreed debt sustainability analysis by recalibrating pension system parameters and containing the state subsidy to the pension system; and (iv) establishing close links between contributions and benefits in all pension funds to ensure actuarial fairness.
 - To achieve these objectives and in consultation with the EC/ECB/IMF, we will: (i) prepare a draft comprehensive proposal on the main elements of SSF consolidation, and

harmonize contribution and benefit payment procedures, by June 2014, (ii) complete an actuarial study of the whole pension system, including supplementary and lump-sum funds, by September 2014, including simulations of actuarial balances and calculations of internal rate of return by funds and by income groups, (iii) on this basis, agree on specific design and parametric improvements with the EC/ECB/IMF by October 2014, and (iv) legislate changes by November to take effect from January 1, 2015 (**structural benchmark**).

- On supplementary pensions, we will by June 2014 integrate all funds in ETEA that fall under the ESA95 definition of General Government and will adjust benefits to contributions in an actuarially neutral way with pro-rata calculations starting January 1, 2014. The fiscal sustainability factor will be applied to all supplementary funds integrated into ETEA from July 1, 2014 to eliminate any deficit. Starting January 1, 2015, all supplementary pension funds will only be financed by own contributions. For a very limited number of funds that technically cannot be merged into ETEA at this stage, the same rules as outlined in this paragraph will be legislated by end-June 2014 and applied from January 1, 2015.
- On lump-sum pensions, the reform implementation has already started (effective since January 1, 2014), eliminating the deficits in these funds. All remaining funds that fall under the ESA95 definition of General Government will be incorporated under law 4052/2012 by June 2014, effective from January 1, 2015. Starting January 1, 2015, all lump-sum funds will only be financed by own contributions.

7. We are further optimizing the tax structure to improve the business climate.

- On nuisance taxes:
 - As a **prior action**, we have: (i) abolished 40 charges at an annualized cost of €245 million, of which: 9 are abolished effective July 1, 2014, at the latest; 27 that finance social security funds are abolished effective January 1, 2015; and 4 charges amounting to about €60 million accrue to entities outside the general government and do not impact the budget effective immediately; (ii) removed revenue earmarking of 12 taxes amounting to €1.4 billion effective January 1, 2015.
 - As there are still more nuisance charges to be assessed, we will: by end-May 2014 update the list of nuisance charges that accrue to the general government and to entities outside the general government (including, e.g., by making public service announcements and inviting anonymous reporting of these charges). We will abolish as many as possible, in consultation with the EC/ECB/IMF, by end-June 2014, effective January 1, 2015. We will also by end-June 2014 abolish all charges that finance auxiliary pensions (that fall under the Ministry of Labor), effective January 1, 2015, financed by adjusting pension spending in these funds or contributions consistent with the 2012 pension reform.
 - We will review by September 2014 and legislate by November 2014 the phasing out of nuisance charges that finance main pensions, congruent with the pension timeline above, and the mode of financing (whether SSCs should be increased or spending

reduced). This will include addressing advertising nuisance taxes that finance pensions, such as those identified in the OECD competition assessment. It will also include the abolishment of all charges that finance auxiliary pensions (that fall under the ESA95 definition of General Government, but are outside the Ministry of Labor), effective January 1, 2015, and adjust spending or contributions consistent with the 2012 pension reform. We will also comprehensively review all reciprocal charges by September 2014 and legislate their phasing out by November 2014.

- Finally, we will review, as part of the study of regulated professions (¶27), by end-August 2014 transaction-related charges, including stamp duties, with a view to replacing the most distortionary ones with more efficient taxes. We will decide by end-September 2014, in consultation with the EC/ECB/IMF, which of these charges should be reduced, abolished, have their revenue earmarking removed, or replaced. We will take the corresponding legislative actions by November 2014.
- Moreover, we commit to a comprehensive VAT reform and will, in consultation with the EC/ECB/IMF: review VAT policy and administration by June 2014; reduce administrative burdens and streamline the VAT refund system by July 2014, including by allowing companies with a fully compliant filing and payment history and absence of past tax evasion for the past two years to receive refunds without audit; and legislate the comprehensive reform of VAT policy and administration through primary legislation and other instruments by October 2014 to take effect from January 1, 2015 (**structural benchmark**).

8. We are taking further steps to support employment programs and improve targeting of the social safety net to vulnerable groups. Hiring under two employment programs introduced in the second half of 2013 and financed through EU structural funds—the youth internship and employment voucher program and the social community work program—is progressing. We will extend the latter by offering at least a further 50,000 places in 2014, and launch the youth guarantee scheme (inspired in the EU scheme) by December 2014. On social protection, we embarked on the preparatory work and will launch by September 2014 a pilot means-tested income support program (guaranteed minimum income) in two municipalities, and roll it out nationally in 2015, if financing is available. We will conduct by end-June 2014 a review of social protection and assistance systems. On that basis, we will streamline tax- and expenditure-related benefits in the context of the 2015 budget to create the fiscal space to provide increased, targeted support to vulnerable groups within the overall fiscal targets.

9. We have amended the Income Tax and Tax Procedures Codes and other relevant legislation to further strengthen the tax system and ensure uniformity and consistency across all relevant legislation. However, some high-priority actions remain pending:

- *On the income tax code (ITC)*, we will in consultation with the EC/ECB/IMF: (i) if the surcharge is to be extended (¶15), assess the case for re-designing the solidarity surcharge for individuals in a revenue neutral manner, and take the appropriate action, reducing significantly reconciliatory tax returns, rationalizing exemptions introduced in 2014, and integrating it into the ITC by September 2014; (ii) by end-July 2014, conduct a comprehensive review of collective investment vehicles that are not affected by the provisions of the ITC (Article 72, ¶18), identify the best practice for taxing these vehicles and

their participants, and prepare draft legislation to integrate these taxation principles fully in the ITC; (iii) by end-July 2014, identify all income tax incentives across different legislative documents, including those introduced in the ITC in 2014, and quantify them as tax expenditures; (iv) as a **structural benchmark**, by end-September 2014, adopt legislation to be implemented by January 2015 at the latest to: (a) integrate the taxation principles on collective investment vehicles fully into ITC, (b) map and fold the identified tax exemptions into the newly adopted ITC, eliminating the incentives that are deemed inefficient or inequitable, (c) following a review of implementation, improve the capital gains tax on real estate, including taking a comprehensive approach to valuation of acquisitions and broadening the tax base, and (d) limit the withholding tax on technical services (ITC Article 64, ¶1.d) to profit shifting situations, in line with best practice in the EU; (v) by end-September 2014, bring the capital gains tax on portfolio shareholders in line with best practice in the EU; and (vi) by end-September 2014, conduct a comprehensive review of all remaining legislation that are in conflict with or in any other way related to the new ITC and map these legislative acts to the ITC.

- *On the tax procedures code (TPC)*, we will: (i) by end-June 2014, ensure the revenue administration's capabilities to conduct timely audits at taxpayer's premises by developing fast-track procedures for authorization of entry and search requests by the administration, particularly in fraud cases, and in consultation with the EC/ECB/IMF change administrative procedures or amend legislation as necessary to achieve this; (ii) by end-September 2014, following a review of the rights of designated tax collection officials to enter tax debtors' business premises to verify the tax debtors asset and liquidity position and to identify assets that can be subject to enforcement measures, amend as necessary the TPC to ensure that these rights are sufficient for enforcement purposes; (iii) by June 2014, undertake a comprehensive review of tax fraud and evasion provisions in the legislation to amend by September 2014 the Special Penal Law 2523/1997 and any other relevant legislation, with a view, inter alia, to (a) broaden the definition of tax fraud and evasion to all taxes, and (b) ensure that this review does not reduce the scope of tax crimes that are currently predicate offenses to money laundering. Following these amendments, we will repeal Article 55, ¶s 1 and 2, of the TPC by September 2014 (**structural benchmark**) (see also ¶33, first bullet); (iv) take the necessary preparations by July 2014 to bring the inheritance and gift taxes under the scope of TPC (Article 66, ¶29); (v) by end-June 2014, in consultation with EC/ECB/IMF, modernize the revenue administration's procedure for enforced sale of assets at public auctions to ensure that, inter alia, the auction is announced well in advance in public media and that bids exceeding the cost of the auction will be accepted irrespective of the amount of debt owed by the owner of the asset and are set at a level that allows for effective and timely disposal by the revenue administration. Debt amounts that have not been covered by the proceeds from the auction shall remain enforceable; and (vi) by end-June 2014, review existing legislation for the procedures for withholding agents and, by September 2014, fold these into the TPC as general procedural rules for all withholding agents. By end-June 2014, we will conduct a comprehensive review of all remaining legislation that are in conflict with or in any other way related to the new TPC and map these legislative acts to the TPC. We have ensured that until end-2014 the current practice of levying multiple penalties will be limited to a fixed cap. We will further ensure by end-September 2014 that, effective January 1, 2015, violations involving non-issuance or incorrect issuance of retail receipts will be treated as a single but serious procedural

violation for VAT, whereas not having a reliable accounting system will remain a single violation for direct taxes. In this regard, we will—in cooperation with technical assistance—prepare our tax administration to apply modern auditing techniques to counter tax evasion. We will also ensure that the application of fines on the offences committed or detected before the entry into force of the new TPC are in line with best practices in the EU and legislate any changes by end-September 2014.

- *Code of Public Revenue Collection (KEDE).* We will undertake a mapping of the KEDE to identify conflicts with the ITC and TPC, and will amend by June 2014 any conflicting provisions to ensure compatibility. We will conduct in consultation with EC/ECB/IMF a comprehensive review of KEDE by June 2014 to align it with the international best practice, with an initial draft bill available by September 2014, to be legislated in October 2014.
- *Modernizing accounting standards.* To complement the ITC and TPC, we will adopt by end-May 2014 a new act on Greek Accounting Standards and Tax Accounting Rules to replace the existing Tax Recording Code and, for the first time, provide a modern and consistent set of accounting and tax accounting rules covering all enterprises. By May 2014, we will establish a working group within SGPR to develop a roadmap and timetable for the implementation of new accounting standards. These should, inter alia, (i) provide the necessary secondary legislation, (ii) tax compliance documents and forms, and (iii) ensure appropriate preparations by businesses, especially SMEs.
- *Enhancing transparency.* By June 2014, we will produce and publish an electronic consolidated version of primary tax legislation, including ITC and TPC, and will update the publication regularly as appropriate.

10. We have issued key secondary legislation to ensure prompt implementation of the ITC and TPC. As a **prior action**, we have issued the secondary legislation to: (i) define taxpayers who are professionally engaged in trading securities in regulated markets (Law 4172/2013, Article 21, ¶3); (ii) clarify rates and procedures for the implementation of tax withholding (Law 4172/2013, Article 60, ¶4); (iii) clarify the base for the solidarity surcharge either by issuing an MD (Law 3896/2011, Article 29, ¶6) or a clarification circular; (iv) determine the content of transfer pricing documentation (Law 4174/2013, Article 21, ¶6), and (v) determine the requirements for electronic notification of documents (Law 4174/2013, Article 5, ¶6).

11. Preparations for the new unified property tax are advancing. We commit to take all necessary actions to compensate for implementation slippages, if any, that might lead to revenue shortfalls, and will keep the assessment of estimated revenues under review.

- *Preparations.* We created a property tax implementation team to refocus the organizational structure toward the collection of main taxes, including the property tax, have trained the personnel in the tax offices and specified the staffing requirements at 15 (excluding DOYs) to implement effectively the new ENFIA. We have completed the filing software testing and final changes to the E9 forms that form the basis of the new tax database. By end-May 2014, we will finalize filing of the E9 forms, so that billing of the new property tax can commence in June 2014. We have launched a communication campaign that will significantly enhance understanding of the filing requirements and the specificities of the new tax. By September

2014, we will review the exemptions from ENFIA introduced in 2014 and eliminate starting January 2015 those that are deemed inefficient or inequitable.

- *Valuation.* Over time, we will align property assessment values with market values. To this end, by July 2014, we will develop a medium-term reform plan that outlines actions, including setting up a project team, needed to: (i) by January 2015, set up an experienced real property valuation unit, collect data on real estate market conditions with an aim to adjust the zone prices to reflect more accurately real estate market conditions, and determine the nature of the value based and the valuation methodologies relevant to individual categories of properties; (ii) by September 2015, review the valuation of commercial properties, and adjust the zone prices to reflect more accurately real estate market conditions; (iii) by January 2016, issue a real estate market value index and ensure full identification of ownership with properties through a cadastre of properties and cross-checking of all ownership interests with all individual properties; and (iv) by January 2017, align all property assessment values with market prices.

12. To improve transparency and limit fiscal risks, we are taking further actions on government guarantees and quasi-fiscal transfers, state-owned enterprises, the energy sector, and the health sector.

- *Guarantees and contingent liabilities.* Starting from Q1 2014, we are publishing on the Ministry of Finance website on a quarterly basis the stock and flows of all general government guarantees, including the ones provided by ETEAN, but excluding the ones to the financial sector (that will continue to be published in aggregate form in the monthly general government bulletin). We will publish by Q3 2014 a comprehensive list of all outstanding public-private partnership contracts.
- *State-owned enterprises.* To stop the drain on public resources from loss-making firms, maximize the recovery value and make the public sector more efficient, in addition to implementing the agreed plans on ELVO, HDS, and LARCO, we have: (i) passed legislation to close or merge the toll company together with 21 other companies, (ii) commenced restructuring of the public law entities, including under the supervision of the Ministries of Infrastructure, Culture, and Agriculture with an objective of downsizing employment by 1000 by end-2014; (iii) for the Hellenic Aerospace Industry (HAI), launched a process for the restructuring and possible introduction of external investment into HAI and will adopt and initiate a strategy for its restructuring by end-September 2014 based on the advice of external experts; and (iv) for Hellenic Post, appointed reputable external advisors to identify options and make recommendations for the best path to privatization to be prepared by June 2014 and implemented immediately, in accordance with the agreed privatization schedule. In consultation with the EC/ECB/IMF, we will identify by end-May 2014 a set of state-owned enterprises that need to be restructured, taking into consideration their financial position (e.g., deficit, state guarantees, subsidies) and policy purpose, and will develop concrete restructuring proposals for implementation by end-September 2014.
- *Energy sector*

- Renewable energy account (RES). To restore long-term sustainability and eliminate the debt of the account by end-2014, we have, as a **prior action**, aligned the terms of power purchasing agreements for existing contracts to a reasonable rate of return—reducing tariffs paid to solar producers by about 28 percent on average and to other renewable producers by 5.4 percent on average, imposed a one-time contribution on renewable producers by writing down net arrears owed to them by €310 million (a 28.7 percent reduction for solar producers and 10 percent for others), and increased the RES levy by €4.8 per MWh, and introduced a 200 MW annual cap on new solar installations receiving incentives. Exceptionally, for 2014 only, for fast track projects approved in earlier years, an additional 300 MW cap is foreseen, with feed-in tariffs at current levels.
- Public Power Company (PPC). To ensure adequate cost recovery while significantly reducing cross-subsidization across consumers, PPC has established a quarterly tariff adjustment mechanism, with a first adjustment effective July 1, 2014. The tariffs will continue to be subject to monitoring by RAE, the regulator. The justification for quarterly PPC tariff proposals based on cost and revenue considerations will be made public, while avoiding inappropriate disclosure of confidential PPC data (data published will include PPC operating and capital costs and realized and projected revenue flows from electricity sales and other sources).
- Structural measures. We will put in place by July 2014 a set of measures (such as reduced capacity payments, elimination of variable cost recovery, auctions of a portion of PPC's generation output, and demand side measures to improve efficiency during peak demand periods) to address concerns related to the competitiveness of energy-intensive users, in a way that does not burden PPC's finances or create fiscal risks, strengthens prospects for PPC's privatization, and improves the efficiency of the energy market. As a result, the effect of the recent action to preferentially lower electricity prices to energy-intensive users will be addressed. We will consult with the EC/ECB/IMF before considering any further actions that benefit specific groups of energy consumers at the expense of other consumers or market participants.
- Clearing arrears. The government will clear all public sector arrears through 2013 to PPC—general government arrears have been cleared or the resources have been transferred to the entities owing the arrears and will be cleared by end-June 2014; the rest, including transportation, irrigation and water supply companies will be cleared by end-2014. The arrears of Larco will be dealt with in the context of its liquidation. These measures should provide adequate liquidity to begin clearing arrears in the system, including among PPC, producers, ADMIE, LAGIE, RES producers, and DEDDIE. We will monitor clearance of arrears with the goal of a substantial reduction by mid-2014 and elimination of all arrears by end-2014.
- *Health sector*
 - Pharmaceutical spending. We have increased the original claw back target for 2014 by about €100 million to €2 billion to create space for spending on vaccinations and medicines for the uninsured. This increase is financed by equivalent offsetting measures

in primary care spending. We have also extended the claw back target to 2015. To support this target, we have taken measures totaling €625 million, including: (a) reducing the price of off-patent drugs to 50 percent and generics to 32.5 percent of the patent price; (b) establishing a minimum prescription target of generics of 60 percent for doctors, on average, with suspension in cases of non-compliance; (c) expanding the OTC list; (d) establishing price-volume agreements with companies; and (e) introducing evidence-based prescription guidelines and new protocols. We will introduce regressive profit margins for pharmacies and reducing them to 15 percent starting June 2014. We have introduced new drugs in the reimbursement list on the basis of objective and strict medical and cost-effective criteria and any future inclusions will be consistent with taking sufficient offsetting measures to keep spending (before the claw back) at €2 billion. The overall price level of generics will need to be assessed in the context of the next review.

- Clinics and diagnostics. We will collect the 2013 claw back on private clinics and diagnostic tests by end-May, and will complete the associated audits by June and September 2014, respectively, and the final settlement of outstanding claims by end-October 2014. We have extended the claw back at the 2013 spending ceiling of €890 million through 2015. We have taken structural measures to support this target, including setting budgets for diagnostic tests to doctors, reducing prices, and requiring ex ante approval of private hospital treatment plans, and stand ready to take further measures as needed to bring actual spending close to the claw back ceiling.

13. We are progressing with public administration reforms, including downsizing through attrition. We are on track to reduce employment by 150,000 by end-2015.

- *Staffing and compensation.*
 - To complete our monitoring framework for government employment and the wage bill, we will bring all employees of central and local governments, legal entities of public law, and legal entities of private law under Chapter A into the Census Database by end-June and the Single Payment Authority by October 2014. Contractual staff will be reported in full time equivalent terms by end-July 2014.
 - We will undertake, in consultation with the EC, ECB and IMF, a broad review of government employment levels and the remuneration structure to ensure they are consistent with high-quality provision of public services and are fiscally sustainable. We will prepare a report by end-May 2014, as a basis for long-term staffing targets.
 - We will identify by July 2014 further implementation issues related to the wage grid reform and the rationalization of the public sector wage structure in a fiscally neutral way, such as the comprehensive application of the wage grid reform across the public sector, including decompressing the wage distribution in both directions in connection with the skill, performance and responsibility of staff, in consultation with the EC/ECB/IMF. These will be legislated by end-October 2014 and made effective from January 1, 2015 (**structural benchmark**).

- We will undertake a comprehensive review of all non-wage benefits, such as working hours, leave arrangements, per diems, travel allowances, unemployment benefits and perks by end-July, and will align them with best practices in the EU by end-September 2014 (**structural benchmark**), effective from January 1, 2015.
- *Mobility and availability.* To catch up to the end-2013 target of 25,000 employees in the “availability” scheme, i.e., the existing mobility and exit scheme, (**prior action**), we are rationalizing staffing across the general government following the review of structures (employees reallocated during the re-organization of the tax administration—which started before the scheme was put in place—will count toward the target). A further 3,000 employees will be shifted into the scheme from municipalities by September 2014. The scheme will remain in place to facilitate future organizational restructuring, including the downsizing and outsourcing of services. Consistent with the TMU, employees placed in the scheme will have their wages reduced by 25 percent, and will be assessed, within a centrally-defined evaluation framework, before reallocation to new positions, or exit. Payments during the time in availability will count against any severance entitlements. The availability scheme is distinguished from a new “mobility” scheme, which is a permanent mechanism for voluntary and mandatory transfers to better allocate personnel within the public administration. It will not be connected to exits nor will it require placing employees under the availability scheme and reducing their remuneration. We will establish by March 2015 an internal job market within the public administration, while implementing mandatory rotation within the public sector beyond the ongoing restructuring exercise to facilitate continuous renewal of skills.
- *Exits.* To meet the end-March 2014 target of 5,000 exits (**prior action**), we are (i) processing disciplinary cases, and identifying illegal conversion of temporary contracts to permanent staff. This is facilitated by removal of the need for ex-ante approval by the Council of State and other legislative initiatives, and (ii) merging, downsizing or closing private law entities with overlapping or obsolete functions and excessive staffing. Any re-hiring of former ERT staff to the new broadcaster will be consistent with preserving our exit targets and done through ASEP, with an open and transparent procedure. We have terminated contracts of 1,700 staff whose appeal to judicial litigation to obtain permanent positions was rejected. The additional 10,000 exits targeted for 2014 will originate predominantly from the availability scheme, and the liquidation and downsizing of public entities of private law. We remain committed to the renewal of personnel by accelerating the effort to tackle disciplinary cases, cases of incapacity, and illegal hirings (including illegal conversion of temporary contracts into permanent ones). Those actions will lead to the dismissal of personnel proven unable to exercise their duties as public servants. We estimate as an indicative number that there would be 2,000 such exits by Q1 2015. We will assess by end-September 2014, in consultation with the EC/ECB/IMF, and taking into account the results of the public administration reforms, whether to formally define targets.
- *Rationalization.* We will undertake a comprehensive assessment of services that can be provided more efficiently and at lower cost by the private sector by end-December 2014 and outsource some of those activities, together with abolishing the corresponding positions and staff from the civil service by end-June 2015. These dismissals will not be counted toward the 1:1 rule.

- *New hiring.* New hiring through 2015 will remain within the 1:5 ceiling, and temporary employment contracts each year will be reduced by about 10 percent relative to the previous year. In case past targets have been exceeded, the reduction rules will be re-adjusted accordingly. For mandatory exits (excluding outsourcing), we will hire new staff (1:1 rule) with critical skills to serve the public and ease the pressure in the private labor market, as long as this is consistent with the government's overall employment ceilings. We will strictly enforce the probation period for new staff of two years, including through a comprehensive performance assessment at the end of the first year, and before being granted permanent employment status.
- *Performance.* We have passed legislation to revise the current system for performance assessments, and will complete the 2013 assessment by July 2014 using the revised system. We will establish a new performance evaluation system by end-2014 to assess 2014 performance by end-March 2015. We will revise by May 2014 the criteria for the appointment of managers to move toward qualification and performance-related factors, rather than seniority, and will fill all senior appointments by end 2014 and heads of units by end-June 2015.

14. Fiscal institutional reforms are covered in Annex I.

Financial Sector Policies

15. Following the announcement of the results of 2013 stress test exercise, we are taking the following steps:

- **Timeline.** Banks have until end-June 2014 to meet their capital needs under the baseline scenario, based on capital-raising plans that they submitted for approval by mid-April 2014. The upfront capital raising under the baseline scenario is based on mitigating actions, but only those included in banks' current restructuring plans along with any further mitigating actions agreed with the EC (DG-Competition) as commitments in the revised restructuring plans, which the BoG will take into account for recalculating capital needs. Further, banks have until end-May 2014 to submit capital-raising plans addressing the adverse scenario, for approval by the Bank of Greece by end-June 2014.
- **Commitment.** We stand ready to take all necessary policy actions to safeguard overall financial stability. We remain committed to a four-pillar banking sector, and the results of the stress test have confirmed that this commitment is appropriate. The resources in the HFSF have been set aside as a buffer against possible capital shortfalls that could materialize in the stress test horizon, or as a result of the SSM comprehensive assessment exercise. These form part of a credible backstop, together with the support of euro area Member States. The SSM assessment in 2014 provides an opportunity in late-2014 to assess progress and ensure adequate capitalization.
- **Recap law.** As a **prior action**, we have passed legislation governing the injection of public sector resources into the banks through the HFSF, under which the HFSF will provide capital to viable banks that fail to meet the capital needs determined by the stress tests. To minimize taxpayer liability, capital support will be subject to the prior implementation of burden-sharing measures, in accordance with EU rules. The shares subscribed by the HFSF

will bear full voting rights, and the subscription price will be determined by the HFSF General Council, based on reports by two independent advisors as prescribed in the law.

16. Eurobank completed its share capital increase, following the announcement of stress test results. The overriding objectives were to strengthen the bank's capital base as soon as possible, attract in a competitive process anchor investors that would play an active role in the bank's management and balance sheet repair, and achieve a strong private sector participation in the transaction, marking the return of our banking sector to capital markets as a sign of its nascent recovery.

17. We are committed to preserve sufficient banking system liquidity in line with Eurosystem rules. The Bank of Greece, following the procedures and rules of the Eurosystem, stands ready to continue disbursing adequate and appropriate emergency liquidity support in a timely manner, if needed, while expecting banks to achieve a sustainable funding model over the medium term. In this context, banks have submitted their funding plans to the Bank of Greece, and will be required to update their plans on a quarterly basis to allow for continuous monitoring and assessment of their efforts.

18. We are intensifying supervision, in consultation with the EC/ECB/IMF, including over the management of banks' troubled assets.

- We will introduce KPIs to monitor banks' progress in reducing their large NPL portfolios, and banks will begin gradual reporting under these KPIs by end-June 2014, with full reporting to commence from end-December 2014.
- We will report on the appropriateness of banks' loan forbearance practices and recognition of income from NPLs by end-July 2014. Based on the results of the ECB's comprehensive assessment, we will assess the need to introduce impairment provisioning guidelines similar to those of other EU supervisory authorities. If guidelines are deemed necessary, we will introduce them in time for consideration in the 2014 end-year accounts.
- We are evaluating options for improving recovery from assets under liquidation and will implement by end-June in full the recommendations of technical assistance to this end.
- We will undertake a review of the Bank of Greece's supervisory model, legal powers, governance structures and the enforcement toolkit by end-June 2014, in consultation with EC/ECB/IMF staff, and introduce appropriate legislative or regulatory changes by end-September 2014. As part of this review, we will prepare the Basel Core Principles (BCP) self-assessment by end-June, and will request IMF staff to complete an assessment of supervisory practices against specific and pre-agreed BCPs by end-September 2014.
- We are taking the following steps immediately to improve the effectiveness of our supervisory practices. We addressed restrictions on hiring experienced staff in a manner that preserves staff autonomy and the financial independence of the Bank of Greece. In addition, we will: (i) revise our organizational structure and internal governance processes by September 2014, in preparation for transfer of supervisory responsibility to SSM; (ii) engage specialists to assist us with the supervision of NPL portfolios by end-May; and (iii) assess the

impact of the introduction of the EBA guidelines on definitions of NPLs and forbearance and require banks to adopt the guidelines by end-June 2014.

19. We are committed to addressing deteriorating asset quality and improving our debt resolution framework, in consultation with the EC/ECB/IMF. We have established a Government Council for the Management of Private Debt to coordinate legal and institutional reforms to enhance corporate and personal debt resolution frameworks. As a **prior action**, the Council has: agreed its expenditure budget for 2014; under the Secretary General for Consumer Protection, engaged project management, public relations, and technical specialists to ensure effective delivery of all aspects of the agenda; and adopted definitions of a cooperative borrower and reasonable living expenses for use in and out-of-court debt workouts. The major tasks of the Council are as follows:

- Introduce a binding Code of Conduct for banks that specifies the terms of engagement between creditors and debtors by end-May 2014 (**structural benchmark**). Banks will be required to pilot and implement long-term debt restructuring tools by end-October 2014 and be compliant with the Code by end-2014.
- Design out-of-court debt restructuring tools for enterprises, including a multi-creditor coordination mechanism inspired by international standards (such as the INSOL principles) to facilitate the restructuring of viable commercial entities, by end-May 2014. We will also specify by end-May a similar coordination mechanism for SMEs that will include the use of standardized templates as well as a review and appeals procedure. We will adopt and implement both mechanisms, *inter alia*, by making the necessary legislative changes, by end-July.
- Review the personal and corporate insolvency laws by end-June 2014, and implement necessary changes to improve the functioning of in-court insolvency procedures by end-October 2014 (**structural benchmark**). This will include establishing a regulated profession of insolvency administrators, not restricted to any specific profession and in line with best practice in the EU.
- Launch by end-July educational services and public awareness campaigns to inform debtors of their options and rights and educate small businesses on financial and credit management.
- Develop a coherent plan for a means-tested social safety net for vulnerable home owners by July 2014 (see also ¶8).
- Implement other supportive measures such as better data collection (by May 2014), reducing the costs of the property auction process (by June 2014), and introducing residential and commercial real estate transaction price registers (by October 2014).
- Set up a monthly data collection process to monitor the effectiveness of the transition debtor-protection scheme enacted in December 2013. Based on incoming data, the Council will by end-June 2014 prepare a report assessing the effectiveness of the new law and its impact on strategic default behavior, and will propose measures to ensure effective implementation in case of shortcomings.

20. We are taking further steps to overhaul operational and governance arrangements in the financial sector more broadly.

These efforts are two pronged: first, the HFSF's governance and operational structure and effectiveness as a shareholder is being enhanced by: (i) employing personnel with international experience in commercial banking and NPL resolution; (ii) reviewing the internal safeguards on conflict-of-interest rules and related-party transactions and making appropriate changes by end-May 2014; and (iii) increasing the number of General Council members to 9 and the members with international experience to 7. Second, the HFSF's engagement with the banks will be strengthened. Based on a broad review of the governance arrangements concerning HFSF's participation in the banks by end-May 2014 to be undertaken in consultation with the EC/ECB/IMF, we will adopt appropriate legislative and operational steps by June 2014, to ensure that financial institutions are run on a sound, commercial basis. In this context, we will examine a broad variety of options in consultation with the EC/ECB/IMF to step up oversight arrangements over banks' performance and clean up of their balance sheets, including through a revision of the relationship framework agreements.

21. We will prepare a comprehensive strategy on the cooperative sector, taking into account the role of Panellinia bank. While cooperatives are currently compliant with capital requirements, we will examine by end-July 2014, in consultation with the EC/ECB/IMF, all modalities, including further consolidation or a review of their *modus operandi* to ensure the sector as a whole has achieved stability and standards that are considered best practices internationally. We will implement the strategy by end-September 2014.

22. We will take no fiscal policy actions that would undermine the solvency of banks.

In particular, the banks will not be required or permitted to pay any dividends on preference shares, or fees or taxes in lieu of this, unless they have distributable profits (excluding profits from acquisitions and selling of subsidiaries abroad), and the Bank of Greece has given its consent, confirming that such a payment would be compatible with the preservation of adequate capital buffers and liquidity going forward. We will not impose unilateral debt relief solutions for any particular group of debtors.

Privatization

23. We are redoubling our efforts to tackle the obstacles to privatization, as performance has continued to fall short of program objectives. We will focus on:

- *Corporate governance.* We will provide the HRADF with all necessary authority to effectively control companies that it is responsible for privatizing, while strengthening its accountability, transparency and operational autonomy. Specifically:
 - The HRADF will complete by end-June 2014 an assessment of the management and board members of companies in its portfolio and take all appropriate steps (including by terminating the relevant appointment) with respect to those that are not performing well or whose actions are not aligned with the HRADF's goal of privatization. The assessment will be completed by the Board of Directors of the HRADF based on a set of clear objectives and criteria.

- The HRADF has appointed at least one board member of companies in its portfolio where it is not currently represented, and has approved transparent criteria for the selection and appointment of Board members in which HRADF is a shareholder.
- As a **prior action**, we have adopted, in consultation with the EC/ECB/IMF, legislation, requiring the HRADF to exercise its shareholders' powers in the companies in which the HRADF is a majority shareholding, according to a framework of cooperation which sets out objectives and criteria in line with the privatization process. Under such legislation, the HRADF shall ensure ongoing adherence of such framework of cooperation, including through taking appropriate action towards Board members and management in the relevant companies. The framework of cooperation shall be designed and adopted by the HRADF Board of Directors by June 2014.
- To enhance operational functioning, we have amended the HRADF law to inter alia ensure uninterrupted operations in the event that the chair is vacant; provide personal contracts to the executive members of the BoD, and narrow the grounds for dismissal of the HRADF Board members; introduce greater flexibility in tools and procedures for asset sales; legislate that super/extraordinary dividends (i.e., in excess of profits of the previous year) or reductions in share capital from entities under privatization are paid to the HRADF (and within 10 days to the segregated account); and exempt the HRADF from the requirements under Law 4111/2013 regarding the submission and monitoring of monthly/quarterly targets and ensure that reporting requirements of the HRADF under Article 78 of Law 2362/1995 are limited to: (i) annual budget (expenditure and revenue) and any changes to it made during the year (forward looking); (ii) monthly submission of budget execution and financing (backward looking); (iii) monthly submission of wage bill data (backward looking); and (iv) monthly submission of commitment registry summary (backward looking on a monthly basis, forward looking for annual budget spending). The HRADF will review by June 2014 current legislation that applies to general government entities, including the organic budget law (Law 2362/1995), to identify any legal provisions that hamper its ability to operate efficiently or contradict aspects of its law, and the authorities will, in consultation with the EC/ECB/IMF, take action to address these by October 2014 (with the amendment of the organic budget law).
- More broadly, to strengthen the governance regime and the effectiveness of the HRADF, we will undertake a review, including through an independent third-party assessment, aimed at having strong conflict-of-interest, related-parties transactions and insider trading rules, strict incompatibility criteria for the HRADF Board members. In this context, we will also review the internal governance arrangements that can effectively enable the HRADF to implement such rules and criteria. Legal and operational changes to reflect these improvements will be introduced, in consultation with the EC/ECB/IMF, by June 2014.
- *Real estate.* To facilitate real estate privatization:
 - We will undertake a comprehensive reform of land use restrictions and urban planning at the local, regional, and national levels, including zoning, environmental, energy,

forest, coastal lands, and building coefficient requirements and approval processes. Building on work already done, and in parallel with initiatives in the area of spatial planning and forestry, we will prepare an action plan, including dates for passage of needed legislation, by end-September 2014 to improve legal clarity and drastically reduce the time and procedural requirements needed to secure rights to develop land, while preserving needed safeguards on land use. This fundamental reform will facilitate privatization of publicly owned real estate and improve the property rights of private owners and reduce the barriers to private investment.

- We have undertaken a review of the mission, objectives, and staffing of ETAD, to strengthen its effectiveness in professionally managing and maturing assets ahead of transferring them to HRADF. We will review the unutilized properties under the ministries that have been transferred to ETAD by June 2014 to identify omissions, and require that ministries identify and transfer remaining unutilized properties to ETAD by end-September. The HRADF has evaluated all income-generating properties in ETAD's portfolio and assessed whether they can be privatized.
- We will adopt, in consultation with the EC/ECB/IMF, by end-May 2014, legislation to propose to current illegal or unauthorized occupants of government-owned properties to purchase such properties on market terms.
- *Government support for privatization.* Many of the actions required to conclude privatization transactions are the responsibility of government ministries and entities whose active engagement is essential. To help ensure full government support:
 - As a **prior action**, we will: implement, in consultation with the EC/ECB/IMF, pending government actions (TMU Annex Table I.3) (these include inter alia the issuance of MD on setting up tolls on Egnatia Odos and the establishment of the port regulator); and launch the expression of interest for the sale of shares in Thessaloniki port concession.
 - To facilitate cooperation between ministries and the HRADF, an inter-ministerial working group led by a Secretary General of the Ministry of Finance or by the PM's office, with participation of the HRADF, shall meet bi-weekly to review new and existing pending government actions and ensure expeditious completion. The authorities will review this list of actions with the EC/ECB/IMF on a monthly basis.
 - The HRADF prepares detailed project plans and timelines for completion of the sales of major assets in the privatization portfolio, and will report monthly to the EC/ECB/IMF on progress against this timeline starting in April 2014. Where slippages of key government actions needed to realize the projected privatization timetable are detected, remedies will be put in place and projections will be adjusted accordingly. The HRADF publishes on a quarterly basis a report on steps taken to proceed with privatization (expressions of interest, any needed legislative approvals, tenders, and regulatory approvals) and financial accounts (including a profit and loss statement, a cash flow statement, and the balance sheet), no later than 60 days after the conclusion of every calendar quarter. We have passed legislation to establish a mechanism to monitor the privatization projects

after they have been contracted to ensure the proper functioning of contracts and resolve issues as they arise.

24. We have adjusted our targets for privatization proceeds to make them more realistic in light of institutional constraints and delays. While we are confident that the steps outlined above will improve prospects for realizing privatization revenues, we do not believe that previous program targets are feasible at this time, in particular relating to real-estate sales. We have therefore revised program targets to reflect an ambitious but more realistic assessment of prospects, and will continue to keep these targets under review, mindful of both upside (from heightened investor interest) and downside (from continuing significant hurdles to privatization) risks. We will continue to monitor progress via quarterly indicative targets, and performance criteria for September and December 2014 (Table 5).

Structural Reforms

25. Product and service market reforms aimed at promoting competition and reducing the administrative burden are a key focus for this review.

- *Promoting competition.* An OECD review of four sectors (tourism, retail, building materials, and food processing) has identified 329 regulatory distortions that hamper competition. We have addressed 43 of these restrictions and, with a view to lower consumer prices, improve labor productivity, and support creation of new jobs, we are committed to address virtually all of the remaining ones (we will adopt most OECD recommendation in full, except for those specified in Table 5). To that end, we will:
 - As a **prior action**, adopt 237 recommendations: (i) 212 in an omnibus law; (ii) 15 in two new laws (on licensing and outdoor trade); and (iii) 10 as part of several sectoral laws and ministerial decisions. These include reforming the licensing framework for shopping malls and outlets; removing several restrictions on the ownership and operation of pharmacies; abolishing barriers to entry in the building materials sector (such as minimum requirements on storage or capital requirements); and eliminating barriers to investment in tourism activities (such as geographical restrictions).
 - By end-June 2014, adopt all necessary secondary legislation to fully implement the reforms discussed above, except for two codes of best practice on sales and offers and on foodstuff traditional definitions that will be implemented by end-September.
 - Adopt another 32 recommendations, including (i) 18 in the context of nuisance tax reform (17); (ii) 6 by end-June 2014 as well as 1 by end-2014 through several sectoral laws (related to the maritime and tourism sectors); and (iii) 7 by end-2014 to align various technical specifications with EU standards.
 - Conduct follow-up studies, including to: (i) assess the evolution of OTC prices and, if there is no substantial reduction of such prices by end-June 2014, we are committed to liberalize immediately the retail channels for all OTC products; (ii) review the experience of liberalized Sunday trading in select areas, and on that basis decide by March 2015 on whether to roll out the recent changes across the country; (iii) evaluate by end-2014 the impact of the changes in milk pasteurization and sale procedures adopted as part of the

prior action above, and make additional legislative changes immediately if milk prices remain high; and (iv) following consultation with the EC/ECB/IMF, adopt legislative amendments, as needed, to bring our legal framework related to 6 of the remaining recommendations in line best practices in the EU by end-2014.

- Finally, we have requested the OECD to conduct a similar review of the following sectors: wholesale trade, manufacturing, telecommunications, and e-commerce by October 2014. To this end, we have launched the process and will agree, by end-May 2014 at the latest, the terms of reference for the project with the EC/ECB/IMF. We will adopt by end-November 2014 specific measures to promote competition and price flexibility in these sectors following the submission of the final OECD recommendations (**structural benchmark**).
- *Reducing red tape.* The OECD has screened laws and regulations in 13 sectors, and identified a number of procedures that can be significantly streamlined to reduce administrative burdens by 25 percent, while fully safeguarding the public interest. We will adopt in consultation with the EC/ECB/IMF the recommendations by end-June 2014 (**structural benchmark**). We have adopted a first set of changes to simplify a number of burdensome administrative procedures identified by the OECD.
- *Simplifying licensing.* The current burdensome and highly discretionary investment licensing regime, requiring approval by multiple ministries and government agencies, is a major obstacle to attracting investment. To address the problem, with assistance from the World Bank, we have outlined a strategy aimed at shifting from the complicated ex-ante licensing mechanism to a largely self-compliance system based on established standards. To that end, we adopted a licensing framework law containing very few and specifically defined exceptions on areas requiring ex-ante licensing (with no further exceptions to be granted thereafter), and plan to have all secondary legislation in place by end-2014 (**structural benchmark**). We have submitted a presidential decree on all pending secondary legislation needed to implement Law 3982/2011 on technical professions and will also do so for Law 4014/2011 on environmental licensing by end-September 2014.
- *Liberalizing rentals.* For commercial properties, we adopted a law to reduce minimum duration requirements for new rental contracts to 3 years. For tourism rentals, we adopted legislation to facilitate short-term rentals and help reduce informality, by: (i) reducing the threshold under which a lease is characterized “tourist lease” from 3 to 1 month; (ii) substantially reducing the minimum space requirements for villas that are classified as “tourist leases”; and (iii) we will by June 2014 replace the requirement for approval by EOT with a simple registration for rentals less than one month subject to minimal and well-justified quality and safety standards. We will review the framework for tourist leases by end-July, and will prepare by end-September 2014 in discussion with the EC/ECB/IMF the necessary legislative changes to bring it in line with best EU practice.
- *Liberalizing transport.* On ferry transport, have allowed companies to distribute freely across its fleet the days they can stop operations during the winter season; eliminated the requirement for companies to declare maximum prices; adopted legislation allowing optionally firm-level labor agreements in the domestic ferry sector and suspending the

favorability clause and extension of collective agreements, while respecting the international and European legislation; and aligned mandatory discounts for ferry tickets for new PSO lines with the ones for commercial lines. By end-September 2014, in consultation with the EC/ECB/IMF, we will (i) adopt legislative changes to align manning requirements for domestic services with the one for international lines, while respecting safe manning in line with international standards and best-practice principles; and (ii) review the applicability of the above changes on the favorability clause and extension of collective agreements to the international line segment and adopt legislative changes as appropriate. On air transport, we will rationalize PSO contracts, including restricting them to the non-tourist season, and review alternatives (e.g., infrastructure investment), and will take measures to ensure the participation in the tendering process of non-domestic airlines by October 2014.

- *Facilitating trade.* Building on earlier reforms aimed at aligning our customs clearance and export/import procedures with best EU practices, we have introduced an electronic submission system for all import declarations. We now require check payments for all customs charges and ceased to accept cash payments and will make all payments electronically by end-September 2014, except for small payments by individuals. In addition, with assistance from the World Customs Organization, we will adopt optimized procedures in the Athens airport and Piraeus port customs offices for exports by end-May 2014, including full implementation of the risk-based system and alignment of the level of controls with best practices in the EU. We will roll-out those optimized procedures to all other custom offices for exports by end-June 2014 and imports by end-2014.

26. We are intensifying efforts to reform the energy sector. In the electricity market, we adopted the law to privatize ADMIE, the transmission system operator, and submitted the law to create and sell a new generation and retail company out of PPC. In the gas market, we have established a roadmap to transition Greece to a more mature market model, increasing the degree of competition at all levels, and transferring the advantages to the broadest possible set of consumers. Any changes to existing arrangements will be fiscally neutral. (See MOU, §6.1.5 for more details.)

27. We continue to open up regulated professions and will assess the implementation of reforms to ensure they are delivering the desired results (TMU Table 4). We issued implementing legislation to complete the liberalization of a number of professions, including day care clinics, electricians, actuaries, chartered valuers, and geo-technicians. As a **prior action**, we adopted legislation opening the mediator's profession to non-lawyers, repealed provisions relating to the severance pay upon voluntary separation of private sector salaried lawyers, and at the same time introduced a provision so that any unilateral adverse alteration of the terms of the salaried contract that is harmful to the lawyer is deemed as termination of contract on behalf of the employer; and clarified the reference in the Code of Lawyers to the minimum wage for salaried lawyers in relation to the statutory national minimum wage. We will further assess the fees and reserved activities for notaries and on this basis adopt legislation to align them with best practices in the EU by end-September 2014. Consistent with HCC's opinion, we will adopt by end-June 2014 amendments to remove unjustified and/or disproportionate requirements on a number of reserved activities for engineers. Finally, we will hire a highly reputable external consultant by June 2014 to review comprehensively by end-August 2014 all professions under each ministry to determine what regulated professions have not yet been

assessed or fully liberalized, agree with the EC/ECB/IMF by end-September on actions to remove any remaining excessive restrictions across all regulated professions that are being identified, and accordingly take the necessary legislative steps by end-October 2014.

28. We have taken administrative steps, in consultation with social partners, on our framework on collective dismissals. We will undertake an assessment by end-September 2014, in consultation with the EC/ECB/IMF and the ILO, on whether the collective dismissal system replicates EU best practices in an effective, credible, and durable way. Based on this assessment, we will, in case of doubt, take appropriate legislative action to align the framework with EU best practices by end-October 2014 (**structural benchmark**).

29. We are taking additional steps to address areas in the labor market where excessive restrictions remain. These include reviewing excessive mandatory requirements on wages, benefits and payments or other restrictions in hiring or dismissals by May 2014 and adopting necessary legislation to bring them in line with best practice in the EU by August 2014. Further:

- *Industrial action.* To safeguard the right to work, promote constructive relations among parties, and avoid any undue disruption of the operations of firms, and at the same time ensure that the framework for trade unions' operations is mature and aligned with international conventions, we will: by end-June 2014, review against best practices the existing framework; after consultation with social partners, prepare by end-September 2014 in discussion with the EC/ECB/IMF the necessary legislative changes to bring the framework in line with best practice in the EU; and adopt these changes by end-October 2014 (**structural benchmark**).
- *Temporary work.* We have taken the following steps to increase the flexibility of the framework for temporary work, to bring it in line with EU best practices: (i) abolished the restriction that temporary work agencies (TWAs) can provide their services only for "transitory, extraordinary, or seasonal" positions; (ii) reduced restrictions on hiring via TWAs following redundancies for economic reasons (from 6 to 3 months for individual redundancies, and from 12 to 6 months for collective dismissals); (iii) removed the restriction for the use of TWAs in large public works contracts; and (iv) reduced the list of hazardous positions where provision of employees by TWAs is not allowed.
- *Reporting requirements and Labor Code.* We have simplified labor reporting requirements, including implementing several OECD administrative burden review recommendations, and will take further steps to address the ILO, other stakeholder, and remaining OECD recommendations by end-September 2014. To enhance transparency and level the playing field, we will, by end-June, compile a comprehensive list of all labor legislation across sectors, and address in consultation with the EC/ECB/IMF any inconsistency that exist, and compile on this basis by end-2014, a comprehensive Labor Code.
- *Minimum wage.* To increase incentives for hiring long-term unemployed workers, and as part of a broader package to support long-term unemployed (¶8), as a **prior action**, we adopted legislation that sets the statutory minimum wage system (consisting of the statutory minimum wage and maturity allowances) for white-collar workers above the age of

25 years who have been unemployed for more than one year at the base minimum wage plus maturity allowances equivalent to 5 percent of the base minimum wage for every three years of work experience, up to a maximum of 15 percent. In addition, we clarified that the statutory minimum wage under the new minimum wage mechanism, which becomes effective on January 1, 2017, will be a single rate.

- *Application of labor market reforms to the education sector.* To remove the uncertainty on the application of the law 4046/2012 on severance payments and Cabinet Act (FEK 38/28-2-2012) to the private education sector, we repealed provisions in previous laws (Law 682/1977, Articles 30 and 33; and Law 1351/1983, Article 11, ¶1) that are inconsistent with the recent changes in the general labor law.

30. We continue to advance judicial reforms and are improving the anticorruption framework. Judicial reforms have started to yield results by reducing case backlog and eliminating unnecessary restrictions for lawyers. However, with the backlog remaining very high overall, we have proposed additional measures in the short term to reduce the backlog of tax cases. We are committed to adopt, in consultation with the EC/ECB/IMF, a revised Code of Civil Procedures by end-May (**structural benchmark**). Based on the study of court fees delivered in November 2013, and in full accordance with the constitutional principle of the citizens for access to justice, we will propose a selective increase of court fees by end-September 2014, in consultation with the EC/ECB/IMF. We have adopted new anti-corruption legislation. We will, in consultation with the EC/ECB/IMF, submit legislation to parliament for adoption by end-June 2014: (i) on the funding of political parties; and (ii) providing for an enhanced system of published declaration of assets, interests, and incompatibilities by public and elected officials, as well as members of government, and for independent risk-based audits.

Table 1. Greece: Quantitative Performance Criteria, September–December 2013

(Billions of euros, unless otherwise indicated)

	Sep-13		Dec-13	
	Prog.	Actual	Prog.	Actual
Performance criteria				
1. Floor on the modified general government primary cash balance 1/	-0.8	3.0	-0.3	0.4
2. Ceiling on state budget primary spending 1/	38.8	36.1	53.2	52.4
3. Ceiling on the overall stock of central government debt	335.0	321.9	335.0	326.6
4. Ceiling on the new guarantees granted by the central government 2/	0.0	0.0	0.0	0.0
5. Ceiling on the accumulation of new external payments arrears on external debt contracted or guaranteed by general government 3/	0.0	0.0	0.0	0.0
6. Ceiling on the stock of domestic arrears (narrow definition)	1.0	2.0	0.0	1.3
Indicative targets				
7. Ceiling on the stock of domestic arrears (general government definition)	1.5	5.8	0.0	3.9
8. Floor on privatization receipts 4/	1.5	0.2	1.6	1.0
9. Mandatory exits (employees in thousands) 5/ 6/	2.0	3.2	4.0	3.5
10. Transfers to the mobility scheme (employees, in thousands) 5/	12.5	8.4	25.0	15.9
11. Floor on the stock of employees in the mobility scheme that will exit	5.0	2.1	11.0	5.0

1/ Applies cumulatively from start of the target's calendar year.

2/ Applies cumulatively from October 1, 2012.

3/ Applies on a continuous basis from program approval.

4/ For 2012, cumulative from program approval. For 2013, cumulative from January 1, 2013.

5/ Cumulative from January 1, 2013.

6/ Actuals are gross exits and do not exclude individuals within three years of early retirement.

Table 2. Greece: Structural Benchmarks, September–December 2013

Measure	Status
End-September 2013	
1. 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 (IMF Country Report No. 13/20, MEFP ¶19).	• Not observed. Re-phased including part as a prior action (see Table 3).
2. Adopt legislation on a new property tax regime (IMF Country Report No. 13/241, MEFP ¶17).	• Not observed. Law adopted in December 2013.
3. Banks to update their restructuring plans and submit them for validation by DG-Competition (IMF Country Report No. 13/20, MEFP ¶123).	• Observed.
4. Government to meet quarterly performance indicators (KPIs) for revenue administration (IMF Country Report No. 13/241, MEFP ¶18).	• Not observed. Nine out of ten KPIs missed (see TMU Annex Table I.1).
5. Government to meet quarterly performance indicators for public financial management (IMF Country Report No. 13/241, MEFP ¶123).	• Not observed. One out of three KPIs missed (see TMU Annex Table I.2).
End-October 2013	
6. Approve the new organizational structure of the Revenue Administration, staffing numbers, grading system and classification, and qualification and appointment processes (IMF country report No. 13/153, MEFP ¶13).	• Not observed. Most actions were completed with delays, and staffing numbers will be approved in May 2014.
7. Adopt all secondary legislation needed to implement the tax procedures code (IMF Country Report No. 13/241, MEFP ¶6).	• Not observed. Prior action (see Table 3).

Table 2. Greece: Structural Benchmarks, September–December 2013 (concluded)

Measure	Status
End-November 2013	
8. 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; and (iii) reduce contribution rates by 3.9 percentage points. The reforms will be fully phased in by January 1, 2016 and will be revenue neutral and preserve the actuarial balance of the various funds (IMF country report No. 13/20, MEFP ¶10).	• Not observed. Upfront social security rate reduction is a prior action (see Table 3); steps to broaden contribution base are underway; and harmonization of rates across funds is rephased for end-June 2014 (¶16).
End-December 2013	
9. Government to meet quarterly performance indicators for revenue administration (IMF country report No. 13/153 MEFP ¶8 and Annex II).	• Not observed. All ten KPIs missed (see TMU Annex Table I.1).
10. Government to meet quarterly performance indicators for public financial management (IMF country report No. 13/153, MEFP ¶11 and Annex IV).	• Not observed. One out of three KPIs missed (see TMU Annex Table I.2).
11. Bank of Greece to complete a follow-up stress test for 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 (IMF country report No. 13/20, MEFP ¶23).	• Observed. Stress tests completed, but results not agreed with staff.
12. 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 (IMF Country Report No. 13/20, MEFP ¶39).	• Not observed. Clearance of pre-2012 arrears rephased for Q3 2015, and completion of the targeted audit of general government accounts payable rephased for end-2015.

Table 3. Greece: Prior Actions

Measure	Macro critical relevance
Fiscal measures	
1. Government to lock in lower spending of €320 million from permanent savings in 2013 by revising binding expenditure ceilings in the 2015-18 MTFS (¶14).	• Fiscal sustainability (budget)
2. Implement several measures to eliminate RES debt by end-2014 (¶12).	• Fiscal sustainability (spending)
3. Government to place additional public sector employees in the mobility scheme to reach 25,000 employees, and to achieve 5,000 exits in the public sector (¶13).	• Fiscal sustainability (spending) and government efficiency
Fiscal institutional reforms	
4. Adopt secondary legislation to the Income Tax Code and the Tax Procedure Code (¶10).	• Fiscal sustainability (revenue)
5. Government to submit presidential decree to consolidate revenue administration functions, and to transfer to SGPR all revenue-related functions of SDOE, and SGPR to adopt the final organizational structure of the revenue administration (Annex I ¶2).	• Fiscal sustainability (revenue)
6. Implement an interim borrowing framework within the general government (Annex I ¶5).	• Fiscal financing
Financial sector	
7. Adopt legislation governing the injection of public resources into banks via the HFSF (¶15).	• Financial stability
8. Government Council for the Management of Private Debt to take steps to enhance corporate and personal debt resolution frameworks (¶19).	• Financial stability
Privatization	
9. Adopt law to strengthen HRADF's control in companies it is majority shareholder, and implement pending government actions in support of the 2014 privatization program (¶23).	• Fiscal sustainability (budget) and economic efficiency
Structural reforms	
10. Reduce IKA's SSC rates by the equivalent of 3.9 pp effective July 1, 2014 (¶16).	• Strengthen competitiveness and promote employment
11. Abolish 40 charges with an annualized cost of €245 million (¶17).	• Strengthen competitiveness and promote employment
12. Adopt 237 of the OECD recommendations to remove barriers to competition in four sectors (tourism, retail, building materials, and food processing) (¶25).	• Strengthen competitiveness and promote employment
13. Adopt legislation to open mediator's professions to non-lawyers, repeal provision on severance pay of lawyers upon voluntary separation, and clarified the reference on the minimum wage for lawyers (¶27).	• Strengthen competitiveness and promote employment
14. Adopt legislation to reduce minimum wage for long-term unemployed (¶29).	• Strengthen competitiveness and promote employment

Table 4. Greece: Schedule of Proposed Purchases under the Extended Arrangement, 2012–16

Review	Availability Date	Action	Purchases		Disbursements
			Millions of SDRs	Percent of quota	Billions of euros 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	July 25, 2013	Observance of end-June 2013 performance criteria, completion of fourth review	1,506.8	136.8	1.8
Fifth Review	February 28, 2014	Observance of end-December 2013 performance criteria, completion of fifth review	3,013.6	273.5	3.5
Sixth Review	August 31, 2014	Observance of end-June 2014 performance criteria, completion of sixth review	3,013.6	273.5	3.5
Seventh Review	November 30, 2014	Observance of end-September 2014 performance criteria, completion of seventh review	3,013.6	273.5	3.5
Eighth Review	February 28, 2015	Observance of end-December 2014 performance criteria, completion of eighth review	1,506.8	136.8	1.8
Ninth Review	May 31, 2015	Observance of end-March 2015 performance criteria, completion of ninth review	1,506.8	136.8	1.8
Tenth Review	August 31, 2015	Observance of end-June 2015 performance criteria, completion of tenth review	1,506.8	136.8	1.8
Eleventh Review	November 30, 2015	Observance of end-September 2015 performance criteria, completion of eleventh review	1,506.8	136.8	1.8
Twelfth Review	February 29, 2016	Observance of end-December 2015 performance criteria, completion of twelfth review	1,506.4	136.7	1.8
Total			23,785.3	2,158.8	28.0

Source: IMF staff projections.

1/ Exchange rate of January 5, 2012.

Table 5. Greece: Program Quantitative Performance Criteria, 2014–15

(Billions of euros, unless otherwise indicated)

	2014			2015	
	Jun.	Sep.	Dec.	Mar.	Dec.
	PC	PC	PC	Indicative	Indicative
Performance criteria					
1. Floor on the modified general government primary cash balance 1/	0.4	3.1	5.1	1.2	7.5
2. Ceiling on state budget primary spending 1/	21.0	31.8	44.4	10.1	42.1
3. Ceiling on the overall stock of central government debt	335	335	335	340	340
4. Ceiling on the new guarantees granted by the central government 2/	0.0	0.0	0.0	0.0	0.0
5. Ceiling on the accumulation of new external payments arrears on external debt contracted or guaranteed by general government 3/	0.0	0.0	0.0	0.0	0.0
6. Ceiling on the stock of domestic arrears of the general government	3.2	2.6	1.9	1.9	...
7. Floor on privatization receipts 4/	...	2.1	...	...	...
Indicative targets					
1. Floor on privatization receipts 4/	...	...	2.5	...	4.7
2. Mandatory exits (employees, in thousands) 5/	9.0	14.0	15.0	...	...
1/ Applies cumulatively from start of the target's calendar year. 2/ Cumulative from April 1, 2013. 3/ Applied on a continuous basis since program approval. 4/ Cumulative from January 1, 2013. 5/ Cumulative from April 1, 2013. Includes further targets for July 2014 of 10,500 and August 2014 of 12,000.					

Table 6. Greece: Structural Benchmarks

Measure	Macro critical relevance
End-May 2014	
1. Government to introduce a new Code of Conduct for banks (¶19). Proposed.	• Financial stability
2. Adopt changes to the Code of Civil Procedure (¶30). Proposed.	• Growth/competitiveness (business environment)
End-June 2014	
3. Address recommendations of the OECD study on administrative burdens (¶25). Proposed.	• Growth/competitiveness (business environment)
End-September 2014	
4. Adopt legislation to integrate into ITC the taxation of collective investment vehicles as well as all income tax expenditures (eliminating inefficient or inequitable ones) (¶19). Proposed.	• Fiscal sustainability (revenue)
5. Adopt legislation to broaden definition of tax fraud and evasion, and repeal Article 55 ¶s 1 and 2 of TPC (¶19). Proposed.	• Fiscal sustainability (revenue)
6. Align public sector's non-wage benefits with EU best practices (¶13). Proposed.	• Government efficiency
End-October 2014	
7. Adopt VAT reform to streamline rates and simplify administration (¶17). Proposed.	• Fiscal sustainability (budget) and business environment.
8. Adopt wage grid reform to become effective January 1, 2015 (¶13). Proposed.	• Fiscal sustainability (budget)
9. Adopt amendments to the Organic Budget Law (Annex I ¶5). Proposed.	• Fiscal sustainability (budget)
10. Government to enhance the personal and corporate insolvency framework (¶19). Proposed.	• Financial stability
11. Adopt legislation to align framework on collective dismissals with EU best practices (¶28).	• Strengthen competitiveness and promote employment
12. Adopt legislative changes to bring Greece's framework on industrial actions in line with EU best practice (¶28). Proposed.	• Strengthen competitiveness and promote employment

Table 6. Greece: Structural Benchmarks (concluded)

Measure	Macro critical relevance
End-November 2014	
13. Adopt pension reform package based on actuarial studies completed in September on the whole pension system including supplementary and lump-sum funds (¶16). Proposed.	• Fiscal sustainability (budget)
14. Adopt legislation to address all identified issues in the follow-up OECD report on legislative barriers to competition in wholesale trade, manufacturing, telecommunications, and e-commerce (¶25). Proposed.	• Strengthen competitiveness and promote employment
End-December 2014	
15. Adopt all secondary legislation on investment licensing law (¶25). Proposed.	• Growth/competitiveness (business environment)
End-March 2015	
16. Adopt revisions to the government Chart of Accounts (Annex I ¶15). Proposed.	• Fiscal transparency

Annex I. Fiscal Institutional Reforms and Follow-up of TA Recommendations

1. With legislative efforts peaking in 2013, reforms in 2014 will focus on the implementation of the new legal framework.

Revenue administration

2. We have further bolstered the autonomy of the revenue administration.

- *New structure.* As a **prior action**, we will adopt legislation to: (i) consolidate the revenue administration functions and competencies of the General Directorate of Taxation and the General Directorate of Tax Audits and Collection into a new General Directorate of Tax Administration under the SGPR; (ii) close the General Directorate of Financial Inspection within SGPR and replace with the Internal Affairs Department of SGPR, effective end-June 2014; and issue (iii) the Secretary General Decision to establish the new SGPR structure. We have re-organized processes so that the 61 local tax offices that have debt collection and audit responsibilities can maintain a clear focus on the major taxes (income, VAT, and property taxes) by requiring filing of most returns/declarations to be done electronically or as self-assessments (and consistent with ITC, Article 67, ¶1). To further protect the integrity of the tax administration, by end-May 2014, we will ensure that other public bodies provide only detailed fact sheets to the tax administration in order to perform the audits and investigations.
- We have amended legislation to transfer all tax-related audit and investigation competences from the Financial and Economic Crimes Unit (SDOE) to SGPR. To ensure the complete transfer of all revenue-related activities, we have as a **prior action**: (i) revoked the provisions of Article 6 of Law 3943/2011 on the origin of SDOE personnel being ex-tax and customs officers; and (ii) of the 200 staff transferred to SGPR effective October 31, 2013, replaced those who have not yet taken up their positions with an equivalent transfer of highly-skilled personnel. We will by end-May assess with reputable international experts in financial crime prosecution SDOE objectives, staffing needs, and organizational structure. We will by end-October assess all pending cases to determine those that need to be investigated further and those that can be closed without any investigation. Until a new SDOE objective and staffing needs are approved in consultation with the EC/ECB/IMF, new hirings of SDOE will be undertaken only to the extent needed in cases requested by the prosecutor and without distracting resources from SGPR.
- *Grading and promotion reform.* To start implementing the new grading and promotion system, we have approved the job descriptions for general directors and HQ directors. We will issue all necessary amendments to the legal framework, including amending the law 4093/2012 if needed and issuing all decisions governing the new system by June 2014. A strategy for the migration of existing staff to the new system will be approved by June 2014 with a view to transfer all audit positions and staff by March 2015.
- *Budget.* We have staffed the budget office of the Strategic Planning and Financial Control Directorate to make it functional.

3. We are taking steps to strengthen debt collection, improve performance of installment schemes, enhance audits, and boost the collections of SSCs and customs.

- *Tax debt collection.* We are dismantling long-standing impediments to effective collection. To this end, we will adopt, in conjunction with the adoption of the revised organic budget law, legislation to: (i) abolish the requirements to pursue systematically collection efforts of all debts without regard to their collectability by end-June 2014; and (ii) clarify the rules for prosecutions of tax debtors and repeal the systematic and compulsory referral of debts smaller than €60,000 by end-September 2014 (see ¶19, second bullet, iii). We will evaluate with technical assistance the implementation of the rules for writing off debt to identify possible improvement by July 2014, with a follow-up evaluation by October 2014 that will propose further simplification if needed, thereby removing the need for extensions in the statute of limitations for debt collection. We will further automate tax debt collection functions by June 2014 and complete a new work flow management system for all debt collection offices by September 2014.
- *Personal liability.* We will issue by end-May 2014 an explanatory circular that clarifies the personal liability of SGPR staff and management, consistent with the existing legal framework.
- *Audit.* We have optimized the process of selecting and auditing remittance cases using the new partial audit methodology, and we will complete at least 400 such cases by May 2014. In addition, we have completed 5 audit reports on the basis of indirect audit methods, and will complete another 10 by the end of June and at least 40 in total by end-2014, using the AML framework where needed. By June 2014, we will define the criteria for a risk-based approach to selection for audit SGPR managers and officials, and revise audit standards to ensure appropriate documentation to justify individuals' assets.
- *Staffing.* We will reinforce the revenue administration with a transfer, by May 2014, of 160 appropriately skilled staff from the Municipal Police. By May 2014, we will complete a revised staffing plan for the SGPR to identify additional staffing needs and determine the schedule for further recruitments through 2014, which will ensure that at least 1,600 of about 2,100 new MOF vacancies for 2014 will be positioned in the SGPR in addition to the transfer of municipal police staff, subject to the MOF staffing ceiling. This includes the external hiring of 300 auditors by June 2014.
- *Filing tax returns.* To ensure adherence to our commitment for non-extension of deadlines to file tax returns unless in extraordinary or exceptional circumstances beyond the control of the authorities ("force majeure"), we have identified a number of weak elements in the portal infrastructure which were subsequently strengthened, optimized the platform, and legislated a common payment schedule for PIT regardless of the filing date thus removing any incentives for late filing. We have also put in place a communication strategy for addressing such problems should they occur in the future. The ITC amendments also smooth the filing schedule.
- *Tax refunds.* We are optimizing the VAT refund risk criteria and issued guidance to local tax offices for implementation of refund audits. We have introduced a risk analysis system for

processing income tax refunds, including by prioritizing the largest refund claims. We have also started monitoring and reporting the age of tax refund claims (see TMU). These steps will help monitor and reduce interest costs for claims older than 90 days that accrue from January 2014 on claims requested as of this date.

- *Installment schemes.* The adopted installment scheme framework has shown to improve payment compliance, and we remain committed to its implementation by strengthening enforcement. Debtors dropping out of tax or SSC schemes will be subject to immediate action aimed at securing collection. We will complement the monitoring framework *inter alia* with information on the number of taxpayers and the associated debt that have dropped out of the schemes and on the enforcement measures undertaken against them. As of April 2014, we started publishing monthly the monitoring framework for the tax and SSC installment schemes.
- *AML.* To monitor the implementation of Law 3691/2008, as from April 2014, the SGPR started publishing on a monthly basis, information about cases transmitted to the FIU for failure to pay confirmed debt over €50,000, including on the number of cases, and related aggregated amounts by maturity. We have introduced KPIs on the number of AML on-site inspections by the Bank of Greece (TMU Table 2A). We will create the necessary legal framework by June 2014 to strengthen coordination and information sharing for investigations of financial and economic crimes.
- *SSC collection.* We completed a comprehensive review of the weaknesses in SSC collection, including enforcement, and issued ministerial decisions to define “collectible” SSC debt cases for the transfer to KEAO of debt from OAEE, ETAA, and OGA (consistent with the KPI definition). We will refrain from extending the payment deadlines for SSC. To ensure full functionality of the joint collection center (KEAO), we have (i) assigned 350 full-time staff to KEAO (we will assign another 250 by June 2014); (ii) created a single SSC debt database; and (iii) established an advisory board that incorporates heads of major funds and of KEAO as well as MOL leadership. By end-June 2014, we will issue secondary legislation to quarantine uncollectable debt. To strengthen SSC compliance and collection, we issued necessary decisions between MOF and MLSSW, started to match PAYE and APD data, and have initiated the off-setting of VAT and income tax refunds against SSF debts.
- *Integrating SSC to tax administration.* We commit to integrating SSC filing, payment and collection into the tax administration by July 2017, and will: (i) complete by September 2014 the business case for integration of filing, payment and collection; (ii) implement by December 2015 a central registry of contributors; and (iii) harmonize by December 2016 the contribution base across major funds and with PIT.
- *Customs revenue collection.* By end-May 2014, we will reinforce customs law enforcement capabilities at the SGPR by: establishing specialist teams dealing with tobacco; and strengthening the surveillance teams’ capability to track illegal trade to its final destination. We will also develop by June comprehensive anti-smuggling strategies to contain revenue losses from tobacco smuggling, and will do the same for fuel smuggling by end-September 2014. We will, by end-2014, acquire modern technical detection and surveillance equipment.

4. We have refined the 2014 KPIs to focus our efforts on those areas that are most likely to yield revenue gains. We have adjusted our tax administration KPIs to maintain the strong improvement momentum in 2013 while being realistic. To serve taxpayers more efficiently, we have introduced three new indicators on tax refunds. Given the weak collection performance in the SSFs, we have established payment compliance and debt transfer targets for the individual SSFs, and debt collection and enforcement targets for KEAO (Table 2B). Performance relative to the targets will be published on a monthly basis.

Public Financial Management

5. Reforms continue to focus on improving the budget process and expenditure controls, clearing arrears, and strengthening budget reporting and cash management.

- *Budget legislation.* We are taking a two-stage approach to reforming the organic budget law (OBL). In the first stage, we submitted to parliament the OBL to transpose the Fiscal Compact, including the requirement that the MTFS set binding multi-year expenditure ceilings for line ministries and the health sector, introduce a binding balanced budget target for local governments and performance targets for SOEs, adopt provisions to freeze 10 percent of discretionary appropriations in the first half of the year, and impose penalties for government entities that fail to provide timely reporting. In the second stage, we will: (i) complete a full review of the budget process legislation by September 2014, including ensuring budgetary independence of regulatory and other independent bodies; and (ii) amend the OBL by October 2014 (**structural benchmark**) to ensure that it is fully in line with the ongoing PFM reform program and good international practice. We will discuss and agree with the EC, ECB and IMF a specific rule on revenue over-performance effective after the program period for inclusion in the OBL and, in any event, will agree with them whether the size and nature of any windfall revenue and fiscal over-performance in the previous year allows for a greater spending envelope in the current year, subject to there being no projected gaps. We have defined the terms of reference of a qualified working group in GAO to coordinate with the senior management of the Ministry of Finance and line ministries on implementing PFM reforms and will make it operational by June 2014.
- *Budget Process.* By September 2014, we will review the internal MTFS and budget preparation processes to ensure its conformity with the revised legislation above. The review will include the procedures for preparation and implementation of the MTFS and the linkages between the strategy and the annual budget process. By March 2015, we will revise the government Budget Classification structure and Chart of Accounts with a view to use it for preparing the 2016 budget (**structural benchmark**).
- *Fiscal Council.* We have submitted to parliament legislation to establish an independent Fiscal Council, and will appoint the Board by end-July 2014. The Council will assess macro forecasts and assumptions for budget and MTFS preparation, monitor compliance against targets and rules, and provide independent ex ante policy analyses and assessments of fiscal developments and challenges.
- *GDFS.* To facilitate the functioning of newly-established general directorates for financial services (GDFS) in line ministries, we have set up a specialized unit in GAO to support

Accounting Officers and their staff in the units. By end-June 2014, GAO will establish and run a capacity-building program to provide guidance and support to GDFS staff in carrying out their responsibilities. We will fully staff the GDFSs in line ministries by June 2014.

- Streamlining payment processes.* Following recent changes to our IT and administrative processes, to ensure its robustness, we have reviewed and taken steps to strengthen the disaster recovery plan and will conduct system audits and testing in high volume conditions by September 2014. We will conduct a review of the PIB financial processes by June 2014 to identify whether PIB payments conform to the Late Payment Directive requirement and, if not, propose necessary changes. In parallel, we will streamline the procedures related to PIB execution, as appropriate to modern financial management of a multi-year investment program, in line with international best practices. PIB procedures will be subject to effective checks and balances with good design and a transition process to the improved procedures. The final outcome will be fully compatible with the ERP project, thus ensuring integrated monitoring of the whole state budget execution. The Hellenic Court of Auditors (HCA) and GAO produced a note on the role and scope for streamlining the HCA's ex ante audits in financial control, and (i) we will submit to the Council of State a Presidential Decree in May 2014 following the HCA plenary approval of an increase in the ex ante audit threshold from the current €15,000 to €30,000 for State budget spending, and review its impact and re-submit an amendment by November 2014 to increase the threshold for general government expenditures to €45,000 so as to reduce the total volume of ex ante audits in excess of the current 70 percent, subject to approval of the HCA plenary; and (ii) submitted legislation to expand pre-contractual audits by the HCA. We have re-prioritized our medium-term action plan to meet the requirements of the Late Payment Directive, and after appropriate testing will extend the use of the FMIS to line ministries' GDFSs and the HCA, including electronic transfers of documents, by end-2014. This includes the implementation of necessary IT applications by October 2014. Further, we will pass legislation by June 2014 to ensure that all hospital medical claims will be submitted electronically to EOPYY starting January 2015. We will also develop a comprehensive plan by June 2014 to clarify the transfers from SSFs to EOPYY, and establish a timetable to conduct full audits on all claims from January 2014, with a view that all grants from MOF to cover public hospital deficits and EOPYY payments to public hospitals will be settled afterwards, based on the total amount of claims fully audited by EOPYY.
- Cash management.* With information provided by the Bank of Greece, the Ministry of Finance and relevant line ministries, including the size and volatility of monthly cash balances of the 20 sub-sector entities with the largest average cash balances in 2013, as a **prior action**, we implemented an interim repo borrowing framework with some of the entities to help alleviate the state's financing needs in 2014, by allowing the Bank of Greece acting in its capacity to manage the liquidity of some of the entities to enter into repo transactions with the PDMA, in compliance with the monetary financing prohibition. This includes analyzing cash balances of SSFs and EBFs in the Bank of Greece and in commercial banks to identify resources that could be lent to the state, and reinvesting maturing EFSF bonds held by SSFs in government securities. The contracts related to both these operations should clearly specify that these securities cannot be further traded for the duration of the contracts by the counterparties. We will complete a review of the accounts of the state in

commercial accounts by end-May and will recommend the closure of all unnecessary accounts by end-July 2014. By end-July, after further assessing the legal framework of the relevant entities, we will develop a plan for cash management reform to be fully implemented as of January 1, 2015.

- *Arrears clearance.* We have reduced arrears from €9.4 billion at end-2012 to €4.7 billion at end-2013. We are committed to clearing arrears from existing resources for 2012–13, while preserving resources from the special allocation for clearing the pre-2012 stock. We are extending the timeline of clearance of pre-2012 arrears to Q3 2015 and accordingly will complete a targeted audit of general government accounts payable by end-2015. We have launched the external audit of EOPYY's liabilities, which will be completed by end-June 2014 for inpatient care liabilities and September 2014 for outpatient care liabilities, and will finalize the audit of all pre-2013 EOPYY liabilities by end-2014. The completion of the audit—in close coordination with the HCA—will help validate EOPYY's arrears and prepare them for clearance.
- *Reporting.* We published, for the first time, a monthly fiscal report including complete above-the-line data for all subsectors of general government, based on the new Monthly Fiscal Reporting System and in line with international statistical (GFSM2001/ESA95) classifications. Furthermore, we are taking steps to address the statistical discrepancies between above- and below-the-line data in government finance statistics. In particular, by May 2014, the Statistics Department of the Bank of Greece and GAO will sign an MOU to implement at least a quarterly comparison exercise between individual government units' data on deposits and loans collected for monetary and financial statistics purposes, and the corresponding information collected through GAO's Monthly Fiscal Reporting System. This MOU will fully respect European and national legislation regarding the protection of confidential statistical information. The first comparison exercise will be finalized by September 2014 for end-June data of about 60-100 entities. No individual data shall be shared with GAO without an explicit consent of the affected individual units provided to the Bank of Greece. In terms of institutional coverage, the reference will be the government units' registry of the National Statistical Service (ELSTAT).

6. We have introduced new KPIs for 2014 to focus on the speed of processing government payments and social sector PFM issues. We have set a new target for the timely payment of invoices received by the state government, and added three KPIs on PFM in the social sector to ensure (1) timely transfers of health insurance premium collection from IKA to EOPYY, (2) timely claims submission from public hospitals to EOPYY, and (3) timely full audits of medical claims at the EOPYY. The quarterly targets are in Table 3.

Attachment II: Technical Memorandum of Understanding

May 14, 2014

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 program performance and the information that we will provide to ensure adequate monitoring of the targets.
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 all units classified as government units in the registry of the National Statistical Service (ELSTAT), in accordance with the rules specified in the *European System of Accounts 1995 (ESA95)* and the *ESA95 Manual on Government Deficit and Debt*.^{1 2}

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 general government interest payments. The MGGCB is defined as the sum of the cash balances of the state budget and the changes in the net financial assets of the local government, social budget entities (including pension funds, employment funds, health insurance, and hospitals), extra budgetary funds (EBFs), and state owned enterprises (SOEs).

¹ Starting in September 2014, the conceptual references will be the *European System of Accounts 2010 (ESA10)* and the *ESA10 Manual on Government Statistics*.

² On sectorization, both manuals are consistent with Government Finance Statistics Manual (2001) (GFSM2001).

- **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 and non-recurrent), minus tax refunds; minus (ii) ordinary budget expenditures as published monthly on the official website of the General Accounting Office of the Ministry of Finance.
- **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.
- **Other Sectors (EBFs, SOEs, local governments, and social budget entities).** The changes in the net financial assets of the remaining sectors of the general government will be measured from below the line, adjusted for valuation changes, and based on data provided by the Bank of Greece. The below the line data will further be adjusted for interest payments and changes in net financial assets that are not traced by the Bank of Greece, specifically, net foreign financial assets, and changes in Loan and Consignment Bank accounts relating to LGs.
- **Adjustments:** The MGGPCB will exclude:
 - the part of the public investment budget (revenues and expenditures) of the State related to EU structural funds and their co-financing;
 - all transfers related to the Eurogroup decisions of February 21, 2012 and November 26, 2012 in regards to income of euro area national central banks, including the BoG, stemming from their investment portfolio holdings of Greek government bonds;
 - receipts from privatization; 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;
 - payments related to support of the bank system that are part of the program's financial sector strategy;³

³ Any financial operation by the central government to support banks, including the issuance of guarantees or provision of liquidity, will be immediately reported to the IMF, European Commission, and ECB staff.

- any called guarantees to entities outside the general government related to liquidated public enterprises above what is already expected in the fiscal program for the current fiscal year;
- any payments from banks that would undermine their solvency or liquidity, unless the Bank of Greece confirms that such a payment would be compatible with the preservation of adequate capital buffers and liquidity going forward, including by verifying consistency with banks' business plans as included in the stress test. The two exceptions to this are the capital concentration tax and the guarantee fee structures currently in place.
- any flows related to the special appropriation for arrears clearance.

5. Supporting material: All of the following will be provided within four weeks of the end of each reporting months:

- For the State, EBFs, and SOEs, 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 currency cash balances of the central government at the central bank of Greece, and all other sources of cash financing including capital transactions.
- For local governments, the Ministry of Finance, in collaboration with the Ministry of Interior, will provide monthly data on revenues and expenditures, as collected in the Ministry databank.
- For the social budget, the Minister of Finance, in collaboration with the Ministry of Labor and Ministry of Health, will provide monthly data on revenues and expenditures in the social security funds, the central healthcare fund (EOPYY) and public hospitals.
- For EBFs, SOEs, local government, and the social budget, the Ministry of Finance, in collaboration with other ministries, will provide monthly data on interest expenses.
- Finally, the Bank of Greece will provide detailed monthly data on net acquisition of assets and liabilities of all non-State subsectors of the General Government as defined above: local authorities, social budget entities, extra-budgetary funds, and state enterprises included in the definition of general government.

B. Ceiling of State Budget Primary Expenditure (Performance Criterion)

6. Definition. The state budget primary spending consists of ordinary state budget expenditure minus interest paid by the state budget, minus any arrears payments made related to the special appropriation for arrears clearance. Ordinary state budget expenditure includes called guarantees to entities inside and outside the general government.

- **Adjustments:** State budget primary expenditure will exclude payments related to support of the bank system that are part of the program's financial sector strategy.⁴ Expenditures related to EU structural funds and their co-financing will also be excluded.
7. **Supporting material.** The General Accounting Office of the Ministry of Finance will provide monthly expenditure data, as defined above.

C. Ceiling on the Stock of Domestic Arrears (Performance Criterion)

8. **Definition.** For the purpose of the program, domestic arrears are defined as: (i) unpaid invoices of the general government as defined by El Stat that are 90 days past their due date; plus (ii) the entire stock of tax refund claims that have received an AFEK but excluding those under legal dispute. In case no due date is specified on a given supplier contract, an unpaid commitment is considered to be in arrears 90 days after the receipt of the invoice.
9. **Supporting material.** Monthly data on arrears of the general government will be provided by the Ministry of Finance within four weeks after the end of each month. The Ministry of Finance will publish this information on its website. The expenditure arrears data will continue to be based on survey data, until data from commitment registers are assessed in the future by the IMF, EC, 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 (including the age of tax refund claims) will be based on information provided by General Secretariat for Information Systems and General Secretariat for Public Revenue. The Ministry of Finance will fill out the tax refund template provided for this purpose on a monthly basis.

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

10. **Definition.** The overall stock of central government debt will refer to central government gross debt, as defined in the Excessive Deficit Procedure (EDP), i.e. covering the state, extra budgetary funds and state owned enterprises consistent with the registry of the National Statistical Service (ELSTAT). Holdings of intra-government debt will be consolidated. The ceiling reflects total outstanding gross liabilities in the form of deposits, debt securities, and loans. It will exclude accounts payable and will be measured at nominal value as defined in the EDP. The program exchange rates will apply to all non euro-denominated debt.
11. **Adjusters.** The ceiling on the overall stock of EDP central government debt will be adjusted upward (downward) by the amount of any upward (downward) revision to the stock of end-December 2013 EDP central government debt of €326.6 billion.

⁴ Any financial operation by the central government to support banks, including the issuance of guarantees or provision of liquidity, will be immediately reported to the IMF, EC, and ECB staff.

12. 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 EDP definition no later than 30 days after the end of each quarter.

E. Ceiling on New General Government Guarantees (Performance Criterion)

13. Definition. The ceiling on the new general government guarantees shall include all new guarantees granted by any entity that is classified under international statistical standards (ESA95, GFSM 2001) under general government, but exclude guarantees to entities whose debt is covered under the ceiling on the stock of general government debt as defined above. The ceiling includes any guarantees to the Institute for Growth but shall exclude: (i) guarantees related explicitly to financial stability goals of the program (e.g., government-guaranteed bank bonds or emergency liquidity assistance (ELA)); (ii) guarantees related to EIB financed loans; (iii) guarantees related to guarantees provided by the EIB through the trade finance facility up to an outstanding amount of €500 million; (iv) guarantees granted by ETEAN (up to a total outstanding amount of €50 million provided these are fully backed by an equivalent amount of bank deposits); (v) 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; and (vi) guarantees granted for natural disasters to individuals and businesses which have been proven suffered damages less any amounts benefitted as compensation insurance up to an outstanding amount of €30 million. 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.

14. 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 general 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.

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

15. 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 general government units, 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.

16. 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.

G. Floor on Privatization Proceeds (Indicative Target and Performance Criterion)

17. Definition. Privatization proceeds will be defined as the cash receipts from the asset sales carried out by the privatization agency (HRADF), cash receipts from direct government sales, and cash receipts from the 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) and super/ extraordinary dividends (i.e., in excess of profits of the previous year) from entities under privatization paid to HRADF. Proceeds will be valued in Euros and will be measured as the inflows of cash received related to those transactions and deposited in the Segregated Account at the Bank of Greece within 10 days after the settlement of the transaction.

18. Supporting material. Monthly information on the cash receipts from asset sales into the segregated account will be made available by the GAO, in collaboration with the HRADF, within 30 days after the end of each month.

H. "Program" Deficit and Overall Monitoring and Reporting Requirements

19. Definition. For the purpose of the program, the primary balance is defined as general government EDP balance (EDP B.9) minus ESA 95 general government consolidated interest payable (EDP D.41), adjusted for the factors delineated in paragraph 20.

20. Adjustments. For the purposes of the program, the accrual revenue from the real estate levy collected through the PPC of a given year will include cash receipts within the year plus amounts pertaining to the given year received through March of the following year. In addition, the EDP deficit (EDP B.9) will exclude the following:

- 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 program;
- costs related to banking support as defined in MGGPCB above;
- 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
- any other transactions related to debt-reducing measures agreed in the context of the program, such as the reduction of Greek Loan Facility (GLF) interest margin which are counted below the line in the debt sustainability analysis.

- any called guarantees to entities outside the general government related to liquidated public enterprises above what is already expected in the fiscal program for the current fiscal year.
- any payments from banks that would undermine their solvency or liquidity, unless the Bank of Greece confirms that such a payment would be compatible with the preservation of adequate capital buffers and liquidity going forward, including by verifying consistency with banks' business plans as included in the stress test. The two exceptions to this are the capital concentration tax and the guarantee fee structures currently in place.

21. Overall monitoring and reporting requirements. Performance under the program will be monitored from data supplied on a quarterly basis 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.

I. Floor on Mandatory Exits (Indicative target)

22. Definition: Employees counted as mandatory exits to the private sector will originate from those that: (i) are employed by the general government (ESA95 definition) on a permanent employment contract or on a contract of indefinite duration; and (ii) have no entitlement to early retirement within the next 3 years. Mandatory exit means that the employee leaves the public sector on an involuntary basis, but includes exits from the "availability" scheme to the private sector. Mandatory exits are not entitled to severance pay or any other form of compensation (if not provided for under the legislative framework as of April 2014). Payments during the time in availability will count against any severance entitlements. The count of mandatory exits will exclude those employees that leave the public sector because the entity they belong to is being privatized under the HRADF privatization program or that leave as part of a restructuring ahead of such privatization. Further, employees that are separated from the public sector whose jobs are outsourced will not qualify to be replaced under the 1:1 hiring rule. Mandatory exits cannot be rehired into the public sector except via a merit-based selection procedure by ASEP, open to external candidates.

J. Floor on Entrants for Future Exit in the "Availability" Scheme

23. Definition: Employees counted toward this measure have no entitlement to early retirement within the next three years and eight months, qualify for the definition of entrants to the availability scheme (paragraph 24 below). After April 1, 2014, if all previous exit targets have been observed, the floor on the minimum staff will be adjusted downward by any additional exits above the cumulative end-March 2014 target of 5,000 exits from other eligible sources.

K. Floor on Entrants to the Availability Scheme

24. Definition: Employees counted as transferred to the availability scheme will originate from those that are employed by the general government (ESA95 definition) on a permanent employment contract or on a contract of indefinite duration. Exceptionally, it will also include employees of the tax authorities from the Ministry of Finance who were subject to mandatory transfers without entering into the availability scheme (i.e., before the scheme was in place). Entrance into the availability scheme is defined when the employee's payment is reduced to

75 percent of the remuneration in the case of “availability,” or to one-third of the remuneration in the case of “disciplinary suspension.” It does not include employees that belong to entities that are in the process of being privatized under the HRADF privatization program or that are part of a restructuring ahead of such privatization. See TMU Tables 1A and B.

25. Supporting material. The Ministry of Administrative Reform and E-Governance (MAREG) will report on a monthly basis (15 days after the closing of each month) for the availability scheme on entrants (number, entity they previously belonged to, reason for entry, number of entrants which will exit) and departures (number, reasons for departure, new entity transferred to or exit), and the stock of employees currently in the scheme (grouped by the months of their entrance). Further, MAREG will report monthly (15 days after the closing of the month) on exits, the number, the general government entity they came from, the reason for the exit, if any. MAREG will report on a monthly basis (15 days after the closing of the month) the stock of general government employees defined as in the Census Data Base.

MONITORING OF STRUCTURAL BENCHMARKS AND KEY PERFORMANCE INDICATORS

L. Benchmark on Progress in Revenue Administration

Progress in revenue administration in 2014 will be defined as reaching or exceeding the targets set in TMU Table 2A.

Definitions:

- **A completed audit** is defined as an audit formally reported as finalized in the ELENXIS audit case management system, including signed off by the audit supervisor, and the taxpayer assessment has been issued, or the audit report states that no underpayment has occurred.
 - Audit reports which are brought to the Tax Dispute Administration Resolution Committee (Article 70A Committee) for settlement which have been brought between 1 January 2013 and 31 July 2013 are defined as a completed audit when the case is submitted to the committee.
 - High Wealth Individual (HWI) audits carried out on a legal person owned or controlled by the high wealth individual will also be regarded as an HWI audit case if the audit is carried out by the auditor(s) who carry out the audit of the relevant high wealth individual. Furthermore, audit of off-shore companies with the aim of identifying the natural person owing or controlling the offshore company will also be regarded as an HWI audit case. These audits will be reported separately.
- The **assessment amounts** from the audit reports submitted to the Article 70A committee until 31 July 2013 are included when reporting on the assessment performance for HWI and Large Taxpayer Unit (LTU) audits. The assessment amount is only included for reporting on the LTU and HWI audit case collection performance when the final

assessment is issued following the decision of the committee. These amounts shall be adjusted for any difference between the audit report assessment amount and the final assessment amount.

- **Risk-based audits** for large taxpayers and high wealth individuals are defined as audits selected on a risk basis using the ELENXIS audit management system.
- **Collection** on HWI and LTU full scope audits and partial audits are amounts collected from such LTU and HWI audits completed during the year or previous years.
- **Collection of tax debt** does not include debts such as calls on loan guarantees, fines, etc., of non-tax nature for which the tax authority is responsible for collecting on behalf of other public sector entities.
- In 2014, **new tax debt collection** includes collection of debt accrued in the month of December, 2013.
- **Large taxpayer full scope audit** is an audit of the taxpayer's compliance with obligations in relation to at least income tax, withholding taxes and VAT for a period of at least one income tax year.
- **Large taxpayer partial audit** is a large taxpayer audit which does not qualify as a full scope audit.
- **An audit of assets of a manager or official working in the revenue administration (including both tax and customs administration)** 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. **SGPR managers** are defined as general directors, directors and head of departments of both the headquarters and the local offices of the SGPR. **Other SGPR officials** are defined as SGPR officials other than the managers defined above, including advisors and consultants to the SGPR. The above-mentioned definitions cover both former and current officials.
- **AML on-site inspections targeted at banks** at higher risk of misuse by tax evaders are conducted by BoG's Banking Supervision Department to test the implementation of AML/CFT requirements, particularly in relation to customers at risk of tax evasion, as defined in section 5.15.11 Decision 281. The on-site inspection includes a test of implementation against a sample of 200 customers identified by the supervised bank as meeting the definition of section 5.15.11 Decision 281, last paragraph, and 100 randomly selected self employed. As contemplated by the AML Law, breaches of compliance identified during on-site inspections shall result in appropriate administrative sanctions being imposed on banks.

26. Supporting material. Monthly information on risk-based full-scope audits and partial 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 SGPR managers and officials, tax refund claims paid or rejected, 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 partial and full scope audits. Quarterly information on AML on-site inspections will be made available by the Bank of Greece.

M. Benchmark on Progress in Collections of Social Security Contribution

Progress in collecting social security contribution in 2014 will be defined as reaching or exceeding the targets set in TMU Table 2B.

27. Definitions:

- **Social security fund payment compliance** is defined as the ratio of the amount of current year social security contribution paid to the fund divided by the amount invoiced or declared for each reporting period, expressed as a percentage.
- An **active debtor** is defined as a debtor with a debt component that is unimpeded (excluding disputes, bankruptcies, state owned entities and municipalities), less than 180 days since becoming due, with the debtor's total debt exceeding EUR 5,000.
- In a **debt transfer** from a social security fund to KEAO, all the debt, both old and new, of the same active debtor should be transferred.
- An **advanced collection action** means an action taken by KEAO following the second automated notice that has been issued by KEAO, which may include enforced debt collection or classifying the debt as un-collectible. If the taxpayer starts repaying debt after the first automated notice, the latter is also considered an advanced collection action.

28. Supporting material. For each of the four main social security funds IKA, OAEE, ETAA and OGA, a monthly submission no later than two weeks after each month-end is required on the following: total amount of social security contribution paid (flow), total amount of social security contribution invoiced or declared (flow), total amount of active debtors' debt transferred (measured as of the transfer date, flow), total amount of active debtors' debt held by the fund at the month-end (measured as of the month-end, stock). For KEAO, a monthly submission no later than two weeks after of each month-end is required on the following: total amount of active debtors' debt on which an advanced collection action is taken within 3 months of the transfer (flow), and the amount of active debtors' debt held by the KEAO at the month-end (stock).

N. Benchmark on Progress in Public Financial Management

Progress in implementing public financial management reforms in 2014 will be defined as reaching or exceeding the floor targets and staying at or below the ceiling targets as set in TMU Table 3.

29. Definitions:

- **Invoices received by the state** are the invoices or other equivalent documents consisting of a request for payment that have been submitted (accompanied by a submission document) by ministries to the fiscal audit offices for payment, which include the information on the date when line ministries received the invoice from suppliers or the dates as specified in the Late Payment Directive.
- **Actual IKA-to-EOPYY transfer** is the amount of cash transfer to EOPYY and the expenditures paid by IKA on behalf of EOPYY during a period in 2014. It is expected to be the amount of cash transfer only in 2015. **The amount that should be transferred from IKA to EOPYY** is the revenue collected by IKA on behalf of EOPYY during the same period, calculated as 4 percent on the higher amount of monthly gross pensions received by each pensioner, and 6.45 percent on monthly insurable earnings of each worker. The exact amount of insurable earnings is calculated ex post based on monthly filings of Analytical Periodic Declarations.
- **Medical claims submitted by public hospitals to EOPYY** are claims (invoices and associated documents) using KEN-DRGs and/or hospital fees submitted to EOPYY for insured patients on inpatient services with at least one night stay. No more than one claim is allowed for each inpatient service.
- **Full audits by EOPYY** are designed to reach a final decision on the validity and amount due on a submitted health insurance or medical claim; they do not include pre-audits that only check patients' insurance and tax liability information.

30. Supporting material. Monthly summary information on the following: (i) the numbers and processing time of invoices received, invoices paid, and invoices rejected upon verification by the state government (including ministry of finance and line ministries), as well as invoices that have been neither paid nor rejected since the date of receipt of the invoice or the other dates as specified in the Late Payment Directive for a period longer than the ceiling days specified in the Late Payment Directive, (ii) the amount of IKA-to-EOPYY cash transfer, expenditure paid by IKA on behalf of EOPYY, and revenue collected by IKA on behalf of EOPYY, (iii) the number of medical claims submitted by public hospitals to EOPYY, and the number of inpatient services with at least one night stay, and (iii) the number of full audits conducted by EOPYY on 2013 and 2014 claims submitted by private entities (including private hospitals, clinics, diagnostic centers, etc) for insured patients.

MONITORING OF OTHER FISCAL INDICATORS

O. Monitoring of Tax and SSC Installment Schemes

31. Definitions – The framework for monitoring tax and SSC installments under the “fresh start” and “basic” schemes has two sections to monitor participation, one focused on values and a second focused on the number of debtors.

- i. Values-Based Indicators: Stocks: (i) the outstanding stock of debt (including principal and surcharges) accumulated before end-2012, (ii) the amount of this debt (including principal and surcharges) that is currently in the Fresh Start scheme, and (iii) the amount of this debt (including principal and surcharges) current in the Fresh Start scheme that has also been legally “verified”.
- ii. Flows: (i) the amount of debt (including principal and surcharges) that has entered into the scheme during that month, (ii) the increase in the amount of debt (including principal and surcharges) that has been legally “verified” during the month, (iii) the total amount actually paid thus far under the scheme and, of this, the amount that refers to upfront full payment (including principal and surcharges paid), and (iv) the amount that has become delinquent during the month.

a. Number of Debtor-based Indicators

- iii. Stocks: (i) the current number of debtors with outstanding debt accumulated before end-2012, (ii) the total number of applications for participation in the scheme thus far, and (iii) the total number of applications which have been legally “verified”.
- iv. Flows: (i) the total number of applications submitted for participation in the scheme during that month, (ii) the number of applications that have been legally verified during that month, (iii) the number of debtors that made an upfront full payment, the number of debtors that made their installment payment and the number of debtors that are newly delinquent as of that month, and (iv) the number of debtors that have made their last installment payment.

32. Supporting material. For new installment schemes, there will be a weekly report that includes a subset of the data outlined in paragraph 28 and will be received by Tuesday after the week to which it refers. It will include the following variables: i) number of debtors currently in the scheme, ii) total debt currently under the scheme, iii) amount paid year to date, and iv) amount of payment contractually expected in the rest of the year based on amount of debt in the scheme at that time, and v) number of debtors and amount of debt that have dropped out of the installment scheme year to date. Then, the SGPR and the MoL will report on a monthly basis (within three weeks of the closing of each month) the full set of indicators defined in the monitoring framework for the “fresh start” and “basic” installment schemes.

33. The report by the MoL of the SSC installment schemes will provide information on installment schemes under KEAO as well as individual information for installment schemes in the two largest SSFs (IKA, OAEE) not covered by KEAO. The MoL report will also include data about the old installment schemes for which repayments are still collected by the funds.

P. Monitoring of SSC Debt Collection

34. Definitions

- The monitoring framework for SSC debt collections includes: (i) the stock of debt and collection of SSC debt accumulated by December 31, 2013; (ii) the stock of debt and collection of SSC debt incurred during the current year; and (iii) the number of debt assessments completed by the SSFs.
- The monitoring framework for debt collection by KEAO also includes the number and value of legal collection actions (letter notifying the opening of the enforced collection action, garnishments, seizure writs issued, immovable property seizure, movable property seizure, mortgage and liens, auctions, and bankruptcies and liquidations).

35. Supporting material. The MoL will report according to the monitoring framework for SSC debt collection and for debt collection by KEAO on a monthly basis (three weeks after the closing of each month). The MoL will provide individual information separately for the four largest SSFs (IKA, OAEE, ETAA, OGA).

Q. Monitoring of SDOEs Stock of Pending Audits and Investigations Outstanding as of October 30, 2013

36. Definitions. The stock of pending audits and investigations in this context is understood as tax- and customs-related audit cases that were opened by the SDOE through October 30st, 2013 and are related to the tax and customs competences that were subsequently transferred to the SGPR. As of October 31st, 2013, 10,968 such pending audits were identified.

37. Supporting material. The SDOE will report on the stock of aforementioned pending audits on a monthly basis (one week after the closing of each month) starting from March 2014.

R. Monitoring of the Performance of Commitment Registers

38. Definition.

- The monitoring framework for the performance of commitment registers includes: (i) the 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; and (ii) the 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

- The reporting institutional units (state and general government entities) include any unit under the general government as defined by ELSTAT whose overall annual spending exceeded €1 million in the most recently closed financial year. The universe of reporting institutional units is updated in the 4th month after an update to the register of general government entities is published.
- Entries under the e-portal include all fields with financial information as prescribed in the GAO circular on the maintenance of commitment registers of Feb 28, 2014 (protocol number 2/18993/DPDSM, section K); this includes inter alia cumulative appropriations released, commitments made, the sum of invoices received, payments made, and the age profile of unpaid invoices past due date, including arrears.

39. 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 no later than four weeks after the end of each month. Data submission based on surveys will include data back to end-2011. Survey information will continue to be provided after December 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 (including annual spending in the most recently closed financial year) will be made available by ELSTAT whenever an update to the register is being published.

S. Monitoring of Unprocessed Pension Claims

40. Definition:

- An **unprocessed pension application** is an application filed by an insured or entitled person for receiving an old age, disability or survivors' pension. The pension claim will be counted as unprocessed if a decision on the validity and amount due under the claim has not been reached by the end of the month following the month in which the application was filed.

41. Supporting materials: Monthly data on unprocessed pension applications (number and total value of claims of the application) for IKA, OAEE, ETAA, and OGA will be provided by the Ministry of Labor.

T. Regulated Professions

42. The targets on professions, as discussed in the MEFP paragraph 27 are delineated in TMU Table 4.

Table 1A. Greece: Annual Overall Employment Ceilings for the General Government, 2012–16

(Number of persons)

	2012	2013	2014	2015	2016
General government	707,609	653,746	635,227	623,219	606,170
Ordinary staff	629,114	599,207	581,886	570,271	553,619
Other staff	56,588	36,372	36,037	36,037	36,037
Chapter A entities	20,446	16,587	15,723	15,330	14,933
Chapter A fixed term contracts	1,461	1,580	1,580	1,580	1,580
Memorandum items:					
Chapter A entities not classified as general government	18,603	17,365	16,491	16,093	15,691
Total public sector (excluding ESPA and self financed other staff)	726,212	671,111	651,717	639,311	621,860
ESPA and self-financed other staff	15,343	47,570	44,946	44,946	44,946

Source: MAREG.

Note: Public sector is defined as the general government as well as legal entities of private law supervised by local governments or the state, and excluding Chapter B companies.

Note: The number of general government and non-general government employees in Chapter A entities will be updated as they are integrated into the Census Data Base. These include previously unrecorded employees of municipal and private law legal entities.

Note: The above ceilings are based on GAO projections and reflect the measures of the latest MTFS as well as other assumptions that may be updated in cooperation with the EC/ECB/IMF.

Table 1B. Greece: Availability Scheme, 2013–14

	(Number of people)					
	Staffing Plans: Total Personnel Covered 1/ 2/		Personnel Entered Into Mobility Scheme 3/ 4/		Personnel Exits from Government 5/ 6/	
	Target	Actual	Target	Actual	Target	Actual
2013						
Q1	...	0	...	0	...	0
Q2		211,000	...	...	...	2,500
Q3	400,000	198,991	12,500	8,401	2,000	704
Q4	207,754		12,500	7,460	2,000	336
Total 5/	607,754	409,991	25,000	15,861	4,000	3,540
2014						
Q1	...	167,115	...	8,011	1,000	3,034
April 2014 7/				1,470		77
Q2	...	...	...	...	4,000	...
Q3	...	...	...	...	5,000	...
Q4	...	...	...	...	1,000	...
Total	0	167,115	0	9,481	11,000	3,111
Sum total	607,754	577,106	25,000	25,342	15,000	6,651

Source: MAREG, SPA

1/ As reported by Census and data on private law legal entities.

2/ 18,920 employees are excluded from the staffing plans as their employment structures can not be evaluated--for example judges and clergy.

3/ As reported by SPA. The Census Database reports 25,522 employees placed under the availability status as it includes 78 temporary injunctions and 102 employees whose wage adjustment could not be verified by SPA as they were not paid by SPA.

4/ The Q3-2013 mobility numbers include 3,572 employees from the restructuring of the Tax Offices.

5/ As reported in the Census Database. Single Payment Authority (SPA) confirms 6,651 exits. The above figures exclude 1,708 contracts that were terminated due to rejection of temporary injunctions and 100 estimated exits as a result of the closure/merging of 22 entities in April 2014, according to Law 4250/2014, which is currently under implementation.

6/ Actuals are gross exits and do not exclude individuals within three years of early retirement. The authorities report that they have achieved the end-March 2014 cumulative target of 5,000 exits and are in the process of verifying the employment history of these persons to ensure compliance with the TMU definition of exits.

7/ As of April 24th, 2014.

Table 2A. Greece: Key Performance Indicators on Tax Administration, 2014

Indicator	2014 Target 1/		
	End-Jun.	End-Sep.	End-Dec.
Debt collection			
Collection of tax debts as of the end of the previous year (millions of euros)	1,000	1,500	2,000
Collection of new debts in the current year (percent of new debt in the year)	16%	21%	25%
Tax audits and collection of large tax payers			
Number of risk-based full scope audits in the year 2/	250	375	500
Number of risk based partial audits in the year 3/	340	510	680
Collection of full scope audits in the year (percent of assessed tax and penalties)	65.0%	65.0%	65.0%
Collection of partial audits in the year (percent of assessed tax and penalties)	65.0%	65.0%	65.0%
Audits and collection of high wealth individuals			
Number of completed risk-based audits in the year 4/	307	513	720
Collection of assessed audits (percent of assessed tax and penalties)	50%	50%	50%
Internal control and human resource integrity			
MoF audit of assets of SGPR managers 5/	48	87	125
MoF audit of assets of other SGPR officials 5/	63	107	150
Taxpayer service			
Percent of VAT tax refund claims paid or rejected within 90 days 6/	70%	80%	90%
Percent of income tax refund claims paid or rejected	30%	55%	75%
Ceiling on stock of total tax refund claims (with or without AFEK) 7/	2.4	2.2	2.0
Prevention of the laundering of tax evasion proceeds			
Number of AML on-site inspections targeted at banks at higher risks of misuse by tax evaders 8/	3	6	9

Sources: Greek authorities; and IMF staff.

1/ Cumulative targets from January of each year.

2/ If the actual amount of tax and penalty assessed is less than €250 million in March, the targeted number of audits in June will be increased to ensure achievement of overall annual amount of tax and penalty assessed of at least €1000 million.

3/ If the actual amount of tax and penalty assessed is less than €80 million in March, the targeted number of audits in June will be increased to ensure achievement of overall annual amount of tax and penalty assessed of at least €320 million.

4/ If the actual amount of tax and penalty assessed is less than €72 million in March, the targeted number of audits in June will be increased to ensure achievement of overall annual amount of tax and penalty assessed of at least €288 million.

5/ The audit is performed by the Internal Affairs Directorate of the MoF. SGPR managers are defined as general directors, directors and head of departments of both the headquarters and the local offices of the SGPR. Other SGPR officials are defined as SGPR officials other than the managers defined above. The above-mentioned definitions cover both former and current officials.

6/ For claims received on or after 1 January 2014 only. The 90-day period refers to the period between a claim is made and the final payment to the claimant is completed or the claim is rejected. The percentage is calculated as follows. The numerator is the total number of tax refund claims paid or rejected within 90 days during the period. The denominator is the sum of the numerator and the total number of tax refund claims pending more than 90 days on the test date.

7/ In billions of euros.

8/ The inspection is performed by the AML Unit within the Supervision of Credit and Related Financial Institutions Department (SCFID) of the Bank of Greece.

Table 2B. Greece: Key Performance Indicators on Social Security Contributions, 2014

Indicator	2014 Target 1/		
	End-Jun.	End-Sep.	End-Dec.
Social Security Fund Payment Compliance			
Percent of total invoiced or declared current-year SSC amount paid to the fund 2/			
IKA	90%	...	93%
OAEE	58%	...	70%
ETAA	78%	...	85%
OGA	40%	...	50%
KEAO Collection Performance and Enforcement			
Collection of SSC debts transferred to KEAO 3/	100	200	350
Percent of Advanced Collection Action taken within 3 months of the transfer of active debtors' debt 4/	25%	35%	50%
Timeliness of debt transfer to KEAO			
Percent of active debtors' debt transferred to KEAO 5/			
IKA	95%	95%	95%
OAEE	40%	60%	95%
ETAA	40%	60%	95%
OGA	95%	95%	95%

Sources: Greek authorities; and IMF staff.

1/ Cumulative targets from January of each year.

2/ For each reporting period, social security fund payment compliance is calculated as the amount of current year SSC paid to the fund divided by the amount invoiced or declared, expressed as a percentage.

3/ In millions of euros.

4/ The percentage is calculated as follows. The numerator is the total amount of active debtors' debt where an advanced collection action is taken within 3 months of the debt transfer to KEAO. The denominator is the sum of the numerator, and the stock of total active debtors' debt on the test date which has been held by KEAO for more than 3 months without taking advanced collection actions. An active debtor is defined as a debtor with a debt component that is unimpeded (excluding disputes, bankruptcies, state owned entities and municipalities), less than 180 days since becoming due, with the debtor's total debt exceeding EUR 5,000. An advanced collection action means an action taken by KEAO following the second automated notice that has been issued by KEAO, which may include enforced debt collection or classifying the debt as un-collectible. If the taxpayer starts repaying debt after the first automated notice, the latter is also considered an advanced collection action.

5/ The percentage is calculated as follows. The numerator is the amount of total active debtors' debt that is transferred during the period from a social security fund to KEAO. The denominator is the sum of the numerator and the stock of total active debtors' debt that has been identified but still held by the social security fund on the test date.

Table 3. Greece: Key Performance Indicators on Public Financial Management, 2014

Indicator	2014 Target 1/		
	End-Jun.	End-Sep.	End-Dec.
a. Ceiling on average period for expenditure payments or rejection after receipt of invoices by state government, including ministry of finance and line ministries. 2/			
Ceiling on number of days	40	30	29
b. Floor on percentage of actual IKA-to-EOPYY transfer of the amount that should be transferred. 3/			
Floor on percentage	97%	98%	99%
c. Floor on percentage of number of claims submitted by public hospitals to EOPYY for insured patients. 4/			
Floor on percentage	50%	75%	85%
d. Floor on the percentage of full audits conducted by EOPYY on 2013 or 2014 claims received by EOPYY from private entities for insured patients. 5/			
Floor on percentage	50% (2013)	99% (2013)	...
	0% (2014)	0% (2014)	50% (2014)
Sources: Greek authorities; and IMF staff.			
1/ Cumulative targets from January 2014 unless otherwise specified. The KPIs apply to transfers, services, invoices, claims etc provided in 2014 only unless otherwise specified. Invoices and claims provided before 2014 are excluded unless otherwise specified.			
2/ Applies to each quarter only. The average period is calculated on all the invoices paid or rejected during the quarter, and invoices still pending beyond the ceiling on number of days on the test date. The period for each invoice is measured from when the invoice is received to the final payment, or to rejection upon verification, or to the test date if it is still pending beyond the ceiling.			
3/ The ratio in percentage is calculated as follows. The numerator for 2014 is the amount of cash transfer to EOPYY and the expenditure paid by IKA on behalf of EOPYY during the period. The denominator is the revenue collected by IKA on behalf of EOPYY during the period. It is expected that the numerator will be the amount of cash transfer only in 2015.			
4/ The ratio in percentage is calculated as the number of relevant claims (invoices and associated documents) using KEN-DRGs and/or hospital fees submitted to EOPYY for insured patients divided by the number of inpatient services with at least one night stay. No more than one claim is allowed for each inpatient service.			
5/ The June and September targets apply to the full audits of 2013 claims submitted by private entities (including private hospitals, clinics, diagnostic centers, etc), and the December target applies to the full audits of 2014 claims submitted by private entities.			

Table 4. Greece: Actions on Regulated Professions

Profession	Restrictions to be Eliminated	Timing
Actuaries	- Amend legislation to set the certification exams to be conducted by any public or private sector body accredited by ESYD. - Start examinations	- End-March 2014 - End-May 2014
Technical professions (56 professions)	Submit to the Council of State the Presidential Decree on replacing of professional experience by seminars organized by approved bodies, and on fees for the seminars replacing professional experience.	End-April 2014
Sales of fertilizers, propagation and plant-protecting material (10 professions)	- Submit to the Council of State the Presidential Decrees (2) setting the standards for training courses - Issue secondary legislation to establish the training courses - Establish training courses for sales	- End-April 2014 - End-May 2014 - End-June 2014
Geo-technicians (agronomists, foresters, geologists, ichthyologists)	Adopt legislation to abolish mandatory issuance of professional IDs and of membership to the Geo-Technical Chamber	End-April 2014
Lawyers	- Abolish mandatory presence of geo-technicians for municipalities of more than 5,000 inhabitants - Clarify the reference in the Code of Lawyers to the minimum wage for salaried lawyers - Adopt legislation to abolish from the code of lawyers the severance pay in case of voluntary exit and introduce a provision similar to that of Article 7 of Law 2112/1920 in the Code of Lawyers (so that any unilateral adverse alteration of the terms of the salaried contract that is harmful to the lawyer is deemed as termination of contract on behalf of the employer)	- End-March 2014 - Prior action - Prior action
Engineers (including architects and land surveyors)	- Adopt legislation to amend unjustified or disproportionate requirements reserving certain activities to specific professions according to the opinion of the HCC - Complete a screening exercise to list all existing primary and secondary legislation that needs to be either amended or abolished in order for the new legal framework to be implementable - Submit to the Council of State the Presidential Decrees defining standards for complex activities	- End-June 2014 - End-June 2014
Firms trading Petroleum	- Adopts implementing provisions consistent with the timeline foreseen in the legislation Wholesale: Adopt legislation to require the installation of inflow-outflow systems throughout the refining and wholesale trading supply chain Retail: Complete the installation of inflow-outflow systems in: - urban areas - rest of Greece	- End-November 2014 - End-April 2014
Mediators	Adopt legislation to open mediator's professions to non-lawyers.	- End-April 2014 - End-August 2014 - Prior action
Health professions	- Day care clinics: - Adopt legislation to establish day care clinics - Adopt all necessary secondary legislation to define the technical standards for establishing day care clinics - Adopt legislation to (i) reduce minimum square requirements, (ii) allow co-establishment of all primary health care providers with the exception of chain professions necessary for a treatment of a patient	- End-May 2014 - End-May 2014 - End-May 2014
Hairdressers/manicurists	- Review the licensing requirements for hairdressers/manicurists in line with EU best practices - Adopt legislation to align licensing requirements for hairdressers/manicurists with EU best practices	- End-April 2014 - End-June 2014
Stevedores	- Establish entry-level training - Start entry-level training	- End-April 2014 - End-July 2014
TV technicians	Repeal existing licensing system	End-April 2014
Energy inspectors	Conduct certification exams	End-May 2014
Pharmacies	Implement OECD recommendations on the ownership and operation of pharmacies as specified in MEFP ¶30.	Prior action
Notaries	Assess the fees and reserved activities for notaries, and adopt legislation to align them with best practices in the EU	End-September 2014
Court bailiffs	- Review entry requirements, fixed fees and reserved activities for court bailiffs in line with EU best practices - Adopt legislation to amend unjustified or disproportionate requirements according to the opinion of the HCC	- End-June 2014 - End-September 2014
Mortgage registrars	- Review entry requirements, fixed fees and reserved activities for mortgage registrars in line with EU best practices - Adopt legislation to amend unjustified or disproportionate requirements according to the opinion of the HCC	- End-June 2014 - End-September 2014
Recreational and sports centers	- Review restrictions to establishing recreational and sports centers (minimum space requirements, restricted list of services offered etc) in line with EU best practices - Adopt legislation to amend unjustified or disproportionate requirements according to the opinion of the HCC	- End-March 2014 - End-June 2014
Seafarer	- Review restrictions to entry and conduct of seamen in line with EU best practices - Adopt legislation to amend unjustified or disproportionate requirements according to the opinion of the HCC including abolishing requirement to withhold the membership union fees from seafarer salaries	- End-April 2014 - End-April 2014

Source: IMF staff estimates.

Table 5. Greece: Implementation of Recommendations in OECD Competition Assessment Review¹

OECD Recommendation	Agreed Reforms	Timing	Next steps ²
Over-The-Counter (OTC) Products Fully liberalize prices of OTC medicines and dietary products. Allow sale of OTC medicines and dietary products outside.	Maintain cap on OTC prices based on the average of the three lowest prices in EU member states, while allowing prices to move freely downwards. Allow sale outside pharmacies (including via internet) for dietary products.	Prior action Prior action	If there is no substantial reduction of OTC prices by end-June 2014, retail channels will be liberalized immediately for all OTC products.
Pharmacies Liberalize ownership/operation of pharmacies (e.g., requirements for owner to be pharmacist, one pharmacy per pharmacist, minimum distance between pharmacies, etc.)	Abolish (i) the restriction of one pharmacy per pharmacist; (ii) all geographical restriction on minimum distances between pharmacies; and (iii) prior authorization by Prefecture for establishing a pharmacy.	Prior action	Review by end-September 2014 the practices in other EU countries, and legislate by end-2014 the changes needed to bring the framework in Greece on pharmacy ownership in line with EU best practices.
Milk Abolish maximum duration of milk shelf life and determining methodology for pasteurization	Extend the maximum duration of milk shelf life from 5 to 7 days, while introducing an additional definition for milk packaged within 24 hours and 2-day expiration after that.	Prior action	Assess the impact of these reforms by end-2014, and make additional legislative changes immediately if milk prices remain high.
Bread/bakeries Eliminate strict definitions for bakeries, bread sale restrictions.	Allow sale of bread in convenience stores.	Prior action	Assess by end-September and if needed adopt by end-2014 changes that bring definition of bakeries in line with EU best practices.
¹ The Greek authorities have committed to implement in full the recommendations in the OECD's Competition Assessment Review of March 2014 (see link), except as specified in this table.			
² All follow-up changes will be taken in consultation with the EC/ECB/IMF.			

Table 5. Greece: Implementation of Recommendations in OECD Competition Assessment Review (concluded)

OECD Recommendation	Agreed Reforms	Timing	Next steps
Sunday trade Consider two options: (i) Allow Sunday trading 11am-8pm without limits on store size; or (ii) experiment by relaxing Sunday trading in selected number of tourist areas (or towns) across Greece.	Allow Sunday trading in 3 new tourist areas	Prior action	Clarify by end-June 2014 that the 3 new tourist areas include: a) in Southern Aegean the entire island of Rhodes and Kos, and Ermoupoli (capital of Syros) b) in Central Macedonia, the historic center of Thessaloniki, including Tsimiski and Xalkidiki and c) in Attika, the historic center of Athens, including Ermou and Omonoia areas, and Rafina (second port of Athens). Review the experience of these reforms, and on that basis decide by end-March 2015 on whether to roll out immediately the recent changes across the country.
Private cars/trucks/busses Eliminate restrictions on licensing/ operation of private cars, trucks and buses.	For a car rental with driver, reduce minimum duration of agreement from 12 to 6 hours, and abolish requirements on social security, high school degree, and foreign language. For private use trucks up to 3 tons for the transport of daily press, abolish restriction for only one license.	Prior action	Assess by end-September and adopt by end-2014 changes to bring the licensing of trucks for private use in line with EU best practices.
Retail Sales Allow retailers to freely determine time and duration of sales periods, and abolish various restrictions on sale offers.	Repeal various restrictions on the sales offers. Introduce a code of conduct providing guidelines on sales and offers.	Prior action September 2014	Assess by end-2014 restrictions on sales periods' time and duration, and adopt by end-March 2015 changes as needed to bring in line with EU best practices.
Olive oil Abolish prohibition to mix olive oil with other vegetable oils in Greece.	Do not make any changes to the existing framework.	NA	NA

Annex Table I.1. Greece: Key Performance Indicators on Tax Administration, 2012–13

Indicator	2012	2013					
	End-Dec.	End-Jun.		End-Sep.		End-Dec.	
	Actual	Target	Actual	Target	Actual	Target	Actual
Debt collection							
Collection of tax debts as of the end of the previous year	1,099	1,140	847	1,558	1,147	1,900	1,518
Collection of new debts in the current year (percent of new debt in the year)	10.5%	14.0%	13.2%	19.0%	16.2%	24.5%	18.7%
Tax audits and collection of large tax payers							
Number of risk-based full scope audits in the year 2/	76	176	118	386	203	596	324
Number of risk based temporary audits in the year 3/	271	260	290	470	401	680	590
Collection full scope audits in the year (percent of assessed tax and penalties)	64.5%	65.0%	34.9%	70.0%	45.0%	75.0%	54.6%
Collection temporary audits in the year (percent of assessed tax and penalties)	49.2%	45.0%	38.6%	50.0%	52.0%	55.0%	54.8%
Audits and collection of high wealth individuals							
Number of completed risk-based audits in the year 4/	444	280	228	550	327	910	454
Collection of assessed audits in the year (percent of assessed tax and penalties) 5/	78.4%	40.0%	40.9%	55.0%	28.9%	65.0%	22.4%
Internal control and human resource integrity							
MoF audit of assets of managers of local tax offices	...	50	0	80	32	110	54
MoF audit of assets of auditors	...	50	0	90	42	130	72

Sources: Ministry of Finance; and IMF staff.

1/ Cumulative for the calendar year.

2/ The amount of tax and penalty assessed from January to September 2013 was €1,304 million (target: no less than €430 million).

3/ The amount of tax and penalty assessed from January to September 2013 was €177 million (target: no less than €215 million).

4/ The amount of tax and penalty assessed from January to September 2013 was €101 million (target: no less than €115 million).

5/ The 2012 collection rate is higher, mostly because many 2012 cases were settlement cases where immediate partial payment was required.

Annex Table I.2. Greece: Key Performance Indicators on Public Financial Management, 2012–13

Indicator	2012	2013					
	End-Dec.	End-Jun.		End-Sep.		End-Dec.	
	Actual	Target	Actual	Target	Actual	Target	Actual
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.							
2013 entity coverage 1/	85%	80%	93%	94%	95%	97%	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							
2013 entity coverage 1/	4%	10%	3%	2%	3%	1%	2%
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 1/	...	65%	84%	78%	90%	93%	95%
Sources: Ministry of Finance; and IMF staff.							
1/ Includes new entities in the end-September 2012 ELSTAT register with spending above €1 million.							

Annex Table I.3. Greece: Government Pending Actions in Privatization

Asset	A/A	Subject	Responsibility	Necessary Actions	Done	Critical Date
EYATH	1	Legislation to align pricing policy of EYATH with that of other water companies.	Ministry of Environment	Pass amendment to article 21 of Law 2937/2001, in order to align the process of the pricing policy of EYATH SA with that of the other water and sewerage services providers as provided for by Law 4117/2013 and the complementary Ministerial Decisions		Apr-14
EYATH	2	Water Regulator	Ministry of Finance, Ministry of Administrative Reform and e-Governance; and Ministry of Environment	Put in place full staffing and initiate operations of the Special Secretariat for Water (Regulating authority)		Apr-14
ODIE	3	Legislation needed to finalize ODIE tender	Ministry of Finance	Pass legislation on the issues raised by investors as prerequisites to continue in the process: GGR harmonisation; and lease agreement exemption from art. 618 of civil code)		Apr-14
OLP, OLTH & Ports	4	Ports Regulator	Ministry of Shipping	Pass law related to establishment and staffing of port regulatory authority		Apr-14
Egnatia Odos	5	Setting up additional toll stations in advance of privatization	Ministry of Transport, Infrastructure and Networks	Issue Ministerial Decision for the toll stations that have been specified by the technical advisers at main and vertical axes		Apr-14
TRAINOSE/ROSCO	6	Clarification of assets included in TRAINOSE, ROSCO privatization	Ministry of Transport, Infrastructure and Networks	Pass legislation to specify licenses and permits for railway properties and all real estate assets that will be included in the privatization perimeter of TRAINOSE, ROSCO		Apr-14
TRAINOSE/ROSCO	7	Transfer rolling stock ownership to HR	Ministry of Transport, Infrastructure and Networks and OSE	Issue joint Ministerial Decision for the transfer of rolling stock ownership from OSE to HR		Apr-14
TRAINOSE/ROSCO	8	Valuation of the Rolling Stock not in use owned by OSE or HR	Ministry of Transport, Infrastructure and Networks	Launch tender for valuation of rolling stock not in use		Apr-14

Appendix II: Letter of Intent to the European Commission and the European Central Bank

HELLENIC REPUBLIC

Athens, 15 April 2014

Mr. Jeroen Dijsselbloem,
President,
Eurogroup,
Brussels.

Mr. Sim Kallas,
Vice President,
European Commission,
Brussels.

Mr. Mario Draghi,
President,
European Central Bank,
Frankfurt am Main.

Dear Messrs Dijsselbloem, Kallas and Draghi,

In the attached update to the Memorandum of Understanding (formed by the Memorandum of Economic and Financial Policies and the MoU on Specific Economic Policy Conditionality) we describe progress and policy steps towards meeting the objectives of the economic adjustment programme of the Greek government.

Recent developments suggest that the recession is bottoming out, and we project that the economy will return to growth in 2014. We expect to have registered a significant primary fiscal surplus in 2013 in program terms, well above target and ahead of schedule. The external position has also improved with the current account showing a surplus for the first time in decades. However, the economy continues to face significant challenges, including high rates of unemployment and public debt, high non-performing loan balances and structural current account deficits, despite reforms to the business environment improving the investment climate.

Against this backdrop, we are adopting key reforms and taking corrective steps, including as prior actions for this review.

Our priorities include:

- **Fiscal policy.** We are lowering expenditure ceilings to lock-in underspending in 2013 and implementing policies to ensure that we achieve a primary fiscal surplus of 1½ percent of GDP in 2014. We are committed to adopting policies consistent with a primary surplus of 3 percent of GDP in 2015. The draft 2015 budget will be agreed with the EC/ECB/IMF by end-September 2014. We are also taking steps to limit fiscal risks from the energy and health sectors.

- **Fiscal structural reforms.** We have approved legislation for a new property tax and further reformed the income tax and tax procedures codes. As a prior action, we have adopted legislation to strengthen the autonomy and improve the operations of the revenue administration. We are reforming the public administration and catching up on agreed exit and mobility targets. We have taken steps to streamline payment processes and minimise the risk of further accumulation of arrears.
- **Financial stability.** The asset quality review and stress test have revealed the need to further strengthen bank capital and accelerate the process of repairing bank and private sector balance sheets. To this end, the Bank of Greece is requiring banks to raise capital identified in the stress tests by end-June 2014 and are preserving the HFSF buffer as a backstop. We are also committed to urgently undertaking reforms of the corporate and household insolvency frameworks and to strengthening bank supervision.
- **Growth-enhancing structural reforms.** On our initiative and in agreement with the EC-ECB-IMF, we have adopted key OECD recommendations on eliminating regulatory restrictions to competition in four sectors. As prior actions we have also implemented several actions in support of the privatisation programme, and frontloaded the reduction of the labor tax wedge. Additional reforms include measures to open restricted professions, improve competition in the energy sector, ease administrative burdens on business, and improve the quality of public services.

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 programme will be monitored through quantitative performance criteria and structural benchmarks as described in the attached programme documents. The quarterly reviews will assess progress in implementing the programme 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 8.3 billion under the financing arrangements with the EFSF supporting the Second Adjustment Programme for Greece. We undertake to deliver the milestones due for end-May and end-June in order to qualify for the disbursement of all the sub-tranches.

This letter is being copied to Ms Lagarde.

_____/s/_____
 Antonis Samaras
 Prime Minister

_____/s/_____
 Yannis Stournaras
 Minister of Finance

_____/s/_____
 George Provopoulos
 Governor of the Bank of Greece

Attachment I. Memorandum of Understanding on Specific Economic Policy Conditionality

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), and in the Memorandum of Understanding, composed of the Memorandum of economic and financial policies (MEFP) and of this Memorandum of Understanding on Specific Economic Policy Conditionality.

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

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1. Achieving sound public finances

According to preliminary estimates Greece is expected to over-perform its primary-balance target for 2013 in programme terms by a significant margin and well-ahead of schedule. The key driver behind the surplus is under execution of expenditures, and over-performance of state revenues. The statistical validation of all 2013 data is currently being undertaken by Elstat and Eurostat. The degree of the over-performance will be determined with the publication of the official accrual deficit by Eurostat on 23 April 2014. In accordance with the Eurogroup statement of November 2012, when the figures are validated the authorities intend to transfer at least 30 percent of the over-performance to the segregated account earmarked for debt reduction by April 2014. In addition, another part of the over-performance is expected to be used for clearing unpaid government obligations linked to the past, thereby not affecting the 2014 headline deficit.

The adjustment path towards the correction of the excessive deficit shall aim to achieve general Government primary surpluses in programme terms of at least EUR 2,750 million (1.5% of GDP) in 2014, EUR 5,650 million (3.0% of GDP) in 2015 and EUR 8,900 million (4.5% of GDP) in 2016. These targets for the primary surpluses imply an overall Government deficit of 2.9% of GDP in 2014, 2.1% of GDP in 2015 and 0.7% of GDP in 2016.

For the purpose of the program, the primary balance is defined as general government EDP balance (EDP B.9) minus ESA 95 general government consolidated interest payable (EDP D.41), adjusted for the following factors (i) the accrual revenue from the real estate levy collected through the PPC of a given year will include cash receipts within the year plus amounts pertaining to the given year received through March of the following year; The deficit will exclude the following (ii) 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 program; (iii) costs related to bank recapitalisation and other bank support measures; (iv) any payments from banks that would undermine their solvency or liquidity, unless the Bank of Greece confirms that such a payment would be compatible with the preservation of adequate capital buffers and liquidity going forward, including by verifying consistency with banks' business plans as included in the stress test (the two exceptions to this are the capital concentration tax and the guarantee fee structures currently in place); (v) 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; (vi) any other transactions related to debt-reducing measures agreed in the context of the program, such as the reduction of Greek Loan Facility (GLF) interest margin which are counted below the line in the debt sustainability analysis; and (vii) any called guarantees to entities outside the general government related to liquidated public enterprises above what is already expected in the fiscal program for the current fiscal year.

The Authorities have agreed to implement in full the measures to ensure the 2014 programme target of a primary surplus of 1.5% of GDP will be met. Furthermore, the Authorities have committed to implementing a range of structural fiscal policies to finance growth-enhancing reforms (e.g. an ambitious cut in Social Security Contributions by 3.9% and the abolition of a range of nuisance charges). These fiscal structural policies include the reduction of binding expenditure ceilings in the MTFS 2015-18 to lock in 2013 expenditure under-execution, as well as the commitment to take offsetting actions should any additional adverse court rulings materialize regarding special wage regimes or levies on properties.

The Authorities are committed to achieving the 2015 fiscal target. Current projections indicate the existence of a fiscal gap for 2015, which the Authorities intend to close, in first instance, through the extension of expiring measures, including the solidarity surcharge. The question on closing the gap for 2015 will be taken up in the context of the preparation of the 2015 budget. If there is sustained over-performance of revenue, contingent on the fiscal targets being met, the Authorities will in consultation with the EC-ECB-IMF consider a reduction in the high statutory tax rates while aiming to broaden the tax bases. In line with the existing legal framework, the 2015-18 MTFS will be voted on by Parliament by May 15, 2014, and the draft 2015 budget will be agreed with the EC/ECB/IMF by end-September 2014.

Prior to the disbursement the Government will:

- a. **Strengthen the collection of social security contributions (SSC)** to yield about EUR 500 million by: (i) imposing penalties on employers who do not declare accurately their SSC obligations in the Periodical Analytical Statement (APD), which are equivalent to the penalties for failing to register employees; (ii) introducing mandatory declaration of contributions for supplementary and lump-sum pensions to ETEA and TAPIT in the APD; and (iii) expanding the automatic reminders to all employers who have not paid their SSC obligations in the previous month, including employers declaring contribution obligations for supplementary and lump-sum pensions through a SGPR Decision for matching of PAYE and APD data (iv) automating the off-setting of OGA and OAEE contributions against EU subsidies.
- b. **Undertake corrective actions to ensure implementation of the unified public sector wage grid in extra-budgetary funds (EBFs)** that will contribute (among other savings mainly in operational expenditures) to the realization of the reduction in expenditure ceilings of EBFs by around 100 mn EUR to be provided in the MTFS 2015-18.
- c. **Reduce military procurement spending** in order to yield EUR 50 million from 2014 onward.
- d. **Legislate** the automatic off-setting of VAT and income tax refunds against SSF debts, eliminate OAED family benefits, reduce OAED training programs, rationalize OAEE exemptions **in order to offset the reduction of IKA contribution rates** by 3.9 percentage points by EUR 230 million in 2014 and additional EUR 115 million in 2015.
- e. **Eliminate the TEADY dividend** as part of the supplementary pensions

Other Actions:

1. The Government will implement permanent measures in order to reduce hospital spending by euro 25 million in 2014 (**July 2014**).

2. Structural reforms with budgetary relevance

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

Privatisation is a key pillar of the adjustment programme of Greece as it contributes to the reduction of public debt, -- especially through the inflow of foreign direct investment -- and public subsidies, other transfers or state guarantees to state-owned enterprises. Importantly, it increases the efficiency of companies and, by extension, the competitiveness of the economy as a whole. This is why, the Greek Authorities have committed to proceed swiftly and efficiently with the Privatisation Plan even if the sale of assets goes beyond the duration of the Economic Adjustment Programme. Within this context, the Government is committed to continue 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. The Authorities must proceed swiftly to establish the regulatory framework in those areas that are necessary for the privatisation process (airports, ports, water, horse betting), consistent with EU legislation, taking into account international best practises. Transferring of assets to the Hellenic Republic Asset Development Fund (HRADF) quickly facilitates the privatisation process and signals the clear intention of the Authorities to push the privatisation process forward. Reforms of the governance of the privatisation process, including of the functioning and competences and attributions of HRADF, and of the departments in charge of the supervision/support from the government side will be crucial to enhance the effectiveness of the process.

The Authorities / HRADF should take immediate actions to address the state-aid related issues pending, which are a pre-condition for proceeding with the privatisation of these assets, or where appropriate for the significant restructuring or liquidation.

Privatisation of real estate assets is of outmost importance in the privatisation process. To this end the government has analysed and initiated a wide-ranging reform of the governance related to the management and privatisation of public real estate, including of the general secretariat for Public Property in the Ministry of Finance and of the agency in charge of the management and preparation of real estate assets, ETAD. HRADF is launching a major monetisation/securitisation project, which will unfold during 2014, and will aim at attracting international institutional, and other, investors and will complement the direct sale of assets currently on-going. This project, combined with improving investor interest in Greece, can help raise additional proceeds in the medium terms. The Authorities will assess the progress in this field in the coming months and will, if needed, revise upwards the proceeds estimates from privatisation.

Prior to the disbursement:

- a. In line with the Ports Policy Paper, **HRADF launches the Expression of Interest for selling majority shares in the master-concessionaires for Thessaloniki port.**
- b. **The HRADF appoints at least one member to the Board of the companies under its portfolio where it is not represented.**
- c. **The Authorities transfer 17% of the shares of PPC held by the government to HRADF to start preparing the privatisation of the company.**
- d. **The Government implements a list of pending actions required for privatization of key entities (All Government actions pending are listed in Annex 11.1).**
- e. **PPC launches the expression of interest for selling ADMIE.**
- f. **The Authorities submit to Parliament legislation for the privatisation of Small PPC.**
- g. **Amend the law to improve governance of HRADF and allow HRADF to control directly companies in its portfolio.** The Authorities will adopt, in consultation with the EC/ECB/IMF, legislation:
 - i. To allow the CEO to act as chairman and reduce the number of Board members required to be present to hold a board meeting from 5 to 4, to ensure uninterrupted operations in the event that the chair is vacant; provide personal contracts to the executive members of the BoD and narrow the grounds for dismissal of the board; introduce greater flexibility in tools and procedures for asset sales; amend the requirements of prior valuation of assets, by providing alternative mechanisms that include a fairness opinion, while preserving strong ex-post safeguards ; legislate that super/extraordinary dividends (i.e., in excess of profits of the previous year) or reductions in share capital from entities under privatization are paid to the HRADF (and within 10 days to the segregated account); and exempt the HRADF from the requirements under L. 4111/2013 regarding the submission and monitoring of monthly/quarterly targets and ensure that reporting requirements of the HRADF under art. 78 of L.2362/1995 are limited to: i. Annual budget (expenditure and revenue) and any changes to it made during the year (forward-looking), ii Monthly submission of budget execution and financing (backward looking), iii. Monthly submission of wage bill data (backward looking) and iv. Monthly submission of commitment registry summary (backward looking on a monthly basis, forward looking for annual budget spending). The HRADF will review by June 2014 current legislation that applies to GG entities, including the organic budget law (L.2362/1995; to identify any legal provisions that hamper its ability to operate efficiently or contradict aspects of its law, and the Authorities, in consultation with the EC-ECB-IMF, will take action to address these by October 2014 (with the amendment of the organic budget law).
 - ii. Requiring the HRADF to exercise its shareholders' powers in the companies in which the HRADF is a majority shareholding, according to a framework of cooperation which sets out objectives and criteria in line with the privatization process. Under such legislation, the HRADF shall ensure ongoing adherence of such framework of cooperation, including through taking appropriate action towards Board members and management in the relevant companies.
- h. **Measures to strengthen the regulator for water.** The Authorities strengthen the independence and operational capacity of the Special Secretariat of Water by revising legislation enabling the Special Secretary to issue formal decisions on all regulatory matters, by providing him with a fixed-term contract that will ensure continuity and independence; and by completing the transfer of seven employees.

2.1.1. PPC restructuring and privatisation

Following the plan adopted by the Government in its cabinet meeting of 24 July 2013, and published in the Official Gazette (FEK 168 A/24.7.2013), the Authorities take the following actions:

1. Adopt legislation for the privatisation of Small PPC by **June 2014**.
2. Ownership by the State or by any other entity controlled by the State of any quota of ADMIE shares will be subject to the following conditions (**continuous**):
 - i. The execution of the plan will be made in strict adherence to the announced timetable, and in consultation with the European Commission services so as to ensure consistency with the relevant EU legislation and best practice and with the current fiscal programme and financing targets
 - ii. The voting rights conferred by ownership of ADMIE shares will be exercised separately (i.e. by separate state entities) from those of the PPC or another energy company;
 - iii. The privatisation strategy and targets of the Government are fully respected;
 - iv. The process of acquiring the shares will have no tax or financial consequences for the Government that are incompatible with the objectives of the Adjustment Programme for Greece.
3. The privatisation process of PPC, in all its phases, is undertaken in full collaboration among PPC, the Ministry of Energy and Environment, the energy regulatory authority (RAE), and HRADF. A regular schedule of meetings is set, to which the EC and the Eurogroup participate through observers (**continuous**).

2.1.2. Provisions regarding the privatisation of PPC and DESFA

1. The Government undertakes that whichever the outcome of the privatisation process the gas industry and electricity industry structure will be fully compliant with Directives 2009/73/EC and 2009/72/EC on the internal energy markets (**continuous**).

2.1.3. Reforms of the Governance of Privatisation

The Government will take actions that will provide the HRADF with all necessary authority to effectively control companies that it is responsible for privatizing, to improve the effectiveness of the law governing the HRADF and reduce legal uncertainties, while ensuring high standards of transparency and accountability.

1. To strengthen the governance regime of privatisations the HRADF will complete an assessment of the management and board members of companies in its portfolio and take all appropriate steps (including by terminating the relevant appointment) with respect to those that are not performing well or whose actions are not aligned with the HRADF's goal of privatization. The assessment will be completed by the Board of Directors of the HRADF based on a set of clear objectives and criteria by (**June 2014**).
2. Frameworks of cooperation with the companies in which the HRADF is a majority shareholding shall be designed and adopted by the HRADF Board of Directors (**June 2014**)
3. To facilitate close cooperation between government ministries and the HRADF, an inter-ministerial working group led by the Secretary General responsible for Public Assets with the participation of the Prime Minister's office, and the HRADF, will be instituted which will meet on a biweekly basis to review pending government actions and ensure their expeditious completion. A report from these meetings will be circulated to the working group after each meeting, showing pending issues, and progress achieved. The Authorities will review the list of such actions with the EC, ECB, and IMF on a monthly basis to jointly assess progress (**continuous**).

4. The HRADF prepares and shares with EC-ECB-IMF detailed project plans and timelines for completion of the sales of major assets in the privatization portfolio, and reports quarterly on progress against this timeline (**continuous**).
5. The HRADF will publish quarterly reports on its steps taken to proceed with privatisation, 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. These actions help to improve transparency and accountability of the privatization process (**quarterly**).
6. The Authorities will reorganise the departments of the Ministry of Finance to regroup the supervision of the government corporate and real estate assets under one Secretariat General who will be formally placed in charge (**June 2014**).
7. The Authorities will set up a post-privatisation monitoring mechanism. This will enable the Authorities to oversee the proper functioning of contracts, and to resolve issues as they arise, in particular related to licensing and regulation (**continuous**).
8. The HRADF will review by **June 2014** current legislation that applies to general government entities, including the organic budget law (L. 2362/1995), to identify any legal provisions that hamper its ability to operate efficiently or contradict aspects of its law, and the Authorities, in consultation with the EC-ECB-IMF, will take action to address these by October 2014 (with the amendment of the organic budget law).

2.1.4. Reforms to speed up privatisation of real estate

1. The Authorities should complete the transfer of full and direct ownership of 1000 commercially viable real estate assets to the HRADF (**April 2014**).
2. The Authorities will take steps building on the ongoing review of the mission, objectives, and staffing of ETAD, to strengthen its effectiveness in professionally managing and maturing assets ahead of transferring them to HRADF. ETAD implements its Action Plan endorsed by its Board of Directors on February 25, 2014, with the aim of proceeding with transferring to HRADF on a steady pace assets ready for privatisation or monetisation. In particular, the following milestones are to be implemented:
 - i. Launch the international tender for carrying out the pilot project foreseen in ETAD's Action Plan (**April 2014**).
 - ii. Pilot Project implementation to commence (**September 2014**).
 - a. 200 properties prepared by **December 2014**.
 - b. 600 properties prepared by **May 2015**.
 - c. 1000 properties prepared by **September 2015**.
 - iii. ETAD's company-wide Operational Plan to be completed by October 2014
 - a. Launch Tender (**April 2014**).
 - b. Complete the Elaboration (**October 2014**).
 - iv. ETAD's Organizational restructuring: from November 2014 to February 2015
 - a. Submit to Board of Directors for Approval (**November 2014**).
 - b. Implement Plan (**February 2015**).
 - v. International tendering for the six sub-projects of the Action Plan (**July 2014 to June 2015**).
 - vi. High priority should be given in the preparation of real estate assets (title clearance, licencing etc.), especially the preselected 3000 assets, given the time lags involved in such a process and the need to secure a sufficient number of assets in the privatisation pipeline (**continuous**).
3. ETAD shall publish on a quarterly basis progress achieved in preparing real estate assets and transferring these to HRADF for privatisation (**continuous**).

4. The authorities will ensure that priority is given to the registration of public real estate properties in the on-going certification through the cadastre (**continuous**).
5. The Authorities will conduct a due diligence of properties currently or previously under the management of various ministries:
 - i. those transferred to ETAD out of the non-utilised properties previously under management by different ministries (**June 2014**); and,
 - ii. those that are still not transferred by the Ministries (**September 2014**).
6. The HRADF will evaluate the income-generating properties currently managed by ETAD and assess whether they can be transferred to HRADF to be privatised (**April 2014**).
7. The Authorities will adopt legislation in consultation with EC-ECB-IMF to deal with illegally-held government properties (**May 2014**).
8. The Authorities will ensure 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 as well as other legal entities and Special Purpose Vehicles (SPVs) under the General Government or until such time as the assets necessary to supply the privatisation plan have been secured (**continuous**).
9. 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 (**continuous**).

2.1.5. Securitisation-Monetisation

1. HRADF expands its operation into monetization/securitisation of real estate assets and front-loading of privatization revenues from real estate. Such transactions should meet three constraints (i) do not raise the debt of the Hellenic Republic, (ii) do not entail any financial risks to the Hellenic Republic; and (iii) are targeted at the international investor community and do not rely on the liquidity-constrained banking system:
 - i. Delivery of a progress report on the possible options and a 12-month action plan (**June 2014**).
 - ii. Launching of the first transaction, based on the options presented by Advisors (**November 2014**).

2.1.6. Privatisation Revenues

1. Securing privatisation receipts which, cumulatively since January 2011, should be at least EUR 4.106 billion by **end-2014**, EUR 6.329 billion by **end-2015**, EUR 9.681 billion by **end-2016**.

2.2. Tax policy reforms

2.2.1. Complete the reform of the Tax Codes and Property Tax

The Authorities will:

1. Adopt all secondary legislation and circulars necessary to support full *implementation of the TPC*, after consulting EC/ECB/IMF staff inter alia upon (i) collection issues (chapter 9), (ii) late interest and fines (chapter 10) and (iii) transfer pricing (Articles 21 and 22) (iii) notification of documents (Article 5), (iv) tax representative (Article 8), (v) tax registration and TRN procedure (Articles 10 and 11), (vi) tax clearance certificate (Article 12), (vii) list of customers and suppliers (Article 14), (viii) information from third parties (Article 15), (ix) foreign tax credits (Article 16), (x) confidential information (Article 17),

- (xi) tax returns (Articles 18 and 20), (xii) tax audit-power of the administration (Article 23), (xiii) indirect determination method (Article 27), (xiv) results of the tax audits (Article 28), (xv) tax assessments and determination methods (Article 30, 33 and 37), (xvi) competence for tax collection (Article 40), (xvii) tax payment (Article 41), (xviii) Tax refund (Article 42), (xix) new instalment scheme (Article 43), (xx) conservative measures (Article 46), (xxi) individual notice (Article 47), (xxii) third party liabilities (Article 54), (xxiii) quasi-judicial action (Article 63), and (xxiii) tax audit certificate (Article 65 A) (**April 2014**).
2. Adopt all secondary legislation necessary to support the full *implementation of the ITC*, after consulting EC/ECB/IMF staff inter alia upon (i) service contracts (article 12), (ii) scope of financial market transactions covered by capital gains rules and definition of professional trade (Article 21), (iii) rules on capital gains for financial and real estate transactions (Articles 41 and 42 in particular), (iv) procedures for inter-group dividends (Article 48) and (v) payment processes and procedures for PIT and CIT, including procedure and forms for exemption of inter-group dividends (Article 48), PAYE procedure and process (Article 60 ITC), withholding tax (rates, terms and payment, Article 64 ITC), PIT and CIT procedures (Articles 67, 68 and 69 ITC) (**April 2014**).
 3. Continue the *TPC and ITC working groups* within SGPR by:
 - i. Updating and assessing the Implementation plan for period up to December 2014 (**May 2014**).
 - ii. Issuing and publishing of implementation instruments, including secondary legislation, circulars and administrative guidelines and also preparing and issuing all required tax compliance documents and forms to ensure the proper implementation of the TPC and ITC (**June 2014**).
 - iii. Making the necessary preparations by July 2014 to bring the inheritance and gift taxes under the scope of TPC (Article 66, #29) (**July 2014**).
 - iv. Publishing electronically a consolidated version of primary tax legislation, including ITC and TPC, and will update the publication regularly as appropriate (**June 2014**).
 4. Ensure the revenue administration's capabilities to conduct timely audits at taxpayer's premises by developing fast-track procedures for authorization of entry and search requests by the administration, particularly in fraud cases, and in consultation with the EC/ECB/IMF change administrative procedures or amend legislation as necessary to achieve this (**April 2014**).
 5. Amend the TPC to allow designated tax collection officials to enter tax debtors business premises in line with the principles described in Article 25, #3, of the TPC in order to verify the tax debtors asset and liquidity position and to identify assets that can be subject to enforcement measures (**April 2014**).
 6. Fines in TPC: (i) Ensure that until end-2014 the current practice of levying multiple penalties will be limited to a fixed cap. Further ensure by end-September 2014 that, effective January 1, 2015, violations involving non-issuance or incorrect issuance of retail receipts will be treated as a single but serious procedural violation for VAT, whereas not having a reliable accounting system will remain a single violation for direct taxes. In cooperation with technical assistance—prepare the tax administration to apply modern auditing techniques to counter tax evasion and (ii) amend TPC as necessary to ensure that no fines should be imposed on amended VAT and employer withholding tax returns if they are spontaneously submitted under normal circumstances (**April 2014**).
 7. Review the existing legislation for the procedures for withholding agents (**June 2014**) and insert into TPC as general procedural rules for withholding agents (**September 2014**).

8. Based upon a detailed implementation plan, the Finance Ministry and Ministry of Justice, will conduct a comprehensive review of tax-relevant legislation, including Administrative and Civil Procedure Law, to examine conflicts with or relationships to the TPC and map these legislative acts to the TPC (**May 2014**).
9. To improve the legal framework for tax fraud and evasion:
 - i. The Authorities carry out a comprehensive review of tax fraud and evasion provisions from minor offenses to tax crimes in current legislation, including the Special Penal Law 2523/1997 (**June 2014**).
 - ii. As a follow up of the above mentioned review, the authorities amend the special penal law 2523/1997 and other legislation as necessary, so as to (i) broaden the definition of tax fraud and evasion to all taxes (ii) characterize different offenses and sanctions (iii) clarify the link between criminal and administrative rules regarding tax matters, (iv) clarify the rules for prosecutions of tax debtors and repeal the systematic and compulsory referral of debts smaller than €60,000. The amendments do not reduce the scope and sanctions of tax crimes that are currently predicate offenses to money laundering. Following amendments to the criminal law concerning tax evasion and fraud, repeal article 55 paragraphs 1 and 2 of the TPC to ensure consistency with the Criminal law in defining tax fraud and evasion (**September 2014**).
10. Adopt proposals for *Accounting Rules*, including further simplification and improvement of the Code of Tax Recording of Transactions (formerly code of books and records) and corresponding amendments required in the commercial and accounting legislation in order to come into effect by 1/1/2015, as well as adopting appropriate transitional rules for consistency with ITC and TPC (**May 2014**).
11. Establish a *working group* (**May 2014**) and appoint a project manager within SGPR to steer the implementation of the new Accounting Rules:
 - i. Set-up and initial roadmap (**June 2014**).
 - ii. Provide the necessary secondary legislation, review and replace existing required tax compliance documents and tax returns and forms after consultation with the stakeholders, and fully resolve any remaining conflicts or consistency problems with the ITC and TPC (**June 2014**).
 - iii. Adopt action plan to ensure appropriate preparations by businesses, especially SMEs by (**June 2014**).
12. Adopt legislation to modernise the Code of Public Revenues (KEDE):
 - i. Undertake a mapping and modernization of the KEDE, to identify conflicts with the ITC and TPC, and amend any conflicting provisions to ensure compatibility (**June 2014**).
 - ii. Conduct a comprehensive review of KEDE to align it with the international best practice (**June 2014**).
 - iii. An initial draft of the law must be made available (**September 2014**).
 - iv. The law must then be legislated (**October 2014**).
13. Modernize the revenue administration's procedure for enforced sale of assets at public auctions to ensure that, inter alia, the auction is announced well in advance in public media and that bids exceeding the cost of the auction will be accepted irrespective of the amount of debt owed by the owner of the asset and must be equal to at least one-third of the objective value in case of real estate, unless a lower minimum bid has been defined. Debt amounts that have not been covered by the proceeds from the auction shall remain enforceable (**April 2014**).

14. Provide timetable and roadmap for the introduction of a final withholding pay-as-you-earn (PAYE) tax scheme for all wages, salaries and pensions with the first stage of implementation as of from 1st January 2015 (**June 2014**).
15. If the surcharge is to be extended, assess the case for re-designing and, take the appropriate action on, the solidarity surcharge for natural individuals in a revenue neutral manner, reducing significantly reconciliatory tax returns and integrating it into the ITC (**September 2014**).
16. Based upon a detailed implementation plan, conduct a comprehensive review of collective investment vehicles that are not affected by the provisions of the ITC (Article 72, ¶18), identify the best practice for taxing these vehicles and their participants:
 - i. Prepare draft legislation to integrate these taxation principles fully in the ITC (**July 2014**).
 - ii. Adopt the draft legislation (**September 2014**).
17. Based upon a detailed implementation plan identify all income tax incentives across different legislative documents and quantify them as tax expenditures (July 2014); adopt legislation to map and fold them into the newly adopted ITC, eliminating the incentives that are deemed inefficient or inequitable (**September 2014**).
18. Conduct a comprehensive review of all remaining legislation that are in conflict with or in any other way related to the new ITC and map these legislative acts to the ITC (**September 2014**).
19. Bring the capital gains tax on portfolio shareholders in line with EU Member States' practices (**September 2014**).
20. Develop the tax policy capacity of the Ministry of Finance with appropriate and adequate legal and economic expertise for the development, economic impact, and revenue assessment of new tax policy initiatives:
 - i. Until the Ministry organogram is approved, assign responsibilities to Ministry employees and prepare a 12-month action plan (**May 2014**).
 - ii. Set up a Tax Policy Unit reporting to Deputy Minister and appoint formally the staff upon the formal approval of the organogram of the Ministry of Finance (**September 2014**).
21. To implement the new ENFIA property tax, the government will finalize filing of the E9 forms so that billing of the new property tax can commence in June 2014 (**May 2014**).
22. The government will launch a significant communication campaign to ensure better filing completion of the 2013 and 2014 wealth-based property tax and educate tax payers about the details of the new tax (April 2014).
23. Property valuation. Over time, the government will fully align property assessment values with market values.
 - i. A project team to develop a medium-term reform plan in SGPR will be set up by **June 2014**.
 - ii. A real estate valuation unit will be set up in SGPR to (a) determine the nature of the value basis and the valuation methodologies relevant to each sub-sector of properties and (b) collect market data to adjust the zonal prices in a datatape that reflect real estate market conditions (**January 2015**).
 - iii. Validated instructed valuations of commercial properties will be completed and zone prices will be adjusted to reflect more accurately real estate market conditions by **September 2015**.
 - iv. A valuation agency is set up by **January 2016**.

- v. Issue a real estate market value index, and assist in assessing revenue coefficients while cross referencing findings (b) change the tax subject (individual ownership of properties rather than aggregate holdings by individuals or holdings of property rights), ensure full identification of ownership with properties through a cadastre of properties and (c) cross-checking of all ownership interests with all individual properties by **January 2016**.
- vi. Align all property assessment values with market values (**January 2017**).

2.2.2. Improving the VAT system

1. Undertake in consultation with the EC/ECB/IMF and stakeholders a comprehensive review of VAT policy and administration (**June 2014**), with legislation by **October 2014** for implementation by **1st January 2015**.
2. In consultation with EC/ECB/IMF staff consider the introduction of a VAT turnover threshold for registration that balances revenue considerations against enforcement costs from 1 January 2015 and to introduce a simplified tax scheme for businesses below this threshold (**June 2014**).
3. Review the workings of the VAT farmers' refund scheme and legislate any changes deemed necessary (**June 2014**).
4. De-register inactive firms from the TAXIS database and implement new registration and deregistration procedures (**June 2014**).
5. Set up new unit in SGPR dedicated to detection and co-ordination of activities for prevention of VAT fraud and strengthen detection and enforcement activities (**June 2014**).
6. Reform VAT refunds system, placing greater emphasis on risk analysis, including by allowing companies with a full compliant filing and payment history and absence of past tax evasion for the past two years to receive refunds without audit, and reduce bureaucracy for firms with good compliance records (**July 2014**).
7. Implement OECD administrative burden recommendations on VAT, inter alia redesigning and simplifying the VAT return form by **June 2014**; abolishing the annual VAT recapitulative statement and incorporating the VAT refund process into the periodic VAT return by **September 2014**.

2.3. Revenue administration reforms

A strong and focused reform programme must continue to address all the weaknesses in the existing system and support the fight against tax evasion and corruption. The Government will pursue these reforms to ensure more autonomy for the Secretariat General for Public Revenue, especially for day-to-day operations, while leaving policy matters in the hands of the Minister of finance:

- Methods must continue to be improved, increasing the use of risk assessment techniques, to increase focused audits on high yield targets, and on substantial issues in order to detect tax evasion.
- Collection of revenues should continue to be reinforced. The debt collection function should be conducted by a full time work force of specialized collection staff, and integrated with the collection of debt related to social security contribution and as far as possible local Government.
- The management will continue to be improved, under the leadership of a Secretary General for Public Revenue (SGPR).
- The staff of the Secretariat General for Public Revenue needs to be further reinforced and trained.

- Fighting tax avoidance, tax evasion, money laundering and corruption is a priority in this effort.
- To deal with all these challenges, full use should be made of technical assistance provided in this sector. This implies a structured process involving technical assistance advice working on an on-going basis with the administration on new legislative proposals and implementing decision, with enough time to guarantee proper consultation and with a constant effort to keep rules simple and in line with current administrative capacity.

Prior to the disbursement, the Authorities:

- a. To ensure the **complete transfer of selected resources from SDOE to Secretariat general of Public revenue**:
 - i. Revoke the provisions of Article 6 of Law 3943/2011 on the origin of SDOE personnel being ex-tax and customs officers;
- b. **Institutional reforms of Secretariat of Public Revenue**. Adopt legislation to:
 - i. Consolidate the revenue administration functions and competencies of the General Directorate of Taxation and the General Directorate of Tax Audits and Collection into a new General Directorate of Tax Administration under the SGPR;
 - ii. Abolish the General Directorate of Financial Inspection within SGPR and replace it with the Internal Affairs Department of SGPR, effective end-June 2014;

Prior to the disbursement, the Secretary General for Public Revenue:

- c. **Issues a Decision to establish the new structure of the Secretariat general of the Public revenue administration.**

2.3.1. Organization

The Authorities:

1. Replace those staff who have not yet taken up their positions out of the 200 staff transferred from SDOE to Secretariat General for Public Revenue effective October 31st, 2013, with an equivalent transfer of highly-skilled personnel (**April 2014**).
2. Complete, with reputable international experts in financial crime prosecution, an assessment of SDOE objectives, staffing needs, and organizational structure (**May 2014**).
3. Until a new SDOE objective and staffing needs are approved in consultation with EC/ECB/IMF, new hirings of SDOE will be undertaken only in cases requested by the prosecutor and without distracting resources from Secretariat General for Public Revenue (**continuous until approval**).
4. Assess all pending cases to determine those that need to be investigated further and those that can be closed without any investigation (**October 2014**).

To increase the autonomy of the Secretariat General for Public Revenue, the Authorities:

5. Prepare a 2014-15 business plan for the Secretariat General for Public Revenue (**April 2014**).
6. Start the initial phase to implement the new grading and promotion system for the Secretariat General for Public Revenue, to be approved by the Minister of Finance, by:
 - i. Finalizing the job descriptions for general directors and headquarters directors (**April 2014**).

- ii. Approving the operational guidelines for senior-level promotions (**April 2014**).
 - iii. Approving the composition and membership of promotion councils (**April 2014**).
 - iv. Issuing all necessary amendments to the legal framework, in particular:
 - a. Amending the law 4093/2012 if needed (**May 2014**).
 - b. Issuing a Ministerial decision governing the new system (**May 2014**).
 - v. Approving a strategy for the migration of existing staff to the new structure (**June 2014**).
 - vi. Transferring all audit positions and staff (**March 2015**).
7. Staff the Strategic Planning and Financial Control Directorate to make it fully functional (**April 2014**).

To fully implement the new structure of tax administration:

- 8. All tax administration functions are consolidated within the Directorate General for Tax Administration (**June 2014**).
- 9. The Authorities, taking into account the Ministry of finance staffing ceiling, ensure that at least 1600 out of approximately 2100 new Ministry of finance vacancies for 2014, plus about 160 appropriately skilled staff coming from the municipal police, are to be recruited and positioned in the Secretariat general for public revenue (**May 2014**).
- 10. The hirings for the Secretariat general for public revenue are completed as follows:
 - i. External hiring of 300 auditors (**June 2014**).
 - ii. Further external hiring of 500 staff (**December 2014 at the latest**).
 - iii. The remaining staff in 2015 (**June 2015**).
- 11. The Secretary General for Public Revenue approves the staffing plan for the Secretariat General for Public Revenue which identifies the need for staff by main functions of staff and determine the schedule for recruitments (**May 2014**).
- 12. The Secretary General of Public Revenue and the Secretary General for Service Information Systems (GSIS) sign all the current "Service level agreements" (**April 2014**).

To reorganize work processes:

- 13. Filing of most revenue returns/declarations are done electronically, or as self-assessment, except in exceptional circumstances (article 67 paragraph 1 of the Income tax code) (**April 2014**).

To increase taxpayer confidence and trust, the authorities:

- 14. Publish monthly information about the flows and stock of cases of the Internal review Unit (**continuous, starting April 2014**).
- 15. The Internal review Unit (IRU) achieves the following key performance indicator targets:
 - i. 60% of decisions on main cases are taken before reaching the time limit (**March 2014**).
 - ii. 67% (**June 2014**).
 - iii. 73% (**September 2014**).
 - iv. 80% (**December 2014**).

2.3.2. Fight against tax evasion, money laundering and corruption

The Secretary General of Public Revenue takes all appropriate measures to form a *strong audit force*. In this respect he:

1. Completes the external hiring of the 197 auditors whose hiring started in 2013 (**April 2014**).
2. Ensures that the basic audit training of the 2,000 newly certified tax auditors and all 200 new external hires of 2013 is completed as follows:
 - i. 1,200 newly certified tax auditors and 200 new external hires (**June 2014**).
 - ii. All remaining staff (**December 2014**).
3. Ensures an adequate number of supervisors in the High Wealth Individual (HWI) and Large Tax Payers Unit (LTU) (**continuous**).
4. Optimizes the process of selecting and auditing remittance cases (**April 2014**).
5. Implements the partial-audit methodology to complete at least 400 audits of remittance cases (**May 2014**).
6. Implements indirect audit methods in the high wealth individuals including by utilising, AML framework where necessary:
 - i. 5 audit reports (**April 2014**).
 - ii. Another 10 audit reports (**June 2014**).
 - iii. And at least 40 audit reports in total (**December 2014**).

To reinforce *transparency in financial transactions*, the Authorities:

7. Further develop the indirect bank account register with information on past financial transactions (**June 2014**).
8. Make compulsory the use of Tax identification numbers for all official transactions with the whole public administration (**April 2014**).
9. Introduce a system to consolidate and link all the different identification numbers now used across various Government agencies (**June 2014**).
10. To improve the fight against financial crime, the Authorities adopt legislation to create a coordination and information sharing mechanism for investigations of financial and economic crime (**June 2014**):
 - i. The coordination mechanism would include at least the three units: Secretariat General for Public Revenue investigation unit, SDOE and the Financial Economic Police;
 - ii. It would be placed under the authority of the Financial Prosecutor and/or the Anti-corruption Prosecutor, depending on the type of case;
 - iii. The Secretariat General for Public Revenue investigation unit, SDOE and the Financial Economic Police would need to have the obligation and the right to exchange information as appropriate and relevant on cases that fall under the mandate of the other in order to enable them to investigate other relevant criminal offences.

To reinforce *fight against money laundering*, the Authorities publish monthly on the website:

11. Information about cases transmitted to the Financial Investigation Unit (FIU) for failure to pay confirmed debt over EUR 50,000. The data will include the number of cases and the aggregated amount concerned and a breakdown by time in arrears (**starting by April 2014, continuous, monthly**).
12. Information about the number of anti-money laundering on-site inspections by the Bank of Greece (**continuous, monthly**).

To reinforce *fight against VAT fraud*:

13. The Authorities perform a quantitative analysis of VAT fraud using data-mining tools drawing on international technical assistance to identify fraud patterns across economic sectors (**June 2014**).

2.3.3. Revenue and debt collection

To reinforce *the tax and related debt collection*, the Secretariat General for Public Revenues:

1. Implements, with support from technical assistance, a comprehensive evaluation of business processes in selected local-tax offices, geared towards reengineering of these processes:
 - i. The evaluation of business processes starts with a first field visit (**April 2014**).
 - ii. The evaluation of business processes is completed (**June 2014**).

To improve the *legal framework*:

2. Evaluate the implementation of the rules for writing off of debt to identify possible improvement (**July 2014**).
3. Proceed to a follow up evaluation of the rules for writing off of debt, proposing further simplification if needed (**October 2014**).

To secure a *swift and efficient tax collection*, the Authorities:

4. Draft an Action plan to further automate the tax debt collection functions (**April 2014**).
5. Begin implementing the Action plan to further automate the tax debt collection functions (**May 2014**).
6. Implement automated daily payment processing and off-setting by (**June 2014**).
7. Operate E-garnishment through a centralized batch procedure by (**June 2014**).
8. Work out an implementation plan of an end-to-end debt management system (**April 2014**).
9. Roll out the end-to-end debt management system (**September 2014**).
10. Design a new work flow management system for all debt collection offices by (**September 2014**).

To preserve appropriate *incentives towards a sound payment culture*, the Authorities:

11. Commit 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**).
12. Publish the schedule for the following year for filing and payment of all taxes and levies for the State government (**continuous, every December**).
13. Abstain from extending deadlines for the filing and payment of taxes:
 - i. For the filling, abstain from extending deadlines unless in extraordinary or exceptional circumstances beyond the control of the authorities (“force majeure”) (**continuous**);
 - ii. For the payment of taxes abstain from extending deadlines except in rare cases and after assessing the fiscal implications, in particular the impact on the achievement of the fiscal targets (**continuous**).
14. Commit to enhance enforced collection measures (**continuous**).
15. Abstain from relaxing the 2013 instalment schemes (**continuous**).
16. Take immediate action aiming at securing collection against tax debtors dropping out of instalment schemes (**continuous**).

17. Publish monthly indicators to monitor performance of the fresh start and basic instalment schemes. The indicator will include information about the number of taxpayers and the associated debt that have dropped out of the schemes and about the reminders and about the enforcement measures undertaken against them (**continuous**).

2.3.4. Management of the Public Revenue Service

1. The Secretary General of Public Revenue ensures that all staff is assessed for its performance on a quarterly basis under the new assessment system (**continuous**).
2. The Secretary General of Public Revenue replaces managers who do not meet performance targets (**continuous**).
3. The Secretary General of Public Revenue makes full application of the paragraph 21 of 55 of law 4002/2011 to rotate the managers mentioned in the law, for those managers in place for more than three years (**continuous**).
4. The Authorities update at least monthly the website used for publication of summary statistics on key performance indicators, the number of tax evasion cases sent to prosecution by the tax administration (**continuous**).
5. The Authorities issue an explanatory circular that clarifies the personal liability of tax and customs staff and management consistent with the existing legal framework (**April 2014**).
6. The Secretary General of Public Revenue (**June 2014**):
 - i. Defines the criteria for a risk-based approach to selection for audit of Secretariat General of Public Revenue managers and officials;
 - ii. Revises audit standards to ensure appropriate documentation to justify individuals' assets.

2.4. Public Financial Management Reforms

Since the inception of the adjustment programme Greece has made significant progress in Public Financial Management (PFM). 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 enacting targeted reforms for strengthening the framework both within the General Accounting Office (GAO) and line ministries.

Prior to the disbursement the Authorities will:

- a. Adopt legislation permitting the **Debt management office to conduct various market operations**. Adopt legislation to amend Law n. 2469/1997 on the Common Capital Fund to allow the Bank of Greece, in its capacity as the administrator of funds belonging to public sector entities, and PDMA entering into repo transactions with respect to general government securities held by the latter, in compliance with the monetary financing prohibition.
- b. Adopt legislation permitting the **Debt management office to conduct various market operations**. Adopt legislation allowing PDMA acting on behalf of the Hellenic Republic to issue, manage, settle and then "hold in treasury" securities which can solely be sold in repo transactions with all SSFs and EBFs or be pledged as collateral with financial institutions for risk management transactions falling with the PDMA's hedging mandate. The contracts related to these operations should clearly specify that the securities cannot be further traded by the counterpart for the duration of the contracts and that settlement and payments should be done by the PDMA.
- c. Amend article G10 of law 4152/2013, to make it fully compliant with Article 10 of the Late Payments Directive.
- d. Submit to the Parliament an amendment to article 1 of Law 3068/2002 to remove the prohibition provided therein of obtaining an enforceable title against Greek State-bodies and bodies governed by public law in Courts.

2.4.1. Monitoring and reporting

In this area, the Authorities have undertaken important reforms which include monitoring expenditure across different public entities, as well as in local Governments and state-owned enterprises, and putting in place corrective mechanisms for ensuring that the budget is executed in an orderly manner and expenditure is kept under control. Commitment registries are now established in all general government sub-sectors covering 97 per cent of entities and reporting on the e-portal. Line ministries have now established General Directorates of Financial Service (GDFS), embedded in each line ministries, which are responsible for the sound fiscal management and Accounting Officers have been appointed. Despite all these significant achievements GAO's support to GDFS could be further strengthened.

The Government will:

1. Identify other areas of operational expenditure where real time monitoring mechanisms could be introduced or strengthened (**continuous**).
2. Enhance the monitoring system for the budget execution of Extra Budgetary Funds with expenditure below 20 million and above 10 million to be effective from **May 2014**.
3. Establish a new legal framework for appointment procedures of Accounting Officers within the general regime for the public administration (**June 2014**).
4. Fully staff the GDFS line Ministries (**June 2014**).
5. Strengthen the support of GAO budget directorate to line ministries' GDFS through establishing a specialized unit in GAO to support Accounting Officers and their staff in the units (**April 2014**) and set-up a GAO capacity building program to provide guidance and support to GDFS staff in carrying out their responsibilities (**June 2014**).
6. Build-up sectorial expertise in GAO to support the achievement of fiscal targets in all sub-sectors through:
 - i. Defining the terms of reference of a qualified working group in GAO with appropriate competences to coordinate with the senior management the implementation of ongoing PFM reforms (**April 2014**) and make this group fully operational through a Ministerial Decision (**June 2014**).
 - ii. Setting-up of a capacity building program for policy analysis (**June 2014**).
 - iii. implementing of this program for a spending review of policy areas that cover a significant percentage of overall public spending subject to an assessment of the qualified working group and following consultation with EC-ECB-IMF (**December 2014**).

2.4.2. Payment flows and clearance of arrears

One important area where significant progress must be made is in preventing the build-up of arrears, both on the tax and expenditure sides. Greece has transposed the Late Payment Directive aiming at restoring normal lending to the economy. However the compliance with the Late Payment Directive has not fulfilled yet. Article G10 of the transposition law is not in line with Article 10 of the Directive as it does not guarantee that an enforceable title for unchallenged claims is obtained within 90 calendar days adding any procedural delays. Article 20 of Law 3301/2004 that is still in force established that an enforceable title cannot be used against Greek State bodies and bodies governed by public law in Courts. This provision is clearly not in line with Article 10 of the Directive. The same provision is subject of an open infringement against Greece since 2009. Furthermore the implementation of the Directive requires payment of invoices within 30 days in principle, or 60 days in exceptional cases. In Greece the transposition and implementation of the Directive is particularly challenging, as existing payment processes are extremely slow, encumbered by excessive layers of control and hampered by lack of automation.

However a joint Ministerial Decision was issued instructing fiscal audit offices to process all payment requests within 20 days, and set deadlines for each stage of the payment process. Within the scope of the on-going comprehensive re-engineering of financial management work processes, called the ERP project, it is necessary to streamline payment processes in the short-medium term to meet the 30 day target. An interim solution should have the objective of removing the main bottlenecks in the current process and improving efficiency. This must include changes in work practice and legislation based on the action plan prepared by the Authorities following the provision of technical assistance. The authorities initiated the streamlining of the current process with the adoption of L. 4151/2013 that shifted the entire responsibility for payment execution from tax offices (DOYs) to the fiscal audit offices.

To further monitor delays in payments and streamline payment processes, the Government will:

1. Put in place a monitoring system in other than State Budget able to detect areas of non-compliance with the deadlines set in the Late Payment Directive by using the data from the existing commitment registers (E-Portal), starting from April data (**May 2014**).
2. Submit legislation to expand pre-contractual audits by the Hellenic Court of Audit (HCA) and a Presidential Decree will be issued subject to the approval of the Plenary of the HCA increasing the threshold from the current EUR 15,000 up to EUR 45,000 for ex-ante audits carried out by the Court of Auditors in order to reduce the volume of ex ante audit in excess of the current 70% (**April 2014**).
3. Re-prioritize the medium-term action plan to meet the requirements of the Late Payment Directive (**April 2014**).
4. Implement an updated disaster recovery plan following recent changes to IT and administrative processes (**April 2014**).
5. Conduct a review with external technical assistance of the PIB payment processes to identify whether they conform to the deadlines established by the Late Payment Directive and, if not, propose changes necessary to ensure that they do, and to examine whether sound financial processes continue to be observed following recently approved process changes. The review will also propose changes necessary to implement further streamlining and automation of financial management processes. In parallel, it will streamline the procedures related to the PIB execution, as appropriate to a modern financial management of a multi-year investment programme, taking into account international best practices. PIB procedures will be subject to effective checks and balances with good design and a transition process to the improved procedures. The final outcome will be fully compatible with the ERP project (on-going under the responsibility of Ministry of Finance), ensuring, thus, an integrated monitoring of the whole state budget execution (**June 2014**).
6. Conduct system audits and testing in high volume conditions (**September 2014**).
7. After a proper testing extend the use of the Fiscal Management Information System (FMIS) to the General Directorates for Financial Services (GDFS) of the line ministries and the HCA, so that the payment process and transfer of documents could be started in an electronic manner by GDFS and the HCA as of 1 January 2015. This includes the implementation of necessary IT applications by **October 2014**.
8. To address problems with the extra-budgetary funds and in the social security sector, especially in relation to the transfer of competencies from SSFs to EOPPY, and taking into account the progress in the setting-up of the commitment/co-payment registries, the Government will:
 - i. Ensure that IKA transfers (including both cash transfers and expenditures made by IKA on behalf of EOPYY) to EOPYY at least 97 percent of the revenue collected by IKA on behalf of EOPYY during the relevant period (**June 2014**).
 - ii. Monitor the effectiveness of the commitment registers by conducting regular targeted inspections in the public entities covered by the system (**continuous**);

- iii. Set up a form in consultation with GDPS to provide regularly data to GAO concerning cost of uninsured population coverage by the NHS making the health budget more transparent separating the component of expenses for insured covered through contributions and the expenses for non-insured subsidized through the State budget while enhancing the fiscal oversight of Minister of Finance (**June 2014**).
 - iv. Pass legislation by June 2014 to ensure that all hospital invoices will be submitted electronically to EOPYY (**January 2015**).
 - v. Develop a comprehensive plan to clarify the transfers from SSFs to EOPYY (**June 2014**).
 - vi. Establish a timetable for conducting full audits on all invoices submitted from January 2014, with a view that all grants from Ministry of Finance cover public hospital deficits and EOPYY payments to public hospitals are settled afterwards, based on the total claims fully audited by EOPYY (**June 2014**).
9. The Government has reduced the arrears from € 9.4 billion at the end of 2012 to € 4.7 billion at the end of 2013. The Government will extend into Q3 2015 the special plan to clear pre-2012 stock of arrears. To clear expenditure arrears and tax refunds, the conditions for a government unit to allow funds for arrears 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. Entities that meet these conditions can clear their arrears even if their parent agency does not meet the conditions.
10. Once the clearance of all verified arrears is achieved, the Government ensures that no new arrears are accumulated (**continuous**).

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.

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

- 1. The Government will submit the necessary legislation to transpose the Fiscal Compact provisions with a view to introducing a structural budget balance rule with an automatic correction mechanism (**April 2014**).

2.5.2. Budget preparation and implementation

The Government will:

- 1. Submit to the Parliament the 2015-18 medium-term fiscal strategy (MTFS) including a lowering of binding expenditure ceilings by €320 million to lock in the 2013 under-spending by **May 2014**.

2. In the first stage, submit the organic budget law by **April 2014** to:
 - i. Introduce fixed expenditure ceilings set in the MTFS for line ministries and the health care sector and every year a ceiling for an additional year will be added while the already set ceilings (i.e. for the first two years of the rolling three-year period covered by the ceilings) would remain as previously fixed.
 - ii. Establish binding annual balanced-budget targets for local governments.
 - iii. Identify performance targets for SOEs.
 - iv. Introduce 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.
 - v. Establish an independent Fiscal Council that will assess macro forecasts and assumptions for budget and MTFS preparation, monitor compliance against targets and rules, and provide independent ex ante policy analyses and assessments of fiscal developments and challenges.
3. Following the first stage of the reform of the organic budget law, the Government will:
 - i. Appoint the Board of a stand-alone independent Fiscal Council (**July 2014**).
 - ii. Complete a full review of the internal MTFS and budget preparation processes to ensure its conformity with the revised legislation including ensuring budgetary independence of regulatory and other independent bodies (**September 2014**).
 - iii. Amend the OBL to ensure that it is fully in line with the ongoing PFM reform program and good international practice (**October 2014**).
 - iv. After consultation with the EC-ECB-IMF propose a specific rule on revenue over-performance effective after the program period for inclusion in the OBL and whether the size and nature of any windfall revenue and fiscal over-performance in the previous year allows for a greater spending envelope in the current year, subject to there being no projected gaps.

2.5.3. Corrective and sanctioning mechanisms

The Government will:

1. 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 (**quarterly**):
 - i. Reviewing the functioning of the privatisation framework 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.

2.5.4. Debt servicing account and cash management

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. While the General Government primary balance is projected to achieve surpluses over the coming years, the State budget remains in primary deficit. Currently there is no mechanism in place able to transfer the improvement of the fiscal stance entirely to the State budget. Given the current fragmented cash management system there are large idle cash resources available in other general government entities which could be used to cover part of the State financing needs promoting a more efficient use of available resources. To address this issue the Government will:
 - Complete a review of the accounts of State in commercial banks by **May 2014** and based on this review will recommend the closure of all unnecessary accounts by **June 2014**.
 - Develop a plan for cash management reform by **July 2014** to be fully implemented as of **1st January 2015**.
3. To ensure efficiency of the government's cash and risk management operations and avoid operational risks, the PDMA will manage, on behalf of the Hellenic Republic, the State's bank accounts related to the settlement – including payments – of all cash and risk management transactions and execute the whole borrowing operation of the Hellenic Republic, taking over the functions carried out so far by the Public Debt Directorate (D23) of the Greek Ministry of Finance active (**May 2014**).

2.6. *Making the public administration more efficient and effective*

Reforming the public sector constitutes an essential step to increase in efficiency and productivity while at the same time ensuring the long term sustainability of the wage bill.

2.6.1. Reforming the public administration

Greece has designed, and needs to thoroughly implement, an ambitious reform of the public administration, to make it more effective and serve the Greek citizens and economy more efficiently. The ongoing reorganisation of ministries and entities, the reallocation and streamlining of personnel, an objective and transparent recruitment procedure, the introduction of competence evaluation for managers and staff, the broader use of public procurement and better financial management, the introduction of e-Government and ICT policies and actions, the simplification of rules, and the reduction of scope for corruption, are all expected to help improve the performance in the public sector and hence the productivity of the whole economy.

Prior to disbursement, the Authorities:

- a. **Submit to the Council of State the Presidential Decrees needed to finalize the restructuring process of line ministries (excluding Ministries of Foreign Affairs, Public Order and Citizens' Protection and National Defense).**
- b. **Complete the transfer of a cumulative 25,000 employees to the mandatory mobility scheme. Mandatory transfers of employees of tax authorities will be counted against the target.**
- c. **Meet the end-March 2014 target for cumulative 5,000 exits.**
- d. **Adopt, through the Government Council of Reform, the two-year Administrative Reform Action Plan, including the Human Resources Strategy.**

Other Actions

To further advance the reform agenda during 2014 the Authorities:

1. Having adopted a human resources strategy, reflect this strategy in legislation to be adopted by Parliament (**December 2014**). The legal acts will aim at ensuring institutional continuity and higher levels of efficiency in the public administration, and provide a basis for evaluating and developing the competences of the senior management and the staff at large. They will, inter alia:
 - i. Introduce a new, competence-based legal framework for the recruitment of top management (**May 2014**).
 - ii. All senior appointments will be filled based on this new framework (**December 2014**).
 - iii. Complete the appointment process of Heads of Unit (**June 2015**).
2. Establish within the public administration an internal job market, to give the opportunity to all employees to find new positions. The job market will be transparent, and include assessments through predetermined procedures, as well as and experiences. The internal job market will replace the practice of long secondments, while time-limited secondments will only be allowed in very specific cases as of 1st January 2015 (**March 2015**).
3. Develop the necessary tools for the functioning of the internal job market. This will include setting up a database for the management of personnel, committees for the selection of personnel, a database for the management of open positions within the administration, detailed procedure, departure package. These tools are communicated across the administration as soon as possible (**December 2014**).
4. Perform, in consultation with the EC-ECB-IMF, a broad review of the Government employment levels and the remuneration structure with the objective to ensure they are consistent with high-quality provision of public services and are fiscally sustainable. This will include a fiscally-neutral review of the wage grid, with a view to de-compressing the wage range in both directions, in connection with the skill, performance and responsibility of staff in a fiscally neutral way.
 - i. A first draft will be submitted for consultation with the EC/ECB/IMF in **July 2014**;
 - ii. The new wage grid will be legislated in **October 2014**; and effective January 1, 2015.
5. Perform a comprehensive review of all non-wage benefits, such as working hours, leave arrangements, per diems, travel allowances and perquisites (**July 2014**).

6. Following the review, adopt the necessary legal instruments to align them with best practises in the EU (**September 2014**).
7. Introduce, as of January 2015, a permanent and continuous system of individual evaluations, including performance-based incentives, in order to assess 2014 performance by **March 2015**. A draft law will be presented to the EC-ECB-IMF (**September 2014**).
8. As a transitional measure revise the current system of individual evaluations by introducing a ceiling to the percentage of employees who are assigned top grade and a floor to those with low grade (**April 2014**). The 2013 performance assessments will be conducted under this appraisal system.
9. The Authorities will enforce the probation period for new staff of two years, including through a comprehensive performance assessment after the end of the first year, and at the end of the probation period (**continuous**).
10. The “availability” (mobility and exit) scheme is distinguished from a new “mobility” scheme, which is a permanent mechanism for voluntary and mandatory transfers, to better allocate personnel within the public administration. It will not be connected to exits nor will it require placing employees under the availability scheme and reducing their remuneration. A minimum of 6,000 employees will be involved in the new mobility scheme in 2014 (**continuous**).
11. The Authorities remain committed to the renewal of personnel by accelerating the effort to tackle disciplinary cases, cases of incapacity, and illegal hirings (including illegal conversion of temporary contracts into permanent ones). Those actions will lead to the dismissal of personnel proven unable to exercise their duties as public servants (indicatively 2,000 by Q1 2015) (**continuous**).
12. In consultation with the EC/ECB/IMF, and taking into account the results of the public administration reforms, the possible need to formally define exit targets will be assessed (**September 2014**).
13. Ensure that employees placed in the availability scheme are assessed within a centrally-defined evaluation framework, before reallocation to new positions, or exit (if they fail to be reallocated) (**continuous**).
14. To support the end-2013 cumulative exit target of 4000, as well as the early delivery of the 2014 target, the authorities will accelerate efforts in addressing the disciplinary cases and further evaluating entities. Effective 2014, outsourcings will not count under the 1:1 rule (**continuous**).
15. To foster the effective restructuring of the public sector and use of the mobility and exit scheme, the Authorities will:
 - i. Complete staffing plans for remaining general Government entities, to be adopted by the GCR progressively and at the latest by **May 2014**.
 - ii. Staffing plans are to be implemented with their respective legal acts for each entity **within three months** after their adoption by the GCR and no later than **August 2014**.
 - iii. Local Governments, regions and decentralized administrations’ staffing plans will be implemented by **December 2014**.
 - iv. Involve 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**).
16. The Authorities remain on track to reduce the general government employment by 150.000 by the end of 2015. They will provide a full and updated picture of public employment:
 - i. Finalise the recording of all public sector (excluding Chapter B companies) employees into the census database (April 2014) and payment of their wages through the Single Payment Authority within months of their entry into the census database (**September 2014**).

- ii. Publish on a monthly basis data on full time public sector employment and contractual positions, the number of employees in the mobility scheme, the number of exits and the number of pending disciplinary cases in the various stages (**monthly**).
17. To facilitate the renewal of staff and the acquisition of skills where needed:
- i. The Government will hire one new employee for each exit as a result of (i) disciplinary cases, cases of incapability, and illegal hirings; (ii) temporary injunctions; (iii) downsizing of private law legal entities; (iv).redundant positions, as a result of further organizational restructuring (**continuous**).
 - ii. If the assessment (to be provided to EC/IMF/ECB **monthly**) at any point shows that the employment developments and plans are no longer on track to achieve our aggregate targets, the Authorities commit to reduce the 1:1 hiring ratio for exits mentioned under (i.) (**continuous, monthly**).
 - iii. For all other exits than those mentioned under (i), the hiring ratio will remain 1:5, as envisaged in the program (**continuous**).
18. Provide the hiring plans for the following year to ASEP on a regular basis by end July, or as soon as they are finalised, and with at least a six-month notice with respect to the desired recruitment date, so as to allow proper planning and that selections can be carried out to the highest standards, compatible with the budgetary constraints. Ensure a sufficient budget so that modern methods are used by ASEP for the selections, including through a competency-based approach (**continuous**).

2.6.2. Fighting corruption

Prior to disbursement the Authorities:

- a. In order to step up the fight against corruption, **adopt the agreed legislation to bring the anti-corruption legal framework in line with relevant international standards**, including the UN anti-corruption convention, and the OECD and Council of Europe anti-corruption conventions and recommendations.

Other Actions

To pursue in a determined manner the fight against corruption, the authorities:

1. Pursue the implementation of the National anti-corruption plan (**continuous**).
2. Present a revised anti-corruption action plan, and include follow up actions as needed (**April 2014**).
3. Adopt a draft code of conduct for members of government (**April 2014**).
4. Adopt a draft code of conduct for members of Parliament (**April 2014**).
5. Present draft legislation on the funding of political parties (**April 2014**).
6. Adopt legislation on the funding of political parties (**June 2014**).
7. Present draft legislation to provide for an enhanced system of published declaration of assets, interests and incompatibilities by public and elected officials, as well as for members of government, providing for sufficiently deterrent penalties for misreporting. The declarations are to be monitored by an independent body with investigative power through risk-based audits (**April 2014**).
8. Adopt the above-mentioned legislation on enhanced system of declarations and monitoring (**June 2014**).

2.6.3. Coordination of Government Policies and E-Government

The Authorities will:

1. take action to consolidate the current preparatory work into a comprehensive and endorsed national e-Government strategy, setting the vision, objectives, priorities, monitoring and coordination mechanisms for supporting the development, promotion and application of e-Government and e-services for a better internal functioning of the administration and to citizens. The strategy, which will encompass an implementation plan, will be adopted by the GCR (**April 2013**).
2. Establish a system of ex-ante review of all primary and secondary legislation, to be undertaken by the Secretariat General for Coordination (SGC), to ensure that all draft legislation is in line with the Government objectives, and Greece's obligations towards international and European legislation and its commitments under this MoU. The system should be operational as of **1st May 2014** and should produce bi-weekly reports with all submitted draft legislation, its objective and consistency with current targets and obligations, and fiscal impact assessment (to be prepared by GAO). This will be undertaken in collaboration with the Secretariat General of the Government, which will focus on constitutional and EU law compatibility aspects (**April 2014**).

2.6.4. ICT in Public Administration Reform

In the context of the public administration reform, Greece needs to adopt E-Government and ICT strategies. In that direction, the Greek government shall:

1. Establish an ICT Unit/Directorate in MAREG which will be responsible for policy, strategic planning and monitoring progress for all aspects of ICT including infrastructure, education and skills, ICT use in the public sector, which will be fully functional by **June 2014**.
2. The Act establishing the new entity will provide for close coordination mechanisms with the Central Purchasing Bodies for all issues related to procurement of ICT equipment (**continuous**).
3. The new entity will monitor ICT actions and projects of all General Government entities, including supervised ones, including for the status and deadlines of deliverables which will be published quarterly (**continuous, starting in September 2014**).
4. Proceed to an inventory of the available ICT hardware and software (e.g., office application and other specialized software) in order to facilitate consolidation (**June 2014, update bi-annually**).
5. Proceed to an inventory of the available ICT applications, registries and services that each Ministry and its supervised bodies of General Government uses for its internal operational needs (e.g., TaxisNet, E-justice) or is providing to the citizens and organisations (incl. SMEs). It should also be indicated whether these are operational and in use (**June 2014, update bi-annually**).
 - i. This inventory should specify which data, applications and services can be shared.
 - ii. Further, information that can be published as open data, should be identified and made applicable to the public.
6. Undertake a thorough review of the project cycle of ICT interventions and create a costing model for ICT projects leading to the simplification of the existing processes procedures. Adopt the necessary legal framework pertaining to the production of ICT projects (**June 2014**).
7. Undertake a thorough review of the purchasing cycle of hardware and software, with a view to optimize the quality and minimize the cost of equipment (**September 2014**).

8. As of **January 2015** all purchases of standardized ICT equipment should be centralized and enacted using the E-procurement platform.
9. Provide an action plan of major ICT projects in key public sector policy areas (e.g., social security, employment, justice, health, energy, tourism, finance) ensuring compatibility with the e-Gov and ICT strategies (**April 2014**).
10. Set up a central inventory of national and international evaluators of ICT professionals qualified to participate in the evaluation of bids of ICT projects. The evaluators' database established under Horizon 2020 could provide a good basis for the establishment of such a data base (**April 2014**).

2.7. 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.

2.7.1.1. Single Public Procurement Authority (SPPA)

The Government adopts any necessary steps and provides the appropriate resources so that 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**).

2.7.1.2. Increasing the efficiency of procurement processes.

The Government moves towards more centralised procurement, including in the field of health procurement, services and supplies (including civil supplies and services for defense not falling under the scope of Directive 2009/81 on procurement in the fields of defense and security). It also starts building a system of statistics in the field of procurement, uses framework contracts and reviews the public procurement legislation including works, supplies and services.

In particular, the Government:

Reform of public procurement legislation:

1. Undertakes to adopt **by May 2014**, in close consultation with the Commission Services, a reform of the public procurement legislation 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).

Central Purchasing Bodies (CPB):

2. Adopts a reorganisation and staffing plan for the General Secretariat of Commerce, corresponding to its new functions as a Central Purchasing Body (**May 2014**).
3. Revises the currently applicable Unified Public Procurement Programme with a view to:
 - i. Submitting a proposal to the European Commission for the designing of a revised Unified Public Procurement Programme, by identifying the supplies and services the procurement of which is subject to central purchasing ('*what*'), the bodies and entities ('*who*') as well as the procedural and administrative arrangements ('*how*') for the operation of the revised Unified Public Procurement Programme (**April 2014**);
 - ii. Enacting the appropriate legislation implemented the revised Unified Public Procurement Programme as designed under (i) above, and rendering its use mandatory by other Ministries for their supplies and services procurement needs. (**August 2014**).
 - iii. Applying the revised Unified Public Procurement Programme to cover public procurement needs of 2015 (**October 2014**).
4. Monitors compliance of Ministries and other bodies with the requirement to make use of centrally managed framework agreements (**continuous**).
5. Promotes awareness and facilitates use of centrally managed framework agreements by other Ministries and agencies (**continuous**).
6. The CPB:
 - i. Following the identification of three categories for procurement via framework contracts, and the publication of their contract notices, awards the relevant contracts by **June 2014**.
 - ii. Ensures that framework agreements awarded under (i) above include clauses whereby the providers selected should be able to implement them and set up arrangements for the call-down procedures within two months from the entry into force. The Ministries should be provided the supplies and services under these framework agreements within four months from their entry into force (**continuous**).
 - iii. Revises the list of categories of supplies and services to be procured under the central purchasing scheme depending on the needs of public sector (including central government units and bodies). This list should be presented to and consulted with the European Commission and include in any event military purchases of standardised civil supplies – including fuel - and services (not falling under the scope of Directive 2009/81 on procurement in the fields of defence and security). This list should also identify the areas where further framework agreements should be entered into with a view to increasing efficiency and responding cost-effectively to recurrent needs (**June 2014**).

2.7.1.3. E-procurement

The execution of the action plan for e-procurement will be closely monitored in cooperation with the Commission services. In particular, the Government:

1. Publishes monthly a report on the number of contract notices on supplies, services and works and on the number of contracting authorities uploading information on the portal (**continuous**).

2. Completes the running of pilot tenders on the ESHDHS system and draws conclusions for the further development of system management/governance, development of system functionality (**April 2014**).
3. Establishes a suitably equipped and resourced steering committee for ESHDHS and KHMDHS, under the responsibility of the Minister, to develop and oversee implementation of a business continuity and development plan (**April 2014**).
4. Sets the appropriate legal framework under the new law of SPPA to remove any duplication in data-entry requirements for contracting authorities, establishing interoperability among the various databases, creating thus KHMDHS as the single public system dedicated to the publication of contract notices and contract award notices in the Greek public administration (**May 2014**).
5. Establishes by **May 2014** a business continuity and development plan for the KHMDHS and the ESHDHS systems which:
 - i. Ensures that the Hellenic Republic becomes owner and manager of the systems needed to run the ESHDHS and the KHMDHS systems and ensure its continuity beyond the expiry of current contractual arrangements.
 - ii. Complies with the recommendations set out in the systems evaluation carried out by the independent experts as well as the lessons from the pilot tenders.
 - iii. Ensures that KHMDHS is appropriately visible and advertised, for instance in search engines, so as to increase its visibility.
 - iv. Launches extensive communication and training plans for suppliers and contracting authorities.
 - v. Ensures that ESHDHS is developed in a manner that ensures interoperability between KHMDHS, ESHDHS, and DIAVGEIA, so as to ensure the automatic transfer of information between the systems (e.g. user registration).
 - vi. Ensure compliance of information entered in ESHDHS is compliant to TED requirements so as to automate the process of submission to TED.
6. Implements all arrangements, financial, managerial, staffing and otherwise, to ensure the uninterrupted development and implementation of ESHDHS and KHMDHS (**September 2014**).
7. Ensures the mandatory use of the e-submission as follows:
 - i. For all Ministries regarding the purchase of supplies and services. (**continuous, beginning 1st July 2014**).
 - ii. The Central Purchasing Bodies (General Directorate for public procurement for supplies and services of the GSC and EPY) manage the e-procurement platform for all their tendering procedures for goods and services (**July 2014**).
 - iii. For all local and regional bodies for the purchase of supplies and services (**1st October 2014**).
 - iv. The whole public sector in Greece uses the e-procurement platform for supplies and services (**October 2015**).
 - v. For public procurement tenders regarding works by central government bodies by **1st January 2015** and by the contracting authorities other than the central government bodies by **December 2015**.

8. Submits to the Commission services the data of the *monitoring* activities covering year 2013 and the first months of year 2014 (**April 2014**). In addition, it presents data on:
 - i. The number of calls for tender published electronically (in absolute terms and as a percentage of total number of published calls for tender).
 - ii. The number of tenders with specifications published online out of the total number of tenders published in the relevant period.
 - iii. The types of purchases carried out with the e-procurement platform.
 - iv. Value of procurement carried electronically out of the total value of public procurement carried out in the relevant period¹.
 - v. The percentage of procedures carried out electronically out of the total number of procedures carried out in the relevant period.
 - vi. The percentage of contracting authorities using e-submission out of the total number of contracting authorities.
 - vii. Data reporting on the evolution of prices, savings (also in terms of lower administrative cost), duration of the procurement procedure and number of bidders per tender, in comparison with the corresponding data relating to the situation existing before the introduction of e-procurement.

2.8. Social Security reforms to secure sustainability

2.8.1. Review of current system of social contributions

Prior to disbursement the Authorities:

a. **Lower Social Security Contribution rate by 3.9 percentage points.** In order to improve competitiveness, foster employment creation, and to safeguard the long-term sustainability of the social security system, the Government will adopt legislation to reduce IKA contribution rates by 3.9 percentage points in a revenue-neutral way, inter alia by eliminating unnecessary non-pension and non-health contributions/expenditures and increasing efficiencies, to be implemented by **1st July 2014**. This rate cut is achieved by mostly reducing employer-paid non-pension contributions.

Other Actions

1. The Authorities will review the impact on wages, employment and public finances, and assess the case, in consultation with the EC/ECB/IMF, for a further cut in employer contributions of 1 p.p. in a budget neutral way (**June 2015**).
2. The Authorities will prepare by **September 2014**, in consultation with the EC/ECB/IMF, a comprehensive plan to (i) unify and streamline SSC policies to eliminate loopholes, and (ii) better target lower-end contributions to improve employment incentives, including by enhancing schemes for young people and long-term unemployed financed by the EU funds.
3. The Authorities will implement the plan (**December 2014**).
4. On supplementary pensions, the government will integrate all funds that fall under the ESA95 definition of General Government in ETEA and will adjust benefits to contributions

¹ Procurement procedures are considered to be conducted electronically if suppliers submit their offers electronically (e-submission)

in an actuarially neutral way with pro-rata calculations starting January 1, 2014. The fiscal sustainability factor will be applied to all supplementary funds integrated into ETEA from **1st July 2014** to eliminate any deficit.

5. Starting January 1, 2015, all supplementary pension funds will only be financed by own contributions. For a limited number of funds that technically cannot be merged into ETEA at this stage, the same rules as outlined in the previous paragraph will be applied from **1st January 2015**.
6. On lump-sum pensions, the reform implementation has already started (effective since January 1, 2014), eliminating the deficits in these funds. All remaining funds that fall under the ESA95 definition of General Government will be incorporated under law 4052/2012, effective from **1st January 2015**.
7. Starting **1st January 2015**, all lump-sum funds will only be financed by own contributions.
8. The Government will undertake a review of the social security system by **May 2014** that will:
 - i. Make proposals to further consolidate social security funds (SSFs) and integrate their back-office functions and IT systems.
 - ii. Provide a comprehensive analysis of the contribution and benefit structures and timing of payment, and to widen the contribution base for SSFs.
 - iii. Clarify and identify the rules of operation fund by fund, as a first step before harmonizing them.
 - iv. Make proposals to enable pension portability between SSFs to facilitate mobility across jobs, occupations, and sectors.
 - v. Through a detailed accounting exercise covering each individual SSF, assess the extent that spending on social assistance matches government funding to SSFs; examine SSFs financing through nuisance taxes; and benchmark the management and other overhead costs of individual SSFs.
 - vi. Evaluate means to strengthen the link between contributions and benefits.
9. The Government will follow up to the above review, after consultation with EC/ECB/IMF staff, to make proposals toward achieving consolidation of SSFs, and to harmonize contribution payment and benefit rules by **June 2014**:
 - i. To further consolidate SSFs, integrate back-office functions and IT system, harmonise rules of operation, and improve pension portability (**June 2014**).
 - ii. To make progress towards constructing a central register of contributors and developing a unified registration procedure in line with the roadmap to integrate social security contribution collection with tax administration revenue collection services.
10. The Government will present a wide-ranging package for pensions (**September 2014**). The package will take account of the results of an actuarial review:
 - i. Policies to widen the base of SSFs, including through elimination of unjustified exemptions by 1 January 2015.
 - ii. Policies to ensure the full separation of social insurance functions from the social assistance functions of SSFs, with social assistance functions funded by general tax revenues.
 - iii. Policies for a future pension-funding system that will safeguard the overall sustainability, actuarial fairness of the pension system to be implemented from 1 January 2015. The proposed system should increase incentives for labour market participation and improve incentives for making contributions through establishing a

strong link between current contributions and future pension entitlements (e.g., through an electronic registry)

- iv. Policies to contain pension spending to ensure short- to medium-term compatibility with the MTFS targets by recalibrating pension system parameters.

11. The Government will adopt the package for pensions by **October 2014**.

2.8.2. Improving Collection

The revenue functions of Social Security (registration, filing, payment, audit/control, amicable and enforced collection) are currently scattered across the different Social Security Funds, leading to big inefficiencies. The low level of current-year payment compliance in the major Social Security Funds as well as the continuous increase of arrears [cast a doubt on the short-term viability of the system.

An integration of the SSF revenue function into the tax administration is the best way forward, as it can enable massive economies of scale and efficiency gains, both for the administration and for the taxpayers / contribution payers. However, this can be only a long-term goal, given the fragmented nature of the SSF system (both in institutional terms and in terms of contribution rules applicable to each individual SSF). Hence, in the short to medium term, addressing this challenge requires a multi-pronged approach to:

- Strengthen the operations and progressively enlarge the role of the recently established joint collection centre for Social Security (KEAO), with the aim of gradually positioning it as the collection enforcement arm for all collectible overdue contributions to the 4 SSFs party to KEAO (IKA-ETAM, OAEE, OGA, ETAA)
- Implement short-term revenue measures, mostly based on better reconciliation of notifications / declarations and effective payments and on better access to tax administration information;
- Reinforce the inspection and audit function, especially within IKA-ETAM;
- Pave the way in collaboration with the Ministry of Finance towards integration of revenue collection within the tax administration.

To work towards the *integration of social security collection*, the Authorities:

1. Establish a working group to prepare the formal framework for exchange of asset information from the tax administration to KEAO (**April 2014**).
2. Adopt the formal framework for exchange of asset information from the tax administration to KEAO (**April 2014**).
3. Announce a strategy for the integration of SSC payment and collection into tax administration by July 2017 (**April 2014**).
4. Assign the piloting of the project to a group of full-time staff (**April 2014**).
5. Put in place a MOLSSW task force to commence preparations for integration by preparing the business case, unifying the payer register and legal harmonization of the contribution base across the funds (**April 2014**).
6. Establish a joint working group (MoL-SS Funds-Revenue administration) to follow up the integration within tax administration work (**April 2014**).
7. Include in the comprehensive review of the social security system a review of the weaknesses in SSC collection, including enforcement (**April 2014**).
8. Adopt a joint Ministry of Finance/Ministry of Labour plan of action for integration to tax administration with the following milestones (**May 2014**):
 - i. Complete the business case for integration of filing, payment and collection (**September 2014**).

- ii. Implement a central registry of Social security contributors and PIT taxpayers **(December 2015)**.
 - iii. Harmonize the contribution base across the major funds and with personal income tax **(December 2016)**.
9. Merge the administration of registration filing, payment and collection with tax administration **(June 2017)**.

To increase *compliance*, the Authorities:

- 10. Develop within IKA/ETAM, with assistance of comparable European SSC administrations, new audit and inspection strategies that would address compliance problems, notably associated with cash-in-hand payments to employees **(June 2014)**.

To strengthen the *collection* of social security contributions and related debt, the Authorities:

- 11. Publish the schedule for filing and payments of all contributions to all the main funds **(continuous, every December)**.
- 12. Abstain from extending deadlines for the filing and payment of SSC, except in rare cases and after assessing the fiscal implications, in particular the impact on the achievement of the fiscal targets **(continuous)**.
- 13. Adopt automated follow up of payment shortfalls within ten days (for unpaid invoiced amounts) in OAEE, OGA and ETAA based on an agreed timetable **(April 2014)**.

To reinforce the *action* of the single collection centre (KEAO):

- 14. The Authorities issue a ministerial decision to define “collectible” Social security contributions debt cases for the transfer to KEAO of debt from OAEE, ETAA, and OGA (consistent with the KPI definition) **(April 2014)**.
- 15. 400 more staff are assigned for the single collection centre (KEAO):
 - i. 150 additional **(April 2014)**.
 - ii. 250 additional **(June 2014)**.
 - iii. The four main social security funds transfer to KEAO all amounts over EUR 5,000, identified unimpeded debtors (excluding disputes, bankruptcies, state owned entities and municipalities) and only where there is a debt less than 6 months old. When there is both fresh and old debt, old debt is bundled with fresh debt and is also transferred to KEAO **(continuous)**.
- 16. The Authorities establish an Advisory board for KEAO with heads of the major funds, of KEAO, and Ministry of Labour leadership **(April 2014)**.
- 17. The Authorities publish monthly indicators of KEAO's performance **(continuous)**.
- 18. The Authorities issue secondary legislation to quarantine uncollectable debt **(June 2014)**.
- 19. To follow up the instalment schemes the Authorities publish monthly indicators to monitor performance of the fresh start and basic instalment schemes. The indicator will include information about the number of SS debtors and the associated debt that have dropped out of the schemes and about the reminders and about the enforcement measures undertaken against them **(continuous)**.

2.8.3. Improving IT systems and reporting in the social security system

The Government:

- 1. Finalise the electronic recording of all social security contributions to ETEA. Finalise the ETEA computerised system of individual pension accounts **(April 2014)**.

2. Produces 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 (**continuous, next report, April 2014**).

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 guaranteeing 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 pharmaceuticals to reach spending on outpatient pharmaceuticals of about EUR 2371 billion and spending on inpatient pharmaceuticals of about EUR 0.66 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 percent of GDP in 2013 and 1.3 percent of GDP in 2014.

To strengthen health system governance, improve health policy coherence, reduce fragmentation in the purchasing of health services and reduce administrative costs, the Government (i) ensures the effective concentration of all health insurance funds, without exception, into EOPYY, monitoring the transfer of staff and assets; and (ii) ensures the effective transfer of all health-related decision making procedures and responsibilities (including payroll expenditures) under the Ministry of Health.

2.9.1. Controlling pharmaceutical spending

In order to 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 and the cost-effective use of medicines more generally.

2.9.1.1. Contingency measures to deliver the overall targets

1. The Government 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 and through to 2015 inclusive**).
2. The clawback ceiling is set at 2 billion euro including vaccines and other medicinal products for the uninsured (**April 2014**):
 - i. A note on the collection of the clawback for the second half of 2013 is submitted by **April 2014**.
 - ii. A note on the collection of the first half of 2014 is submitted in **August 2014**.
3. Activates contingency measures (including e.g. across-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 an equivalent amount of savings (**April 2014**).
4. In addition and if necessary, EOPYY introduces additional incentives and mechanisms, including a prescription quota system for physicians (minimum prescription target of

generics for doctors of 60% percent on average and adjusted to specialty), to ensure generic substitution (**April 2014**).

2.9.1.2. Pricing of medicines

The Government:

1. Revises downward the price of medicines, based on the three EU countries with the lowest prices (**full revisions every six months and a monthly pricing of new generics** in line with the provisions of Council Directive 89/105/EEC, next list to be published **by end June 2014**).
2. On the basis of the report on the impact of the new profit margins of pharmacies, introduces regressive mark-ups and reduces the profit margins down to 15%, starting from **1st June 2014**.
3. Ensures that EOPYY negotiates a 5% discount through price-volume or risk sharing agreements focusing on the top spending medicines sold in EOPYY pharmacies (**continuous**).

2.9.1.3. Prescribing and monitoring

The Government will,

1. Update the positive list of reimbursed medicines and the list of OTC medicines. These lists must be updated after every price bulletin (or the corrective) (**next one by July 2014**).
2. Ensures full coverage of e-prescription to doctors, outpatient facilities and providers contracted by EOPYY and to all NHS facilities (health centres and hospitals). E-prescribing is made compulsory and must include at least 90 percent of all outpatient medical acts covered by public funds (medicines, referrals, diagnostics) (**continuous**).
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. Following the initial 2 therapeutic groups, additional prescription guidelines are included in the system (**June 2014**).
5. For the guidelines not included in the e-prescription system, a pop-up with guideline is activated when the first-line choice of treatment is not chosen:
 - i. A pilot for most expensive 10 medicines (**April 2014**).
 - ii. Full process (**September 2014**).
6. Further develop the e-prescription system by monitoring the compulsory ICD-10 and enforcing SPC filters in the e-prescription system (**continuous**).
7. Enhance monitoring and assessment through:
 - i. 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**).
 - ii. Regular assessment of the information obtained through the e-prescribing system. (**continuous**).
 - iii. 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 (**continuous, quarterly, new report April 2014**).

- iv. 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**).
8. 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**).

2.9.1.4. Increasing use of generic medicines

The Government also:

1. Increases the share of the generic medicines in total outpatient and reimbursed medicines to reach 60 percent (in volume) by **December 2014**.
2. Decides 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**).
3. Excludes from the list of reimbursed medicines those which are not effective or cost-effective on the basis of objective criteria (**continuous**).
4. In the frame of the Administrative Reform process of EOF, set up scientific capacity in order to include cost effectiveness criteria in the reimbursement and licensing process and to manage the positive and internal reference price mechanism (**April 2014**).
5. Takes further measures to ensure that at least 50 percent of the volume of medicines used by public hospitals for inpatients is made up of generics with a price below that of similar branded products and off-patent medicines (**continuous**).
6. Ensures that all public hospitals to procure at least 2/3 of pharmaceutical products by active substance, using the centralised tender procedures developed by EPY and by enforcing compliance with therapeutic protocols and prescription guidelines (**continuous**).

2.9.2. Reviewing the provision of medical services contracted by EOPYY

Further the Government:

1. Immediately implements as a matter of urgency the procedure to check all claims/invoices sent to EOPYY with priority for the private providers under the clawback system.
 - i. By **June 2014** all claims referring to 2013 should have been checked for private clinics. If the procedure of concentrating the checks proves ineffective, in-site checking of invoices should be considered.
 - ii. By **September 2014** all claims referring to 2013 should have been checked for diagnostics.
2. Implements the clawback mechanism on spending with private providers for 2013 and 2014 and sets the clawback targets for 2014 by **April 2014**. A report is produced by **June 2014**.
3. Activates contingency measures (including e.g. across-the-board cut in prices and access to private providers or entry fee on contractual arrangement), if, for any reason, the claw-back

is not able to achieve the target. Such measures produce an equivalent amount of savings **(April 2014)**.

4. Implements all the measures included in the “Action Plan towards a Comprehensive Set of New Measures to Control the Expenditure of EOPYY” as agreed with EC/IMF/ECB and produce an implementation report **(quarterly, next report April 2014)**.
5. Monitors the implementation of the various policies introduced in late 2012 to improve the current financial situation of EOPYY and ensure that the budgetary execution is closer to a balanced budget in 2013. Measures to monitor include: changes in OGA contributions, in the benefit package, in cost-sharing for private care and in the fees for diagnostic and physiotherapy services, as well as the use of price-volume agreements and case-mix agreements with private providers and the use of a reference price system for reimbursement of medical devices **(continuous)**.
6. Introduces blocked /closed contracts with private providers and ex-ante approval of private hospital treatment plans, sets budgets to doctors for diagnostic tests, introduces clinical guidelines for the prescription of diagnostic tests and referrals and considers price reductions **(April 2014)**. It develops indicators for monitoring the compliance with prescription guidelines **(April 2014)**.
7. Publishes a monthly report on the prescription and expenditure of diagnostic tests and private clinics **(continuous)**.
8. Initiates tendering procedure for the introduction of in house financial and analytical cost accounting systems of EOPYY **(April 2014)**.

2.9.3. National Health System (NHS) service provision

2.9.3.1. 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 **in 2014 in line with the targets set in the MTFS** and continuing the reorganisation and streamlining of the hospital network. 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 systems.
 - v. Optimising and balancing the resource allocation of heavy medical equipment (e.g. scanners, radiotherapy facilities, etc.) on the basis of need.
 - vi. Hire financial officers for all hospitals with more than 400 beds through 3 year contracts setting specific financial and operational goals and targets on their performance.
 - vii. Reducing cost with outsourcing services such as IT services, laboratory services and hospital servicing costs (e.g. cleaning services).

- viii. Introducing a national registry of referrals to outpatient specialist and elective care to improve the monitoring and management of waiting list in view of the development of the primary care system (**September 2014**). This may be based on the e-prescription system.
- 2. Defines a set of activity related (input, process, output, outcome) indicators and produces a quarterly report together with the submission of financial data (**next report April 2014**). Produces an annual report comparing hospitals performance on the basis of the defined set of benchmarking indicators (**continuous; next report 1st April 2014**).
- 3. Updates a report on human resources for the whole health care sector annually and uses it as a human resource planning instrument (**continuous; next report 1st April 2014**).
- 4. The Government finalises the analysis regarding the number and healthcare needs of the uninsured people in the country; establishes a registry of all beneficiaries of NHS and EOPYY services and the health insurance status of all residents in the country; and proposes measures to ensure access to necessary care by the uninsured specifying the potential budgetary impact and the sources of financing (**April 2014**).
- 5. As a result of this analysis and proposal, the government will implement policies that ensure universal access to necessary care including cost-effective primary health care, pharmaceuticals, diagnostics and elective hospital care and in conjunction with existing policies such as the poverty booklet and the social voucher programmes of MoH (health voucher and training voucher) (**June 2014**).

2.9.3.2. Accounting, costing, control, IT and monitoring systems

The Government ensures that:

- 1. 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) 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**).
- 2. Further measures are taken to improve the accounting, book-keeping of medical supplies and billing systems, through:
 - i. The regular annual publication of balance sheets in all hospitals. (**continuous, yearly**).
 - ii. 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**).
 - iii. The pilot introduction of inbound hospital logistics and warehouse management systems using barcode scanning systems for pharmaceuticals and medical consumables. (**to be finalised by December 2014**).
 - iv. Implement necessary action to ensure 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. (**continuous**).
 - v. Enforcing the collection of co-payments and implementing mechanisms that fight corruption and eliminate informal payments in hospitals (**continuous**).
- 3. ELSTAT continues 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) (**2012 figures to be released by April 2014**).

4. 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**).
5. The Government starts to develop a system of patient electronic medical records (**continuous**).
6. The Government, with technical assistance from experts across EU, continues to develop a full DRG costing and reimbursement system while improving the existing KEN system, with a view to developing a modern hospital costing and reimbursement system for contracting (on the basis of prospective block contracts between EOPYY and NHS). The existing set of KEN is used in all hospitals:
 - i. A DRG Management Institute is established (**June 2014**).
 - ii. The legal framework, coding manuals and cost adaptation methodology will be adopted **by end 2014**. DRGs cost weight methodology will include a detailed item on costs of personnel.
 - iii. In 2015 the DRG system is implemented in a group of pilot hospitals.
 - iv. In 2016 the DRG system is extended to all hospitals (test period).
 - v. In 2017 the DRG system is applied to all hospitals in a budget neutral way (including personnel costs) and EOPYY contracts hospital care on the basis of prospective budgets based on DRGs (including personnel costs).
7. A follow up analysis of how hospital accounting schemes integrate DRGs at hospital level in view of future activity-based cost reporting and prospective budgets payment for hospitals will be submitted on a regular basis (**twice yearly, next report June 2014**).

2.9.4. 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 up to 45% of all the expenditure in medicines and medical devices by 2014. This share goes up to 60% in 2015. The Government ensures the use of such tender procedures (**continuous**).
2. EPY will undertake tender procedures for framework contracts for the most expensive medicines sold in EOPYY pharmacies (**continuous**).
3. EPY will publish a detailed annual report on its activity (**annual report, next report April 2014**).
4. 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 authorities regularly provide a written report on progress achieved in the implementation of the Education Action Plan and a detailed rolling calendar for the implementation before end-2014 of all pending measures (**continuous, February and September of each year**).
2. On primary and secondary education:
 - i. The external evaluation of School Directors, School Advisors and Regional Directors is completed (**June 2014**).
 - ii. The first cycle of external evaluation of the educational staff is launched (**September 2014**) and the authorities provide a report on its results (**continuous, February and September of each year**).
 - iii. Building on the measures included in the Education Action Plan, the authorities produce a position paper with future measures, including legal changes, to increase the financial and organisational autonomy of primary and secondary schools (**June 2014**).
3. On Higher Education:
 - iv. The external evaluation of the higher education institutions by the Quality Assurance Authority is completed and its results are published (**June 2014**).
 - v. The organisation charts and internal regulations of the Higher Education Institutions are completed and published (**June 2014**).
 - vi. The authorities report on the implementation of laws 4009/2011 and 4076/2012 on higher education and provide a calendar for implementation of pending provisions (**June 2014**).
 - vii. The authorities present an intermediate impact assessment of the ATHINA project after the first academic year of implementation, including budgetary impact, participation and future attainment rates, adequacy of staff allocation, R&D activities and quality of education (**September 2014**).

3. Framework for strengthening and restructuring the banking system

1. The Government ensures that no state aid will be granted to banks before it is approved by the European Commission under state aid rules.

3.1. Framework for strengthening and restructuring the banking system

Prior to disbursement, the Authorities:

- a. **Adopt legislation governing the injection of public sector resources into the banks through the HFSF**, under which the HFSF will provide capital to viable banks that – after having exhausted the possibility to generate capital through internal measures and through private capital raising – fail to meet the capital needs determined by the stress tests.

Other Actions

Following the announcement of the results of 2013 stress test exercise, the authorities commit to taking the following steps:

1. By **June 2014** banks have to meet their capital needs under the baseline scenario, based on capital-raising plans that they must submit to the BoG for approval by **April 2014**. The upfront capital raising under the baseline scenario is based on mitigating actions, but only those included in banks' current restructuring plans along with any further mitigating actions agreed with the European Commission as commitments in the revised restructuring plans, which the BoG will take into account for recalculating capital needs. Further, banks have until **May 2014** to submit capital-raising plans addressing the adverse scenario, for approval by the BoG by **June 2014**.
2. To set aside the resources of the HFSF as a buffer against possible capital shortfalls that could materialize in the stress test horizon, or as a result of the SSM comprehensive assessment exercise (**continuous**). These form part of a credible backstop, together with the support of Euro Area Member States.
3. Stand ready to take all necessary policy actions to safeguard overall financial stability and remain committed to a four-pillar banking sector, and the results of the stress test have confirmed that this commitment is appropriate (**continuous**). The SSM assessment in 2014 provides an opportunity in late-2014 to assess progress and confirm that capitalization remains sound.
4. Initiate the swift process of share capital increase of Eurobank. The calling of an extraordinary shareholders' assembly of Eurobank, to be take place by end-April 2014, will be approved by the HFSF in order to initiate the share capital increase under the new recapitalization framework. The HFSF will reduce its stake in Eurobank significantly. The overriding objectives are to strengthen the bank's capital base as soon as possible, attract, in a competitive process, anchor investors that would play an active role in the bank's management and balance sheet repair, and achieve a strong private sector participation in the transaction, marking the return of the banking sector to capital markets as a sign of its nascent recovery.

3.2. Funding

The BoG commits to:

1. Stand ready, following the procedures and rules of the Eurosystem, to continue disbursing adequate and appropriate emergency liquidity support in a timely manner, if needed, while expecting banks to achieve a sustainable funding model over the medium term (**continuous**). In this context, banks have submitted their funding plans to the BoG, and will be required to update their plans **on a quarterly basis** to allow for continuous monitoring and assessment of their efforts.

3.3. Enhancing supervision and the management of troubled assets

The BoG commits to:

1. Introduce KPIs to monitor banks' progress in reducing their large NPL portfolios. Banks will begin gradual reporting under these KPIs by June 2014, with full reporting to commence from end-2014.
2. Report on the appropriateness of banks' loan forbearance practices and recognition of income from NPLs by **July 2014**.
3. Assess, based on the results of the ECB's comprehensive assessment, the need to introduce impairment provisioning guidelines similar to some other EU supervisory authorities and if guidelines are deemed necessary, **introduce them in time for consideration in the 2014 end-year accounts**.
4. Evaluate options for improving recovery from assets under liquidation and will implement in full the recommendations of technical assistance to this end by **June 2014**.
5. Undertake a review of the BoG's supervisory model, legal powers, governance structures and the enforcement toolkit, in consultation with EC/ECB/IMF by **June 2014**.
6. Introduce appropriate legislative or regulatory changes by **September 2014**.
7. Prepare, as part of this review, by **June 2014** a self-assessment of the Basel Core Principles (BCP) that are pertinent to the issues that will remain under the national supervisory mandate, in advance of the IMF's stand-alone BCP assessment, which is to be completed by **end-September 2014**.

Take the following steps to enhance the effectiveness of supervision:

8. Revise the BoG's organizational structure and internal governance processes, in preparation for transfer of supervisory responsibility to SSM by **September 2014**.
9. Engage specialists to assist the BoG with the supervision of NPL portfolios by **May 2014**.
10. Assess the impact of the introduction of the EBA guidelines on definitions of NPLs and forbearance and require banks to adopt the guidelines by **June 2014**.

The Government commits to:

1. Address restrictions on hiring experienced staff in the BoG in a manner that preserves staff autonomy and the financial independence of the BoG by **April 2014**.

3.4. Improving debt resolution processes

1. The Authorities have established the Government Council for the Management of Private Debt ("The Council") which will coordinate legal and institutional reforms to enhance corporate and personal debt resolution frameworks, in consultation with the EC/ECB/IMF staff.
2. The Council has agreed its expenditure budget for 2014. Under the Secretary General for Consumer Protection, engaged project management, public relations, and technical

specialists to ensure effective delivery of all aspects of the agenda, and adopted definitions of a cooperative borrower and reasonable living expenses for use in and out-of-court debt workouts.

The Authorities commit to:

3. Introduce by **May 2014**, a binding Code of Conduct for banks that specifies the terms of engagement between creditors and debtors. Banks will be required to pilot and implement long-term debt restructuring tools by **October 2014** and be compliant with the Code by **end-2014**.
4. Design out-of-court debt restructuring tools for enterprises by **May 2014**.
5. Specify a similar coordination mechanism for SMEs, that will include the use of standardized templates as well as a review and appeals procedure by **May 2014**.
6. Adopt and implement both mechanisms in points 4 and 5, inter alia, by making the necessary legislative changes by **July 2014**.
7. Review the personal and corporate insolvency laws (**June 2014**), and implement necessary changes to improve the functioning of in-court insolvency procedures by **October 2014**.
8. Establish a regulated profession of insolvency administrators, not restricted to any specific profession and in line with the EU best practices by **October 2014**.
9. Launch educational services and public awareness campaigns to inform debtors of their options and rights and educate small businesses on financial and credit management by **July 2014**.
10. Develop a coherent plan for a means-tested social safety net for vulnerable homeowners by **July 2014**.
11. Implement other supportive measures such as better data collection by **May 2014**, reducing the costs of the property auction process by **June 2014**, and introducing residential and commercial real estate transaction price registers by **October 2014**.
12. Set-up a monthly data collection process to monitor the effectiveness of the transition debtor-protection scheme enacted in December 2013. Based on incoming data, the Council will prepare a report assessing the effectiveness of the new law and its impact on strategic default behavior by **June 2014**, and will propose measures to ensure effective implementation in case of shortcomings.

3.5. Overhaul of governance arrangements

The authorities commit to:

1. Enhance, the governance of the HFSF by (i) reviewing the internal safeguards on strict conflict-of-interest rules and related-party transactions and making appropriate changes by **May 2014**, (ii) employing personnel with international experience in commercial banking and NPL resolution and (iii) increasing the number of General Council members to nine and the members with international experience to seven.
2. Undertake a broad review of the governance arrangements concerning HFSF's participation in the banks, to be done in consultation with the EC/ECB/IMF by **May 2014**.
3. Based on the review to be undertaken in 3.5.2, adopt appropriate legislative and operational steps to ensure that financial institutions are run on a sound, commercial basis, by **June 2014**.

3.6. Strategy for the cooperative banking sector

The BoG commits to:

1. Prepare a comprehensive strategy on the cooperative sector, taking into account the role of Panellinia bank and examine in consultation with the EC/ECB/IMF, by all modalities, including further consolidation or review of their *modus operandi*, to ensure the sector as a whole has achieved stability and standards that are considered best practices internationally (**July 2014**).
2. Implement the comprehensive strategy for the cooperative banking sector by **September 2014**.

3.7. Fiscal policy that potentially undermines the solvency of banks

The authorities commit to:

1. Not take any fiscal policy actions that would undermine the solvency of banks (**continuous**).
2. Not require banks to pay any dividends on preference shares, or fees or taxes in lieu of this, unless they have distributable profits (excluding profits from acquisitions and selling of subsidiaries abroad), and the BoG has given its consent, confirming that such a payment would be compatible with the preservation of adequate capital buffers and liquidity going forward (**continuous**).
3. Not impose unilateral debt relief solutions for any particular group of debtors (**continuous**).

3.8. The loan and consignment fund

The Government commits to:

1. Ensure that the Loan and Consignment Fund is not crowding out competition in the financial sector (**continuous**).
2. Ensure that the commercial sector part of the Loan and Consignment Fund will be in a gradual run-off. In that respect, the Government commits to revise the legal framework of the Loan and Consignment Fund to provide that its commercial sector part will not grant any new loans and will not take any new deposits, except the roll-over of existing deposits (**April 2014**).
3. In consultation with the EC, to revise the legal framework of the Loan and Consignment Fund regarding the scope of activities of the reserved sector part to ensure that it acts only in case of market failure by **May 2014**.

3.9. Insurance Sector

1. The BoG evaluated 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, by **June 2015**, the BoG will establish a list of additional changes in legislation/structure of Greek insurance industry and the relevant legislation will be adopted.

4. Strengthening labour market institutions and promoting employment and social inclusion

The Government will foster the effective implementation of the recent labour reforms and build upon them to boost employment and support restoring cost-competitiveness, notably to sustain a reduction in nominal unit labour costs in the economy by 15 per cent. Effective implementation of reforms of product and service markets will help improve the transmission of labour cost reductions into lower prices and enhance competitiveness.

The Government is promoting an efficient wage-setting system, reducing non-wage labour costs, fighting undeclared work and informality, also by streamlining administrative burdens and increasing the transparency and enforceability of the labour law. The Government will enhance policies in order to help the unemployed in remaining attached to the labour market and to increase their matching to potential employers and to improve social safety nets in an affordable and adequate way. Reforms in labour legislation will be implemented in consultation with social partners, and in respect of EU acquis and Core Labour Standards.

4.1. *The wage-setting system*

Prior to disbursement, the Authorities:

- a. To increase incentives for hiring long-term unemployed workers, and as part of a broader package to support long-term unemployed, the government will adopt legislation that **adjusts the statutory minimum wage for long-term unemployed** (defined as being unemployed for more than one year) aligning the maturity allowances of white collar workers with the blue-collar ones, in percentage terms, for workers over 25.

4.2. *Fighting undeclared work and informality and lowering compliance costs*

To help formality in labour arrangements by reforming the Labour Inspectorate and streamlining the administrative burden to foster compliance, the Government:

1. Strengthens the fight against undeclared work and raises the effectiveness of the Labour Inspectorate through focussing on its core roles of enforcing labour law and labour contracts and health and safety standards. Prioritising the activities of the Inspectorate and fostering the detection of the most severe cases of violations are expected to be at the core of those changes (**continuous**).
2. Streamlines and reduces the labour reporting requirements in a timely and comprehensive manner, including through implementing the conclusions of the OECD administrative burden review (**April 2014**).

4.3. *Further improving regulatory framework*

The Government will review existing labour regulations with the purpose of identifying measures that, building on recent reforms, would further contribute to attract investment and support job creation while aligning Greece with best practices in other countries, while ensuring full compliance with EU acquis and Core Labour Standards. That shall include regulatory issues concerning the re-structuring of companies and the possible role of the authorities in collective dismissals to ensure a balance between adjustment needs and a fair sharing of the burden of adjustment between workers, firms and

Government. The exercise also includes the legal framework for temporary work agencies' activity to seek ways of fostering job creation, responding also to the needs and preferences of user undertaking and employees. The Government will also compile the existing legislation relevant for labour and industrial relations in a single code.

In this light, the Government:

1. Introduces administrative changes, in consultation with social partners, on the framework for collective dismissals (**April 2014**).
2. Undertakes an assessment, in consultation with the EC/ECB/IMF and the ILO, on whether the collective dismissal system replicates best practices in an effective, credible, and durable way (**September 2014**).
3. Based on that assessment, in case of doubt, it takes appropriate legislative action to align the framework with best practices (**October 2014**).
4. Revises the framework for employment through temporary work agencies, notably by substantially broadening the types of work, positions and contracts for which hiring through temporary work agencies is possible; reducing restrictions on hiring via temporary work agencies following redundancies for economic reasons (from 6 to 3 months for individual redundancies, and from 12 to 6 months for collective dismissals) (**April 2014**).
5. To safeguard the right to work, promote constructive relations among parties to industrial relations, and avoid any undue disruption of the operations of firms, and at the same time ensure that the framework for unions' operations is mature and aligned with international conventions:
 - i. Reviews the existing framework against best practices (**June 2014**).
 - ii. After consultations with social partners prepares the necessary legislative changes to bring the Greek framework in line with best practices, and in full respect of the applicable international conventions, by **September 2014**.
 - iii. Adopts those changes by **October 2014**.
6. Sets a roadmap for the codification of all existing legislation relevant for labour and industrial relations into a single Labour Code (**June 2014**).
7. Completes the codification of all existing legislation relevant for labour and industrial relations into a single Labour Code (**December 2014**).

4.4. Expanding and upgrading vocational education and apprenticeships

In order to sustainably increase the level of skills and the employability of entrants to the labour market, to facilitate mobility of workers and to attract new investment, the Government will ensure the modernisation of vocational education and training (VET) and the increase in the provision of apprenticeships to implement Law 4186/2013 of September 2013.

1. The Ministry of Labour and the Ministry of Education with OAED, building on the VET Roadmap, adopt a detailed implementation plan for the modernisation and expansion of vocational education and training and the provision of apprenticeships (**April 2014**). The implementation plan will contain key milestones including inter alia:
 - i. The development of a quality framework for vocational education and apprenticeships **by June 2014**. This will include concrete proposals to establish a quality framework, in line with the European Quality Assurance Reference Framework for VET (EQAVET) and best practices at European level, on the basis of the occupational profiles defined by EOPPEP; the development of a certification scheme for businesses offering apprenticeships with associated supervision and

monitoring system; a set of VET standards and regulations ensuring the quality and relevance of education in VET education and training institutions.

- ii. The setting up of a monitoring mechanism for the development of local partnerships at regional level with associated targets and milestones, including the formation of at least two pilot local partnership agreements with master plans **(June 2014)**.
 - iii. The elaboration of a strategy with detailed proposals to ensure progressively closer employer engagement and private-sector funding in VET **(May 2014)**.
 - iv. Develop clear estimates of the budgetary costs of the expansion of VET and apprenticeships including detailed assumptions in particular on the share of costs to be covered by public resources and by employers, and estimates of the additional infrastructure and human resources costs **(May 2014)**.
 - v. A detailed plan for the required technical assistance for the achievement of the Implementation Plan **by May 2014**.
 - vi. Develop a strategy to provide a diagnostic system to identify future skills needs and to match vocational education and training with the needs of the labour market **by September 2014**.
2. The Ministry of Labour and the Ministry of Education with OAED ensures full implementation of the above-mentioned implementation plan, including through administrative and legislative actions, and sets up a permanent coordination committee with representatives from relevant Ministries. They will regularly report jointly on the progress achieved and the pending measures **(continuous, February, May, September and November of each year)**.
 3. Secures the availability of adequate budget allocations, including the proposed contribution by EU Structural Funds for the period 2014-2020 in line with the above-mentioned implementation plan, in order to deliver the planned expansion of vocational education and training and apprenticeships throughout the entire implementation period, and compatible with the overall fiscal targets **(continuous, starting June 2014)**.

4.5. Support to the unemployed

The Government steps up efforts through the implementation of the Action Plan on Employment adopted in July 2013 to prevent unemployment becoming permanent and to mitigate the hardship of unemployment, focusing on: promoting the integration of the long-term unemployed, young people and all other disadvantaged groups in the labour market; easing labour market mismatches and facilitating the transition from school to work, and the mobility of workers across occupations and sectors by improving training policies and promoting the employability of the disadvantaged groups; and strengthening social economy. The Government also starts implementing the Council Recommendation on Establishing a Youth Guarantee² gradually, whilst prioritising relief for the hardest-hit young people. In these efforts, the Government will aim at involving the social partners and the private sector to the maximum extent possible and seek an effective use of the resources available, including by preventing possible abuses or frauds. In particular, the Government will:

1. Implements a new round of short-term public work programmes in 2014 targeted at jobless households, the long-term unemployed, and young people not in education, employment or training, as a measure of emergency and temporary nature while labour demand remains sluggish. The new round scheme may target at least 50,000 persons. Municipalities and other

² <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2013:120:0001:0006:EN:PDF>

public Authorities may participate directly in such public works programmes only under the full adequate and transparent control of such programmes (open calls, internet publication of projects with full details, and reporting helpline). Proposals for the new-round scheme to be made by **May 2014**.

2. Makes proposals for future youth schemes after undertaking an evaluation of the existing youth schemes, including the youth voucher. These must ensure the proper monitoring and establish sanctions against any fraudulent behaviour (**May 2014**). An extension of these initiatives to other categories of jobseekers can be envisaged.
3. Closely align the Youth Guarantee Implementation Plan with the roadmap for the modernisation and expansion of vocational education and training and providing immediate relief for the hardest-hit young people (**December 2014**).
4. Ensure that adequate administrative capacity to formulate employment policies and implement the Youth Guarantee at all levels is available, including by setting up effective coordination mechanisms between the Ministry of Labour, the Ministry of Education, other Ministries, OAED, regions and other partners (**June 2014**).
5. Fully implementing the Re-engineering Plan for OAED and establishing, where appropriate, partnerships with the private sector and external organisations (**September 2014**).

4.6. Developing Social Welfare and promoting Inclusion

The Government will develop the welfare system and improve social safety nets within the current budgetary envelopes to create an integrated and cost-effective welfare system in Greece through increased effectiveness and efficiency of welfare spending. That is urgently needed to reduce poverty, through minimum income protection, whilst ensuring the incentives to work and save needed to avoid welfare dependency. To this end:

1. The Government launches in **April 2014** a comprehensive review of social welfare and social protection spending, including spending on social assistance paid through the social security system (in conjunction with the social security review). The purpose is to increase the effectiveness of social welfare spending and to consolidate and streamline existing benefits with the intention of creating the fiscal space to provide targeted support to vulnerable groups within the overall fiscal targets. The first part of the review should include both in-kind and financial benefits. The review should cover detailed information on each benefit: inter alia, the structure and type of the benefit, eligibility criteria, target population and number of actual beneficiaries, spending in recent years and source of financing. All subsectors of the general government, notably central government, social security funds and local governments should be covered. The first part of the social welfare review should officially report in **June 2014**.
2. A second part of the review should focus on the effectiveness of the various benefits in reaching its target population and addressing its objective as well as identify potential population groups not covered by the social protection system. Alternative key design parameters need to be assessed, including the development of non-tax form based eligibility, incentives for labour activation, and the development of appropriate anti-fraud controls. The second part of the review making detailed proposals for reform should officially report in **September 2014**.
3. Based upon the social welfare review, the government in conjunction with EC/ECB/IMF staff will set out a Government Strategy on Social Welfare and Inclusion by **October 2014**. This should include detailed proposals for the creation of a guaranteed minimum income scheme. The streamlined level of social spending must remain within the programme fiscal targets and be consistent with fiscal sustainability.
4. The Government launches the pilot phase of the guaranteed minimum income scheme by (**September 2014**), aiming at a phased-in national roll-out in 2015, if financing is available.

The pilot phase will enable the development and testing of non-tax-form based targeting mechanisms, registration procedures and benefits platform, delivery channels and payment systems with adequate monitoring and auditing procedures. The pilot projects will include activation of beneficiaries to prevent deterioration of skills and human capital; and aim at a phased integration of other benefits and social services. The following will serve as milestones for this project:

- i. A project team with project manager will be set up to implement this project (**April 2014**).
 - ii. Provision of data for the selection of potential pilot areas, eligibility criteria, targeting and benefit amounts (**April 2014**).
 - iii. Assessment of overhead, infrastructure and equipment costs of pilot (**April 2014**).
 - iv. Terms of reference for development of IT system for database and management information system (**April 2014**).
 - v. Choice of municipalities by **May 2014**.
 - vi. Eligibility criteria and benefit determination by **May 2014**.
 - vii. Legal process completed for regulations through common ministerial decision by Ministry of Finance and Ministry of Labour in conjunction with EC/ECB/IMF staff (**May 2014**).
 - viii. Stakeholder dialogues held – (**May 2014**).
 - ix. Comprehensive proposals for monitoring and evaluation of success of pilot projects (**July 2014**).
 - x. Testing of IT system for database and management information system (**July 2014**).
 - xi. Pilot preparations and operationality of pilot finalised by **July 2014**.
 - xii. Launch of the pilots (**September 2014**).
 - xiii. End of pilots and evaluation (**March 2015**).
5. The Government will by **June 2014** produce a roadmap for a country-wide phased-in roll out a guaranteed minimum income scheme that targets the poor, including the long-term unemployed, to mitigate poverty and foster social inclusion by 2015, if financing is available. The integration of the minimum guaranteed income scheme and of the unemployment assistance scheme with existing cash transfers, labour activation services, and other social transfers and services is important to ensure the effectiveness and efficiency in supporting the needy, and move them closer to work.
 6. To provide health insurance access to uninsured citizens, the Government prepares an action plan in cooperation with foreign experts by **April 2014**.

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 create a company, to get establishment and operating licenses for manufacturing activities, to get permits for environmental projects and activities, and 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 eliminates nuisance charges at an annualized cost of €245 million and removes earmarking of nuisance charges amounting to €1.4 billion (**April 2014**).
2. The Government:
 - a. Updates the list of nuisance charges (**May 2014**).
 - b. Eliminates as many as possible additional nuisance charges (**June 2014**).
 - c. Abolishes all nuisance charges that finance auxiliary pensions falling under the Ministry of Labour (**June 2014**).
 - d. Conducts a review (**September 2014**) and adopts legislation (**November 2014**) on nuisance charges that (a) finance main pensions, and (b) were identified in the OECD competition assessment.
 - e. Abolishes all nuisance charges financing auxiliary pensions that fall under the ESA95 definition of General Government but are outside the Ministry of Labour (**November 2014**).
 - f. Reviews transaction-related charges, including stamp-duties, (**August 2014**) and adopts legislative changes to replace the most distortionary ones with more efficient taxes (**November 2014**).

5.1.2. Reducing procedural and other administrative burden

1. The Government takes additional measures to **ease doing business**, as measured by the World Bank's Doing Business indicator, by:
 - i. Eliminating the capital concentration tax for start-ups (**April 2014**).
 - ii. Adopting measures to streamline starting a business, in particular for fees paid before launching operations, and to facilitate registering property, in particular for eliminating requirements not directly related to the property transfer transaction (**April 2014**).
2. To implement law 3982/2011 on the **fast track licensing procedure** for technical professions, the Government submits the Presidential Decree to the Council of State to replace professional experience requirements by seminars organized by approved bodies and to define the fees for such seminars by **April 2014**.
3. To implement Law 4014/2011 on **environmental licensing of projects and activities**, the Government:
 - i. Adopts the Ministerial Decision (Art.18.5) Digital Environmental Registry (**April 2014**).
 - ii. Adopts the Presidential Decree (Art. 14.5) on the establishment of the environmental licensing directorate (**May 2014**).

- iii. Adopts the Ministerial Decision (Art. 17.8) on fixing compensatory fees and procedures (**June 2014**).
 - iv. The Presidential Decrees (Art. 16.6) on the establishment of the certified Environmental Impact Assessment assessors registry (**September 2014**).
 - v. Establishes the registry of private environmental assessors (**October 2014**).
 - vi. To confirm progress in the area of environmental licensing, a review of the implementation of law 4014/2011 examining the degree to which licensing procedures have been simplified and shortened (**April 2014**).
4. To improve **waste management**, the Government licenses at least two disposal sites for hazardous waste (**June 2014**).
5. To tackle the investment barriers caused by multiple and fragmented establishment and operating permits, the Government fully implements the roadmap for **investment licensing** reform, with the objective of increasing legal certainty, efficiency and transparency and reducing the procedures and time required for obtaining licenses and permits, including for industrial activities, environmental infrastructure systems, mining, aquaculture and port works. The Government:
- i. Adopts the framework law of the single licensing framework (**April 2014**).
 - ii. Adopts a single regulatory framework for business parks, which overrides previous legislation regarding business parks (**April 2014**).
 - iii. Adopts a roadmap for implementing provision of investment licensing law and sets up coordination structure for monitoring its implementation (**April 2014**).
 - iv. All remaining actions are implemented by **December 2014** as set out in the roadmap.
6. To simplify **export and import procedures**, the Government:

Pre-customs procedures

- i. Fully implements risk based control system based on EU best practice for fresh fruits and vegetables by **April 2014**, and automates the system by **September 2014**.
- ii. Following the example of fresh fruits and feta cheese, reviews pre-customs and customs procedures for 5 more products (olive oil, cosmetics, aluminium profiles, canned peaches, dual use product) and propose simplification based on EU best practices by **April 2014**.
- iii. Gathers national legislation for obtaining necessary documents for exporting 10 main Greek products per country of destination, and proposes simplification on the basis of EU best practices (**April 2014**).
- iv. Streamlines relevant procedures and adopts legal amendments by **June 2014**.

Risk assessment systems

- v. Implements automatic clearance for low risk declarations of exports in line with EU best practices in customs pilot offices by **April 2014**, and across all customs offices by **June 2014**.
- vi. Aligns the risk assessment system for exports with best practices in EU Member States, to ensure that the level of controls converges across all customs offices to the average level of controls in the EU by **April 2014**.

- vii. Adopts action plan for the risk assessment system of imports by April 2014 with the target that the level of controls converges across all customs offices to the average level of controls in the EU by **December 2014**.
- viii. Implement automatic clearance for low risk declarations of imports in line with EU best practices in all customs offices by **December 2014**.

e-Customs

- ix. Ensures that the e-customs system supports the electronic payments for exports and imports in all customs offices by **September 2014**.
- x. Requires electronic payments (such as bank transfers, and credit or debit cards) for all customs charges, and accepts cash payments only for small payments by individuals (**September 2014**).

Pilot evaluation and roll-out

- xi. Presents a detailed plan with timetable on how optimised procedures will be rolled out across all other customs offices by **April 2014**.
- xii. Applies optimised procedures permanently in pilot customs offices of the Athens airport and Piraeus Port by **April 2014**.
- xiii. Adopts a national customs strategy, including the vision and objectives of customs administration reform and a roll-out plan by **June 2014**.
- xiv. Rolls-outs optimised procedures and applies them permanently in all other customs offices by **December 2014**.

Fees and fines

- xv. Reviews fee structure for customs clearance procedures and modifies in line with EU practices by **June 2014**.
- xvi. Reviews the rules for imposing fines for mistakes in customs declarations (**June 2014**).
- xvii. Modifies the rules in line with EU practices by **September 2014**.

Trade facilitation strategy

- xviii. Presents a report on the progress of the implementation of the trade facilitation roadmap, including an overview of legal and operational changes during the first year of reform (**April 2014**).
- xix. Adopts action plan for the full implementation of the single window (**May 2014**).

7. To identify and eliminate unnecessary **reporting requirements** for businesses:
 - i. Following the identification of administrative burdens, the Authorities adopt the amendments to sector specific legislation (**June 2014**).

5.1.3. Improving spatial management and planning

1. Accelerating work on a modern **cadastre** is essential to ensure the timely completion of cadastral property register covering all land and buildings in Greece. This is necessary to secure fiscal revenues from real estate tax and will also provide the legal certainty needed to open up the real estate market to new investment, including for foreign direct investment. Following the adoption of Law 4164/2013, the Government:

Transaction fees

- i. Ensures that the transaction fees that are due to the State are transferred automatically to the account of the Ministry of Finance. Data on all other transaction fees should be fully accounted and audited by the Ministry of Finance
 - a. Adopts legislation (**June 2014**).
 - b. Makes the system fully operational (**September 2014**).

Organisation of EKXA AE

- ii. Adopts business plan to create a nation-wide system of new Cadastral Offices under EKXA AE. The business plan will include the proposed organograms for each office in order to prepare their transformation into final offices. Ensure that until the full cadastre is in place, registrars operate as agents of these Cadastral offices (**April 2014**).
- iii. Adopts regulations to provide framework for the transformation of temporary cadastre offices into final ones in the capital of the regions where the cadastre is operational, in line with business plan (**April 2014**). Make these two offices fully operational (**September 2014**).
- iv. Adopts reforms of the institutional framework of EKXA AE to ensure adequate resources and capacity for effective land management (**April 2014**).

Inter-ministerial coordination and integration of databases

- v. Ensures that all new real estate related transactions, including data on objective values and transaction prices, are registered electronically using the web platform provided by EKXA AE and that a standard format for registration is used for the notaries in Attica and Larisa (**April 2014**). Extend this service to 90 percent of the notaries of the country (**July 2014**).
- vi. Presents a roadmap with timetable for completing all actions, including legislative actions, required to the complete parallel processes and integrate the maps, including those related to archaeological sites, industrial development, spatial planning, forestry, coastal zones, protected areas and public property, with those of EXKA SA (**April 2014**).
- vii. Submits to the Council of State the Presidential Decree stipulating that new construction permits are built on maps provided by or in conformity with EKXA AE (**April 2014**).
- viii. Ensures that new urban planning permits are built on maps provided by or in conformity with EKXA AE (**April 2014**).

Completion of forestry and coastal maps and of the cadastre

- ix. Suspends forest maps under implementation (about 13% of the country) by **August 2014** for Thessaloniki, Chalkidiki, Pieria, Lakonia and Messinia and by **October 2014** for Evia.
- x. Tenders projects of suspension and certification of previously developed forest maps, and new forestry maps in other areas to deliver certified forestry maps for 46.5% of the country (**April 2014**).
- xi. Adopts legislation on Coastal Zones (**April 2014**).
- xii. With regard to the seven million active property rights tendered since December 2011, awards tenders of four million active property rights by **April 2014** and of the remaining three million active property rights by **December 2014**.
- xiii. Completes the award of tenders for unfinished cadastral projects (**December 2014**).

2. To facilitate **spatial planning**, the Government:
 - i. Adopts a revised framework legislation to significantly shorten the time required for strategic and town planning and make land use more flexible while preserving necessary safeguards (**April 2014**).
 - ii. Completes the revision of the regional spatial plans for 10 out of 12 regions to make it compatible with the sectoral plans on industry, tourism, aquaculture and renewable energy as follows:
 - a. The third phase for the formulation of proposals is completed by **April 2014**.
 - b. The fourth phase for the legislation of the final proposal is completed by **May 2014**.
 - iii. Completes the revision of the spatial plan for North Aegean to make it compatible with the sectoral plans on industry, tourism, aquaculture and renewable energy as follows:
 - a. The third phase for the formulation of proposals is completed by **April 2014**.
 - b. The fourth phase for the legislation of the final proposal is completed by **June 2014**.
 - iv. Completes the revision of the spatial plan for South Aegean to make it compatible with the sectoral plans on industry, tourism, aquaculture and renewable energy as follows:
 - a. The first phase of this revision is completed by **April 2014**.
 - b. The second phase of modification is completed by **April 2014**.
 - c. The third phase for the formulation of proposals is completed by **July 2014**.
 - d. The fourth phase for the legislation of the final proposal is completed by **September 2014**.
 - v. Reforms the forestry legislation to support the timely completion of forestry maps and ensure sustainable forest management:
 - a. Updates the legislation on forests and forest lands by **June 2014**.
 - b. Codifies the legislation on parks, forests and forest lands by **December 2014**.

5.1.4. Enhancing competition and promoting better regulation

Prior to the disbursement:

- a. Following the competition assessment in the sectors of food processing, retail trade, building materials and tourism, the **Government adopts legislative amendments to remove disproportionate regulatory restrictions identified by the Competition Assessment Toolkit**.
1. In order to implement additional recommendations of the competition assessment, the Government:
 - i. Adopts sectoral legislation for provisions of the Ministries of Environment, Maritime, Health, Tourism, and Transport (**June 2014**).
 - ii. Reviews the evolution of over-the-counter prices and commits to liberalizing the retail channels for all OTC products in case there is no reduction of such prices (**June 2014**).

- iii. Adopts the Code of best practices on sales and offers and the Code of best practices on foodstuff traditional definitions (**September 2014**).
 - iv. Adopts all technical specifications (**December 2014**).
 - v. Based on an assessment, adopts legislation to bring in line EU best practices provisions related to the definition of bakeries, sales periods, truck licenses and establishment restrictions of pharmacists (**December 2014**).
 - vi. Reviews the impact of the legislative changes regarding the shelf life of pasteurized milk and makes additional legislative changes if milk prices remain high compared to other EU countries and the consumer choice among shelf life durations remains limited (**December 2014**).
 - vii. Reviews the experience of liberalized Sunday trading in selected areas and decides on that basis whether to roll out the recent changes across the country (**March 2015**).
2. The Government:
- i. Launches competition assessment for other sectors (manufacturing, wholesale trade, telecommunication, and e-commerce) based on the OECD toolkit (**May 2014**).
 - ii. Completes the assessment of other sectors (**October 2014**).
 - iii. Adopts specific measures that promote competition and lower consumer prices based on the follow-on competition assessment (**November 2014**).
3. The Government reviews the advocacy role of the Hellenic Competition Commission in order to safeguard progress on removing barriers for competition (**April 2014**).
4. The Government presents an annual better regulation plan (as provided for in Art. 15 of law 4048/2012) with measurable objectives to simplify legislation (including through codification) and to eliminate superfluous regulations (**December 2014**).

5.2. Research and development and innovation

In order to support growth and foster competitiveness, the Government shall fully implement the revised legal framework for R&D and innovation, so as to strengthen the links between R&D investment and economic growth, develop closer links between researchers and industry, foster technology transfer and address bureaucratic obstacles. In this light:

- 1. The authorities will adopt the revised R&D and innovation legislation by **July 2014**, and will ensure that the necessary subsequent steps are taken to fully implement the revised legal framework by **December 2014**.
- 2. The Ministry of Development and the Ministry of Education through the General Secretariat for Research and Technology will cooperate effectively to adopt by **July 2014** a national research and innovation strategy for smart specialisation based on the synthesis of the competitive advantages of the regions and a related action plan. The strategy and the action plan will be fully aligned with the Partnership Agreement 2014-2020 and will:
 - i. Provide a national framework for R&D and innovation policies, including governance mechanisms to integrate and coordinate the regional RIS3 strategies.
 - ii. Define the articulation of the smart specialisation strategies between the national and regional levels.
 - iii. Organise and coordinate the effective and efficient collaboration of academia-research centres and the business community, encouraging the entrepreneurial discovery process at regional and national level to foster the competitive advantage of Greek businesses in global value chains.

- iv. Develop a strong thematic focus and concentrate investment priorities on the areas considered as strategic, following the RIS3 exercise, for the Greek economy and society in the Partnership Agreement.
 - v. Leverage private investment and foster more collaborative and systemic innovation based on a Triple Helix approach (cooperation between academia, business and government).
3. Adopt legislation setting out guidelines on scientific and technological R&D eligible for tax credits as required under Art. 22A of the Income Tax Code (**May 2014**).

5.3. 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: (i) ensures effective and timely enforcement of contracts, competition rules and judicial decisions; (ii) increases efficiency by adopting organisational changes to courts; (iii) 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.

5.3.1. Review of the code of civil procedure

1. The Authorities include in the draft code of civil procedure provisions aiming at reinforcing the effectiveness of the enforcement of civil court decisions (**April 2014**).
2. The Authorities submit the final draft Code of civil procedure to the Hellenic Parliament (**April 2014**).
3. The new code is adopted (**May 2014**).

5.3.2. 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 10 of this Memorandum (**quarterly**).
2. The authorities will provide the courts with web application system to transfer data from the courts to the Ministry by (**September 2014**).

5.3.3. Tax case backlog reduction

1. Building on the assessment of the impact of all the past measures aimed at the reduction of the backlog in the administrative courts, the Government proposes (**April 2014**), measures that can be implemented in the short term to reduce the backlog of tax cases, such as, a temporary and fast track procedure to deal with tax cases below EUR 50,000 that have been pending in an administrative justice court for more than 2 years.

5.3.4. Non-tax case backlog reduction

1. The authorities report on the implementation of the obligation of the judges to determine the hearing interim measures requests within 30 days from the issuance of the requested temporary order, according to Law 4055/2012 (**April 2014**).

5.3.5. Development of e-justice applications in courts

1. The Government updates, further refines and operationalizes the e-justice Action Plan (**continuous, on a quarterly basis**). Updated versions are to be submitted within 15 calendar days from the expiration of the relevant quarter.
2. The action plan will include additional actions as follows:
 - i. An evaluation of the use of IT systems in courts (**April 2014**).
 - ii. A timetable, including proposed deadlines, for the extension of case e-registration and e-tracking to all courts (**April 2014**).
3. Implementation of integrated e-justice systems within the Framework of the E-justice Action Plan:
 - i. **By December 2015**, the Government completes the implementation of integrated e-justice applications, enabling e-filing, e-registration and e-tracking for courts that cover the **majority** of the total in flow of cases in the country:
 - a. The Magistrate Courts, Civil and Criminal Courts of First Instance & the Courts of Appeal of Athens, Piraeus, Thessaloniki & Chalkida, including the respective Prosecutors' Offices.
 - b. All the Administrative Courts.
 - ii. The Government completes the extension of the above applications to the other courts (**December 2017**).
4. The Government ensures consistency of the e-Justice action plan with the national e-government strategy (**continuous**).

5.3.6. Promotion of pre-trial conciliation and mediation

Prior to the disbursement:

- a. **The Authorities adopt legislation for the opening of the mediator profession to non-lawyers.**

Other Actions

1. The Ministry of Justice updates on a monthly basis the list of the Accredited Mediators and the Mediators' Training Centres on its website (**continuous**).

5.3.7. 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. The assessment is presented (**April 2014**).
2. Administrative review of cases:
 - i. The Government submits to Parliament a draft law on Administrative review of cases (**May 2014**).
 - ii. The pilot project on administrative review of cases is implemented (**January 2015**).
3. Based on the study of court fees delivered in November 2013, the authorities propose for a selective increase of court fees, in full accordance with the constitutional principle of access to justice (**September 2014**).

6. Efficient Network Industries

6.1. Energy policy

Important reforms are ongoing in the energy sector. The privatisation and restructuring of PPC, the transition to the EU target model for the electricity market and the improved sustainability of the incentives for renewable energies are part of a comprehensive approach to make this sector competitive and effectively contribute to Greece's growth.

Prior to the disbursement:

- a. **The Government will introduce a permanent adjustment to existing power purchasing contracts for renewable energy sources, with a view to align rates of return to sustainable EU average levels**, considering Greek-specific conditions and to eliminate the debt of the RES account by December 2014. The adjustment will have to provide the financial sustainability of the RES account without putting an excessive burden on consumers.
- b. **The Government will publish**, as detailed in paragraph 6.1.5.2, and in consultation with the European Commission services, **a timeline and list of actions, to be taken in order to facilitate the transition to a more mature gas market model**, increasing the degree of competition at all levels, and transferring the advantages to the broadest possible set of consumers.

6.1.1. Ensuring that electricity prices reflect costs

1. Effective **1st July 2014**, PPC reviews and adjusts its tariff structure. New tariffs will provide adequate cost recovery, while significantly reducing cross-subsidization between different categories of consumers, and with a view to an overall simplification of the pricing structure. The review will fully take into account all measures aimed at addressing the concerns related to cost-competitiveness of energy-intensive users.
2. PPC tariffs are reviewed on a quarterly basis, and the cost justification of the possible modifications is made public, taking into account the need not to disclose confidential data (**continuous**).
3. RAE monitors the pricing review proposals of PPC to ensure that there is no abuse of dominant position (**continuous**).

6.1.2. Public Service Obligation for non-interconnected islands

In order to reduce the overall burden on electricity consumers resulting from the Public Service Obligation (PSO) for non-interconnected islands, the Greek authorities shall endeavor to interconnect these islands in all cases where the avoided PSO costs outweigh the costs of constructing the interconnector. RAE will ensure that the timelines set in ADMIE's 10-year development plan for constructing the interconnection with the Cyclades by 2018 are fully respected and the final plan for interconnecting Crete is included in ADMIE's 10-Year Development Plan for 2014. ADMIE, DEDDIE and planning authorities will be properly incentivized to facilitate their construction.

1. RAE revises the annual amount of Public Service Obligations due to suppliers based on the new methodology by **May 2014**.
2. The government ratifies the revised amount through law by **June 2014**.
3. The adjustments to the PSO will be reflected in the adjustments of the PPC tariffs as needed as of **1st July 2014**.

6.1.3. Providing for a financially sustainable development of renewable energy sources

The Authorities commit to design and implement a comprehensive reform of renewable energy policies, with the support and in close cooperation with the technical assistance provided by the European Union, also taking into account proposals in Ministry's "Plan to Reform the Sector of Renewable Energy Sources (RES)" and the view of industry, to provide long-term sustainability at zero average deficits.

The Authorities monitor the evolution of the Renewable energy sector in order to stimulate its appropriate development as provided by EU policies and legislation, while ensuring financial sustainability of incentives and security of the network. In this view, the Authorities:

1. Once the RES account debt is eliminated, adjust the RES levy every six months as necessary, so as to keep the account's 24-months ahead flow projections in balance and without debt (**continuous**).
2. Ensure that LAGIE, RAE, and the Ministry of Energy, publish monthly data on the evolution of the RES account with rolling projections over the following 24 months from the date of publication (**monthly/continuous**). These projections will have to provide a baseline and a normative scenario to bring the debt down to zero by end-2014 and support policy choices after 2014.
3. To ensure the financial sustainability of the RES account, and ensure that no excessive burdens are put on consumers, introduces constraints that will cap all the newly-installed RES capacity receiving incentives, effective immediately (replacing the current freeze). Draft legislation to introduce such cap shall be submitted for consultation to EC/IMF/ECB by **April 2014**.
4. Following the entry in operation of the electronic registry of RES installations (including PV rooftops), the Government ensures the monthly publication of a report, detailed by source, on the state of existing installations (installed power and production). The report also includes data on the evolution of the licensing and installation process for forthcoming new plants (**continuous**).

6.1.4. Liquidity and arrears in the energy sector

1. The Government **makes payments to clear all general government arrears with PPC**, to contribute to solve the liquidity issues in the energy sector, and in view of the upcoming privatisation of PPC (**June 2014**).
2. The Government ensures that there is no further accumulation of public sector arrears to PPC, and that the respect of the obligations of the public sector following the transposition of the Late Payments directive is guaranteed (**continuous**).
3. With a view to a complete clearing of existing arrears in the energy markets by the end of 2014, the Ministry of Energy, in close cooperation with ADMIE and LAGIE, will communicate to the EC/ECB/IMF the detailed gross debt and credit positions of all participants in such market on a monthly basis (**continuous**).
4. The Ministry of Energy, in close cooperation with RAE, will promote, and facilitate through intermediation, the clearing of existing obligations among energy market participants, based on a fair sharing of the outstanding debt (**continuous**).
5. RAE implements and monitors adequate regulatory provisions for netting of credit and debt positions by all actors in the energy markets, including, inter alia, terms for clearance of debts and payment of interest and penalties in line with Directive 2011/7/EU on late payments. Regulatory provisions should ensure equal treatment for all participants, avoiding any distortion or unjustified advantage coming from belonging to vertically integrated companies (**continuous**).

6.1.5. Energy Markets

Greece is undertaking several important reforms in the energy markets.

In the electricity market, the privatisation of PPC is being carried out following a strong commitment of the government, while an action plan is being implemented by the regulator to transition to the EU target model.

In the gas market, following the adoption of Law 4001/2011 to transpose the Third Package, the sale of DESFA, provided regulatory approvals are met in a manner fully compliant with EU law, as an entity fully unbundled from DEPA is certainly a positive step towards a more mature model of regulation. The privatisation of DEPA will also be an important element. However, several issues need to be addressed in the gas market in order to fully reap the benefits of the privatisation and transition to a more mature gas market model.

6.1.5.1. Electricity market

1. Based on the plan for the transitional reform of the electricity market adopted by the Government and RAE in consultation with the European Commission, the Government and RAE implement the following actions:
 - i. Review the recently introduced capacity payment mechanisms to ensure cost-effectiveness and compliance with the guidelines on "Generation adequacy in the internal electricity market" released by the European Commission (SWD(2013) 438) and EU State-aid rules:
 - a. RAE will present its first findings **by April 2014**.
 - b. Following consultation with ADMIE, and taking into account the system needs identified in the document "Introducing the interruptibility service for the electric system in Greece", the review will be finalised **by May 2014**, and will include an assessment of the capacity needs of the system and a timeline to progressively reduce its cost.
 - c. The complete revised mechanism, including the first cost reduction, will enter into force effective **1st July 2014**.
 - ii. Introduce auctions of NOME-type products, limiting the participation in auctions to generators and suppliers:
 - a. Public consultation, including the structure and the parameters of the auctions of NOME-type products, will be launched **by April 2014**.
 - b. The final legal provisions will be adopted **by June 2014**.
 - c. The reference price for auctions will be set in consultation with the European Commission, and auctions will start on **1st September 2014**.
 - iii. Following the removal of the 30 percent rule, phase out the full recovery of variable costs (**May 2014**).
2. In close collaboration, the Ministry of Energy, RAE, ADMIE and LAGIE will draw up a road map, in consultation with European Commission Services, comprising a list of actions, timelines and tasks to be attributed to each of these institutions for the implementation of the reform of the electricity markets with a view to create more competitive and integrate electricity markets, and taking into account other actions affecting the energy markets, including the privatization process of PPC. Such list will foresee, at a minimum, the following actions (**May 2014**):
 - i. The transition from a pool based system to separate day-ahead and intra-day electricity market.
 - ii. The transition to the "target model", fostering market integration.

- iii. Market based provision of ancillary and balancing services.
- iv. Deep market integration of demand side response.
- v. Ensuring that implementation of NOME-type products is compatible and coherent with the privatization process of PPC and the creation of small PPC. The NOME-auctions and products will remain until the Greek electricity retail markets are fully competitive. The creation of a fully operational small PPC will constitute a necessary milestone in this regard.

6.1.5.2. Gas market

1. The timeline and list of actions to be taken in order to facilitate the transition to a more mature gas market model, increasing the degree of competition at all levels, and transferring the advantages to the broadest possible set of consumers will include, at a minimum, the following actions:
 - i. The transition from a bilateral contracts-based market to a competitive and liquid gas market.
 - ii. A review and improvement of LNG regulation to further favour third-party access, with cost-based tariffs, including if appropriate, complementary measures to facilitate its usage (gas swaps).
 - iii. A review of the current gas release programme in order to increase its effectiveness.
 - iv. A review of whether complementary measures pursuant to Article 83 of Law 4001/2011 are required
 - v. Further development of storage legislation and regulation, and foster availability of storage sites, in order to improve flexibility in the market.
 - vi. A plan for promoting the adoption of gas as heating fuel for households, for reasons of efficiency and emissions reduction, *inter alia* through the use of EU structural funds and possibly accompanied by a fiscally neutral revision of the excise on gas, thus simultaneously stimulating more competitive conditions in the electricity markets.
 - vii. The transition of supply and distribution (including for the existing and projected so-called EPAs), to a regulated model, with separation of supply from network activities. In line with what is bound to happen in the electricity market, this should include the phase-in of incentive-based regulation for distribution (and for transmission) in order to favour network development.
 - viii. The transition to full eligibility for all gas customers.
 - ix. The phase out of the derogation under the Third package.
2. As far as the *distribution* segment is concerned, the minimum result of the above reforms will be:
 - i. The adoption of legal provisions to provide the legal and functional unbundling (Chapter V of Directive 2009/73/EC) and relevant corresponding duties and powers to RAE (Chapter VIII of Directive 2009/73/EC) of EPAs supply and network businesses, to be effective 1st October 2015 (**September 2014**).
 - ii. The adoption of legal provisions to make all gas industrial consumers in Greece eligible effective 1st October 2014, and all other gas customers eligible according to the schedule identified in point 1.viii above (**June 2014**).
 - iii. EPAs will make their supply and network business legally and functionally unbundled **by 30th September 2015**.

- iv. Effective 1st October 2015, network development by all EPA networks, existing and projected, shall be regulated by RAE, which will set appropriate network tariffs and adequate investment incentives for distribution networks.
- v. The Hellenic Competition Commission will review by June 2014 the remedies it imposed on DEPA through its decision of 12 November 2012. The review *inter alia* will seek to optimise the functioning of the imposed gas release programme, taking into account RAE's opinion and the views of all concerned stakeholders, by adapting the gas release products offered to end customers requirements and the need to create a more liquid gas wholesale market.

6.1.6. Fuel Market

The Government will:

1. Implement the agreed roadmap for the creation of a regulated, non-profit independent organisation for the storage of fuel reserves (Central Stockholding Entity, CSE), Draft legislation will be consulted with public and the EC/ECB/IMF by **June 2014**, with a view to its approval by **September 2014** and implementation through Ministerial Decrees by **December 2014**. The CSE will be operational by **1st January 2015**.
2. The legislative provisions will allow the national network to use storage capacity of other EU countries in compliance with EU regulation 119/2009.
3. Within one month from the entry in operation of the CSE the minimum duration of one year for contracts on storage facilities' use by third parties shall be no more effective (**January 2015**).
4. Monitor and make publicly available average monthly data on storage and other cost components charged to domestic and international customers (**April 2014**).
5. To remove regulatory restrictions that hinder competition in the wholesale fuel sector, the Government, as per Opinion no. 29/VII/2012 of the Hellenic Competition Commission:
 - i. Following the implementation of a mandatory guarantee scheme for wholesale fuel trading as an alternative for minimum capital requirements for operating in such market, we shall review the effectiveness of the new system by **December 2014**.
 - ii. Adopts all necessary implementing legislation to Law 4172/2013 to allow for the installation of inflow-outflow systems throughout the refining and wholesale trading supply chain (**April 2014**).
6. To enhance competition in the *retail* fuel sector, as per the same opinion of the Hellenic Competition Commission completes the installation of inflow-outflow systems in the areas not yet covered by **August 2014**.

6.2. Electronic communications

The switch-over 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. Resolve cross-border coordination issues with neighbouring countries, if any. If difficulties on international coordination make this 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**).

- ii. 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 (**April 2014**).
- iii. Launch 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 2014**).
- iv. Grant the licenses to the electronic communications providers **by 30th October 2014** at the latest and ensure that the use of the entire 800 MHz band for electronic communications services other than broadcasting can start by 1st November 2014 at the latest.

6.3. Transport and logistics

The opening of the road haulage and occasional passenger transport is completed. Therefore, priorities now shift to measures that will help promote 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. Maritime Activities and Ports

Prior to the disbursement, the Authorities:

- a. **Adopt law to make the port regulator operational as of 1st May 2014.** The Authorities revise law 4150/2013 in order to put in place a regulator with the necessary independence to issue regulatory decisions based on applicable legal frameworks. The law will spell out all the steps needed, operational details, and details about its precise tasks and responsibilities of the regulator in line with EU guidelines and laws and international best practices. This will include description of the competences and rules of operation of the BoD, the rules pertaining to operational decision making on regulatory matters, general provisions on the structure of the entity, details on hiring staff, disciplinary issues, procurement, budgeting. These are essential in order to make the Regulator operational as of 1st May 2014, and its Board of Directors functional. In addition, the revision will include in the responsibilities of the regulator the supervision of the concession agreement.
- b. **Appoint the Board of Directors to prepare the full functioning of the ports regulator** by the time of completion of the tender of OLP/OLTH. While this structure is being developed, a transitional structure (within the Ministry of Mercantile Marine) undertakes the responsibility of engaging in the revisiting of the existing concession agreement.
- c. **Issue a joint MD specifying funding and staffing requirements for the port regulator's operation.**
- d. **Prepare a draft Presidential Decree setting out the precise structure of the regulator, to function fully with all staff as of 1st January 2015.**

Other Actions

1. Building on the recent assessment of the impact of previous enacted reforms, additional measures will be introduced with the aim to further improve the competitiveness of the sector including by: allowing optionally firm labour agreements in the domestic ferry sector, irrespective of whether there is or not a sectoral collective labour agreement in place and suspending the favourability clause and extension of collective agreements while respecting the international and European legislation; allowing companies to distribute freely across its fleet the days they stop operations during the winter season;; and eliminating the requirement for companies to declare maximum prices; and aligning mandatory discounts for ferry tickets for new PSO lines with the ones for commercial lines (**April 2014**).
2. Additionally, the Authorities will align the manning requirements for domestic services with the one for international lines, while respecting best-practice safe manning principles and review the applicability of the above changes on the favourability clause and extension of collective agreements to the international line segment and adopt legislative changes as appropriate (**September 2014**).
3. The Authorities prepare an action plan for the full functioning of the regulator by the time tender is completed and the shares of OLP/OLTH are transferred to the new investor (expected timeline, 9 months after EOI is launched). This will include also plans for embedded TA to prepare all the regulatory decisions/manuals (**April 2014**).
4. The Authorities issue a Presidential Decree setting out the precise structure of the regulator, to function fully with all staff as of 1st January 2015 (**June 2014**).
5. The Authorities ensure that any state aid issues related to the privatisation of ports have to be clarified before the launch of the second phase of tenders (**May 2014**).

6.3.2. Aviation

1. The Government ensures that the Hellenic Civil Aviation Authority can effectively perform the functions deriving from the reform of the aviation sector, including economic regulation, safety and security oversight. To this end, the Government produces a detailed plan laying down the main steps to ensure this objective including by requesting technical assistance and providing for adequate levels of competent personnel (**April 2014**).
2. The Government takes decisive measures to ensure that the Hellenic Slot Coordinator Authority (HSCA) is functionally and financially independent, sufficiently staffed, endowed with adequate software equipment and able to carry out its functions **by July 2014**. To this end the authorities will issue the secondary legislation (**July 2014**).
3. The Government ensures full implementation of EU Regulation (EU 691/2010) referring to the performance of air traffic management (**continuous**). The Government takes full advantage of the assistance offered by the Network Manager in delivery of the additional capacity for the first Reference Period as required by Regulation (EU) 691/2010, and in looking forward to the second Reference Period of the Performance scheme as enabled in regulation (EU) 390/2013.
4. By November 2014 the Government produces a comprehensive assessment of all the PSO contracts awarded including an evaluation of the economic necessity considering available alternatives, and measures to ensure the participation in the tendering process of non-domestic airlines (**October 2014**).

6.3.3. Railways

1. The function of award authority for public service contracts for rail passenger transport according to Regulation 1370/2007/EU, is integrated into the new authority for contracting

land passenger (both intercity bus and rail) services. The secondary legislation is adopted and fully implemented (**May 2013**).

2. The renewal of the current public service contract for rail passenger transport is to be completed by direct award **by end April 2014** and should have a maximum duration of five years. Public service contracts concluded subsequently will be awarded by means of competitive tender. The rent contracts concerning all rolling stock, employed in every public service contract are synchronized both in terms of their duration and to allow for any reallocation of rolling stock as it may become necessary when amending these public service contracts (**continuous**). The rent contract between TRAINOSE and the State will be initially synchronized with the 5 year PSO contract including one additional renewal option of five year maximum duration. Contracts will be awarded at market prices.

6.3.4. Logistics

- i. In order to reduce the fragmentation of the economy and lower the cost of trade, the Government adopts a framework law on logistics by **May 2014**.

7. Competitive Services

7.1. *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 licensing applicable to retail outlets. Combined, the measures should help contribute to lower prices and more choice for consumers.

The Government:

1. Following the review of the licensing procedure for the establishment and operation of retail outlets by the Ministry of Interior, adopts legislation to simplify significantly the number of authorisations requested by the public administration for the opening and operation of shops (**April 2014**).
2. Adopts legislation to liberalize outdoor trade in line with OECD recommendations (**April 2014**).
3. Adopts legislation to liberalize the tourism rental regime (**April 2014**).
4. Based on an assessment, adopts legislative amendments to bring tourism rental regime in line with EU best practices (**September 2014**).

7.2. *Regulated professions, professional qualifications and provision of services*

1. For professions and economic activities included in Section 10.2, the Government adopts legislation amending sector specific legislation as per the opinions of the Hellenic Competition Commission and other requirements.
2. To ensure the **activities reserved** of engineers, architects, geologists and land surveyors are justified and proportional, the Government:

- i. Following the opinion of the Hellenic Competition Commission, adopts legislation to amend unjustified or disproportionate requirements reserving certain activities to specific professions (**April 2014**).
- ii. Submits to the Council of State the Presidential Decrees defining standards for complex activities (**June 2014**).
- iii. Adopts implementing provisions consistent with the timeline foreseen in the legislation (**November 2014**).

7.2.1. Additional measures

1. In order to remove unnecessary restrictions for the access to and the pursuit of the lawyer profession in the *Code of Lawyers*, the Government repeals the provision related to severance pay in case of voluntary termination of the contract of a salaried lawyer, and adopts provision so that any unilateral adverse alteration of the terms of the salaried contract that is harmful to the lawyer is deemed as termination of contract on behalf of the employer (**April 2014**).
2. In order to lower the cost of doing business, the Government amends legislation on the basis of an assessment to align *notaries'* fees with best practices in the EU by **September 2014**.
3. With the support of outside experts, the Government will review comprehensively all professions under each ministry to determine what regulated professions have not yet been assessed (**August 2014**), and remove any remaining excessive restrictions across all regulated professions that are being identified (**October 2014**).

7.2.2. Easing the recognition of professional qualifications

Measures are taken to ensure the effective implementation of EU rules on the recognition of professional qualifications; including compliance with ECJ rulings. The Government will continue the efforts already made to ensure that the procedures necessary for the recognition of professional qualifications and for the access to the activity are fully online for all professions and cover all procedures. In particular, the Government:

1. Continues to update the information on the number of pending applications for the recognition of professional qualifications, specifying those received online through the Point of Single Contact, and submits it to the European Commission (**quarterly**).
2. Ensures the implementation of PD 38/2010 (as amended by law 4093/2012) and the recognition of qualifications derived from franchised degrees from other Member States to access to or exercise of an economic activity and to 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 diplomas (**continuous**).

8. Increasing the impact of European funding

8.1. European Structural and Investment Funds (ESI)

In order to improve use and absorption of ESI funds:

1. The Government meets targets for payment claims in the absorption of EU Structural, Cohesion and EAFRD Funds set down in the table below. Compliance with the targets shall be measured by certified data (**continuous**).

EUR million (cumulative)		
Targets for payment claims in the absorption of Structural and Cohesion Funds and EAFRD (programming period 2007-2013) to be submitted in 2014	June 2014	December 2014
European Regional Development Fund (ERDF) and Cohesion Fund (CF)	720,00	2.170,00
European Social Fund (ESF)	280,00	830,00
European Agricultural Fund for Rural Development (EAFRD)	220,00	669,00

2. In deciding the "Public Investment Budget" allocation, the Government ensures that only the strict necessary national contribution remains available in order to ensure the full completion of all on-going projects including non-eligible expenditure under the Structural Funds and Cohesion Fund rules in the framework of the 2007-2013 programming period, in particular for expropriations (**continuous**).
3. The Government submits complete applications for all remaining major projects for which no Commission decision under Article 41 of Regulation (EC) No 1083/2006 has been adopted yet. It ensures a balanced submission of the major project modifications requests and provides to the EC a time schedule accordingly (**April 2014**).
4. In order to achieve 100% absorption of the ERDF and Cohesion funds, not to significantly burden the national budget with projects that cannot benefit from the EU funds and considering that no project will be transferred to 2014-20 period until the adoption of the Partnership Agreement and the submission of the Operational programmes, the Government will manage the overbooking of the NSRF 2007-13 as follows:
 - i. Eliminates the sleeping approved projects and reduces the sleeping contracts (contracts which do not progress and are not expected to progress within 2007-13 period) on a case by case basis, except the priority projects, and reports to the Commission (**May 2014**).
 - ii. Calculates programme by programme the overbooking. To do so it will: Adjust the budget of the approved projects taking into account the actual value of contracts; adjust allocations of granted state aid schemes to enterprises taking into account the expected rate or realisation of investments; estimate the expected reduction of the budget allocated to financial engineering instruments based on real absorption. The authorities will submit the result of this exercise to the EC (**May 2014**).
 - iii. Until this process is completed, the Government commits not to approve any new projects and not to sign contracts unless in exceptional cases to be agreed with the EC in the light of the priorities of the new programming period.
5. In parallel and with the objective of preserving the key approved projects in the pipeline, the Government submits to the Commission a list of potential projects to be phased in the 2014-20

- period consistently with the priorities set in the Partnership Agreement and the draft Operational programmes (**June 2014**).
6. The Government takes measures to ensure completion of 23 priority projects by end 2014 and of the remaining 105 priority projects by end 2015 (**continuous**).
 7. With the view to ensure smooth financial flow to beneficiaries and enable payments of EU co-funded projects, the Government:
 - i. Adopts the secondary legislation for the implementation of the alternative to the function of "ypologos" procedure for the EU co-funded projects (**May 2014**).
 - ii. Renders operational the electronic payment (April 2014), with a view to have 50% of the payments effectuated electronically by September 2014 and 100% by **December 2014**.
 - iii. Examines and presents to the Commission a proposal for a new simplified financial circuit for payments of co-funded projects including the creation of a single budget line per operational program in the PIB with the objective to implement it in the 2014-20 period (**July 2014**).
 8. In view of the programming period 2014-2020, the Government shall ensure that the Operational Programmes will be designed to promote competitiveness, growth and jobs and in such a way to complement and to support, where possible, the structural reforms that are taking place through the economic adjustment programme. The Government will:
 - i. Complete the simplification initiative by reviewing the "implementation trail" and the mapping of competences of the involved entities, permits and deadlines needed for the implementation of the main categories of projects supported by the Structural Funds and the Cohesion fund (e.g. transport, waste management, social infrastructure, entrepreneurship, ICT). When from the above mentioned mapping it appears necessary, the Greek authorities, by legislative or administrative provisions, abolish the unnecessary steps, set reasonable deadlines for the completion of each step and clarify responsibilities ("who is doing what"). (**Deadline: Before the adoption by the Commission of the operational programmes**).
 - ii. Proceed -assisted by TFGR- with an assessment of the principal beneficiaries, in terms of administrative, financial and operational capacity in order to ensure an efficient and timely delivery of the co-financed projects. To that end:
 - a. Terms of reference related to this assessment are prepared in consultation with Commission services (**April 2014**).
 - b. Findings, results including operational recommendations of this assignment are delivered (**July 2014**).
 - c. Measures and reforms are endorsed (**October 2014**).
 - iii. Extend the inter-services consultation system to cover the whole cycle from maturation to final completion of EU co-funded projects (environmental licenses, archaeological permits, etc), supported by the necessary electronic system with all public entities adequately equipped in the context of e-government (**September 2014**).
 - iv. Set up a state aid mechanism for the EU co-financing of SMEs in 2014-2020, to ensure (i) the transparency of the awarding, (ii) the targeting, the efficiency and effectiveness of the state aid, and (iii) the fraud prevention, throughout the whole life cycle of the state aid scheme, from the call for proposals until the final payment to the SME. This mechanism should be supported by the appropriate electronic tools (**September 2014**).
 9. The Government will report to the Commission monthly on the progress of the Financial Engineering Instruments. Where appropriate, it will propose a rationalisation of the current allocations and instruments seeking for the optimal use of the available funding in favour of

the Greek SMEs (**April 2014**). For the period 2014-20, it will launch an ex ante assessment as defined in article 37 paragraph 2 of the Regulation 1303/2013 (**June 2014**).

10. Based on the document "Guidelines for an Effective Anti-Fraud Strategy for the Structural Funds and the Cohesion Fund", and in accordance with the requirements of the relevant Regulation, the Government will produce and implement a comprehensive anti-fraud strategy concerning EU co-funded projects as follows coordinated by the National Coordinator on Anticorruption:
 - i. Identification in cooperation with the EC of a comprehensive anti-fraud strategy involving all stakeholders, including a multi-annual action plan covering the field of the European Structural and Investment Funds (**April 2014**).
 - ii. Implementation of the identified measures falling under the responsibility of the Ministry of Development and covering all EU co-financed programmes (**July 2014**).
 - iii. Full implementation of the anti-fraud strategy for co-financed projects across all Government relevant departments by December 2014 according to a precise calendar to be defined (**April 2014**).

8.2. European Agricultural Fund and Rural Development (EAFRD).

To improve the use of the EU funds in the area of Agriculture and Rural Development, the Government supported by the necessary technical assistance undertakes to:

1. Meet the target for payment claims in the absorption of the EAFRD set out in the respective table in chapter 8 of the MoU (**December 2014**).
2. Ensure the national contribution for the 2007-2013 Rural Development Programme co-financed by the EAFRD (**continuous**).
3. Ensure the necessary administrative capacity at all levels (national and regional) for the sound management of the Rural Development Programme 2014-2020. In order to achieve this, the Government will submit a plan of action aiming to fulfil this condition at the time of approval of the new programme (**May 2014**).
4. Develop an action plan detailing necessary steps, deadlines and responsible actors (both private and public) for the creation of a network for advisory and technical services and an electronic system of administrative and statistical data based on the principles of e-governance within the Ministry of Rural Development and Food, in view of having this system in place by 2015 (first year of full CAP implementation). The system should cover all relevant data, including payments, controls, statistical surveys and the FADN (Farm Accountancy Data Network) and take into account and integrate the specifications for electronic systems required for the implementation of the CAP Monitoring and Evaluation Framework. Synergy with RD networks and electronic systems for management, evaluation and monitoring systems must be secured (**June 2014**).
5. Update the existing error rate action plan for rural development in order to guarantee the sound financial management of the policy and maintain the error rate at the acceptable level of materiality (**April 2014**).
6. In order to reduce the substantial amounts of financial corrections relating to direct aid in the new programme period, the Government shall prepare an action plan to address structural weaknesses within the Land Parcel Identification System (LPIS) (**April 2014**). This should include actions to:
 - i. Update the LPIS on the basis of new imagery at least 30% of the old ortho-images in LPIS by **December 2014**, and the remainder by **December 2015**.
 - ii. Remove from LPIS the permanent pasture land that does not comply with the eligibility conditions of the EU legislation for receiving CAP aid (**May 2014**).

9. Institutional compliance

9.1. Statistics

Prior to the disbursement,

- a. **the Government completes the transfer of 28 employees to Elstat from other General Government entities**
- b. **Take all necessary actions to allow the provision of administrative data by Government departments to ELSTAT.** The arrangements for full access by ELSTAT to all tax information necessary for the development, production and dissemination of statistics shall be formalised by mutual agreement between the Minister of Finance and the President of ELSTAT, respecting the principles of professional independence of ELSTAT and of statistical confidentiality. ELSTAT will take all necessary internal measures to preserve the confidentiality of tax information to which it has access. Amendment to the Greek legal framework, i.e., the relevant provisions in tax legislation and the law on statistics, shall be taken as appropriate in that respect including repeal of the amendment of Art. 93 para. 1 and 2 of law no. 4182/2013. The aforementioned arrangements shall be based on the law as appropriately amended and on the Regulations issued by ELSTAT (Regulation on Statistical Obligations of the Agencies of the EL.S.S. and Regulation on the Operation and Administration of ELSTAT). Memoranda of understanding between the Ministry of Finance and ELSTAT will be agreed

Other Actions

1. Government will fully honour the Commitment on Confidence in Statistics signed in March 2012 by implementing all envisaged actions, including respecting international statistical standards; guaranteeing, defending and publicly promoting the professional independence of ELSTAT; and supporting ELSTAT in upholding confidence in Greek statistics and defending them against any efforts to undermine their credibility (**continuous**).
2. Government respects the independence of ELSTAT in carrying its tasks and providing high quality statistics. In this regard it fully respects the financial independence of ELSTAT, and provides all the necessary resources in a timely manner, as approved in the annual budget of ELSTAT, for the agency to complete uninterrupted its tasks. In this respect, Government cannot invoke art. 1 of Legal Act of 18/11/2012 and the Ministerial Decree 2/91674 of 201/12/2012, while, at the same time, ELSTAT provides to the Hellenic Parliament information for monitoring the execution of its budget as provided for in the Regulation of the Parliament (Article 31A) and the Statistical Law of Greece (Article 16) (**continuous**).
3. Clarify that ELSTAT determines the nature/qualifications of its staffing needs and simplify the process for transferring staff to ELSTAT. The law on statistics shall be amended so that (a) the transfer of personnel from other government entities to ELSTAT according to article 20 para. 3 of law no. 3832/2010 shall be made by decisions of the competent Minister for the entity where the transfer originates and the President of ELSTAT; (b) it is clarified that the powers of the President of ELSTAT, as laid down in law no. 3832/2010, include the power to specify, pending the revision of the organogram of ELSTAT, the subjects of the permanent posts of the Department of Research and Studies of ELSTAT, the number of such posts allocated to each subject, the relevant formal and substantive criteria and qualifications for employment in such posts and all other relevant matters, and issue the relevant call for application accordingly, notwithstanding the remaining competences of the Supreme Council for the Selection of Personnel (ASEP) with regard to the application of law no. 2190/1994 (**April 2014**).

9.2. Other institutional requirements

1. All actions attributable to public Authorities should be in compliance with the rules on free movement of capital (TFEU, Article 63) (**continuous**).

10. Annexes

10.1. Government Pending Actions for privatisation

PRIVATISATION PROGRAM						
Government Pending Actions						
Asset	A/A	Subject	Responsibility	Necessary Actions	Done	Critical Date
EYATH	1	Legislation to align pricing policy of EYATH with that of other water companies.	Ministry of Environment	Pass amendment to article 21 of Law 2937/2001, in order to align the process of the pricing policy of EYATH SA with that of the other water and sewerage services providers as provided for by Law 4117/2013 and the complementary Ministerial Decisions		Apr-14
EYATH	2	Water Regulator	Ministry of Finance, Ministry of Administrative Reform and e-Governance; and Ministry of Environment	Put in place full staffing and initiate operations of the Special Secretariat for Water (Regulating authority)		Apr-14
ODIE	3	Legislation needed to finalize ODIE tender	Ministry of Finance	Pass legislation on the issues raised by investors as prerequisites to continue in the process: GGR harmonisation; lease agreement exemption from art. 618 of civil code)		Apr-14
OLP, OLTH & Ports	4	Ports Regulator	Ministry of Shipping	Pass law related to establishment and staffing of port regulatory authority		Apr-14
Egnatia Odos	5	Setting up additional toll stations in advance of privatization	Ministry of Transport, Infrastructure and Networks	Issue Ministerial Decision for the toll stations that have been specified by the technical advisers at main and vertical axes		Apr-14
TRAINOSE/ROSCO	6	Clarification of assets included in TRAINOSE, ROSCO privatization	Ministry of Transport, Infrastructure and Networks	Pass legislation to specify licenses and permits for railway properties and all real estate assets that will be included in the privatization perimeter of TRAINOSE, ROSCO		Apr-14
TRAINOSE/ROSCO	7	Transfer rolling stock ownership to HR	Ministry of Transport, Infrastructure and Networks and OSE	Issue joint Ministerial Decision for the transfer of rolling stock ownership from OSE to HR		Apr-14

TRAINOSE/ ROSCO	8	Valuation of the Rolling Stock not in use owned by OSE or HR	Ministry of Transport, Infrastructure and Networks	Launch tender for valuation of rolling stock not in use		Apr-14
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10.2.Regulated professions

(Regulated professions / economic activities whose regulatory framework needs to be adjusted to applicable opinions of the Hellenic Competition Commission and other requirements)

1. **Actuaries:** amend legislation to set the certification exams to be conducted by any public or private sector body accredited by ESYD (**April 2014**).
2. **TV technicians:** adopt liberalizing measures (**April 2014**).
3. **Health profession:** (i) adopt legislation to establish day care clinics (**April 2014**); (ii) adopt all necessary secondary legislation to define the technical standards for establishing day care clinics (**May 2014**); and (iii) adopt legislation to review minimum square requirements, and allow the co-establishment of primary health care providers with the exception of chain professions necessary for a treatment of a patient (**May 2014**).
4. **Sales of fertilizers, propagation and plant protection material:** submit to the Council of State the Presidential Decrees setting the standards for training course and issue secondary legislation to establish training courses (**April 2014**).
5. **Geo-technicians:** abolish mandatory membership to the Chamber (with the exception of veterinarians) (**April 2014**).
6. **Gyms (fitness centers):** conduct proportionality assessment of recreational and sports centers (**April 2014**) and remove unnecessary requirements according to the opinion of HCC (**May 2014**).
7. **Hairdressers/manicurists:** adopt legislation to align licensing requirements with EU best practices (**May 2014**).

10.3. Statistics to be published by the Ministry of Justice

1. Every quarter, for civil and administrative first instance court, court of appeal as well as the Supreme Court and the Council of State) tables published will provide for:
 - the number of judges and administrative staff³,
 - the stock of cases at the beginning of the period,
 - the inflow of cases registered during the period,
 - The outflow of cases closed during the period⁴
 - The stock of cases at the end of the period.

The tables will also include the following data:

 - i. For the tax and customs cases, the data will also include the inflow of the new cases with a breakdown above and under 150 000 euros.
 - ii. For civil and commercial courts, the data for stock and flows of cases will also show the corporate insolvency cases.
 - iii. For administrative Justice, specific data, provided in another table, will include a breakdown by year of registration of the stock of cases for which no hearing date has been fixed yet. This will be provided for beginning and for end period. The table will also show the total number of cases with a hearing date.
2. For some of the most relevant courts, defined in consultation with EC, IMF and ECB, the Ministry of Justice will also publish by quarter, or by semester or year if so agreed by EC-IMF/ECB:
 - i. The stock of cases (both at beginning and at end period), with a breakdown by year of registration.
 - ii. for civil and commercial Justice, more detailed information on corporate insolvency cases including:
 - A more detailed breakdown by value⁵, defined in consultation with EC, IMF and ECB.
 - A more detailed breakdown by sector (e.g., agriculture, construction, manufacturing, and services), defined in consultation with EC, IMF and ECB.
 - iii. For civil and commercial Justice courts:
 - Number of interim measures issued under Law 4055/2012, and number of those issued within 48 hours.
 - Number of decision issued under Law 4055/2012 and number of those issued within 30 days.
3. When the IT system will be fully in place, the Ministry of Justice will publish:
 - i. Tables showing:
 - The number of judges and administrative staff⁶,
 - The stock of cases at the beginning of the period.
 - The inflow of cases registered during the period.
 - The outflow of cases closed during the period⁷.
 - The stock of cases at the end of the period.
 - ii. The stock of cases at beginning and at end period will be broken down by year of registration,
 - iii. The stock of cases at beginning and at end period and the flow of cases will be broken down by categories of litigations,
 - iv. The average duration of the outflow cases during the period.

³ At the end of the period.

⁴ A case is considered closed, and registered in the outflow, at the moment the full decision is published (and its content is available to the parties).

⁵ "Value" of the case could correspond to the value of the liabilities of bankruptcy, as this appears after the 3-months period of the submission of announcements by the debtors has expired.

⁶ At the end of the period.

⁷ A case is considered closed, and registered in the outflow, at the moment the full decision is published (and its content is available to the parties).

10.4.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). <i>(Data compiled by the Ministry of Finance)</i>	Monthly, 15 days after the end of each month; these data should also be included in subsequent transmissions in case of revision.
Final monthly state budget execution, including breakdown by main categories of revenue and expenditure and by line ministry. <i>(Data compiled by the Ministry of Finance)</i>	Monthly, 30 days after the end of each month.
Monthly data on staff: number of employees, entries, exits, transfers among Government entities; and from and into the mobility and exit scheme, per entity, average wage(including the relative shares of the base wage, allowances and bonuses).. <i>(Data compiled by Ministries of Administrative Reform and E-Governance and of Finance)</i>	Monthly, 30 days after the end of each month.
Monthly above the line cash data on general Government entities other than the state. <i>(Data compiled by the Ministry of Finance)</i>	Monthly, 30 days after the end of each month, these data should also be included in subsequent transmissions in case of revision.
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 and clearance (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>	Monthly, within 30 days after the end of each month.
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.
Monthly execution of SOEs and EBFs financial results and the quarterly targets for the monitoring of the corrective mechanisms <i>(Data compiled by the Ministry of Finance)</i>	Monthly, 30 days after 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 NPLs, restructured loans and write-offs on a 30, 60, 90 and 180 days basis.	Quarterly.
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.

<u>Abbreviations</u>	
ADMIE	Independent Power transmission operator
AML	Anti-Money Laundering
APD	Periodical Analytical Statement
ASEP	Supreme Council for Staff Selection
BCP	Basic Core Principles
BoD	Board of Directors
BoG	Bank of Greece
CAP	Common Agricultural Policy
CF	Cohesion Fund
CIT	Corporate Income Tax
CPB	Central Purchasing Bodies
CSE	Central Stockholding Entity
DEDDIE	Hellenic Electricity Distribution Network Operator
DEPA	Public Gas Corporation
DESFA	National Natural Gas System Operator
DIAVGEIA	Clarity Program
DOY	Public Financial Service
DRG	Diagnostic-Related Group
DSO	Distribution System Operator
EAFRD	European Agricultural Fund for Rural Development
EBA	European Banking Authority
EBFs	Extra budgetary Funds
EC	European Commission
ECB	European Central Bank
EDP	Excessive Deficit Procedure
EEA	European Economic Area
EETT	Hellenic Telecommunications and Post Commission
EFSF	European Financial Stability Facility
EKDAA	National Centre for Public Administration and Local Government
EKEVYL	National Centre for Medical Technology
EKXA AE	National Cadastre and Mapping Agency S.A.
ELA	Emergency Liquidity Assistance
ELENXIS	Integrated Information System of Auditing Services
ELSS	Hellenic Statistical System
ELSTAT	Hellenic Statistical Authority
EMU	European Economic and Monetary Union
ENFIA	Uniform Tax on Real Estate Property
EOF	National Organisation for Medicines
EOI	Expression of Interest
EOPPEP	National Organisation for the Certification of Qualifications and Vocational Guidance
EOPYY	National Organisation for the provision of Health services
EPA	Regional gas distribution/supply companies
EPY	Health Procurement Commission
EQAVET	European Quality Assurance Reference Framework for VET
ERDF	European Regional Development Fund

ERP	Enterprise Resource Planning
ESA	European System of Accounts
ESF	European Social Fund
ESHDHS	National System for Online Public Contracts
ESI	European Structural and Investment Funds
ESM	European Stability Mechanism
ESY	National Health System
ESYD	Hellenic Accreditation System
ETAA	United Fund of Independent Employees
ETAD	Public Properties Company
ETEA	Unified Auxiliary Insurance Fund
EU	European Union
EYATH	Thessaloniki Water Supply & Sewerage Company
FADN	Farm Accountancy Data Network
FEK	Official Government Gazette
FIU	Financial Investigation Unit
FMIS	Financial Management Information System
GAIA OSE	Real estate agency
GAO	General Accounting office
GCR	Government Council of Reform
GDFS	General Directorates for Financial Services
GDP	Gross Domestic Product
GEMI	General Commercial Registry
GLF	Greek Loan Facility
GSC	General Secretariat for Commerce
GSIS	General Secretariat for Information Systems
HCA	Hellenic Court of Auditors
HCAA	Hellenic Civil Aviation Authority
HCC	Hellenic Competition Commission
HFSF	Hellenic Financial Stability Fund
HRADF	Hellenic Republic Asset Development Fund
HSCA	Hellenic Slot Coordinator Authority
HWI	High Wealth Individual
HWI-HISE	High Wealth Individual and High Income Self Employed
ICD – 10	International Classifications of Diseases
ICT	Information and Communications Technology
IDIKA	E-governance of social insurance
IKA	Social Insurance Institute
IKA-ETAM	Social Insurance Institute – Unified Insurance Fund for Employees
ILO	International Labour Organisation
IMF	International Monetary Fund
IORP	Institutions for Occupational Retirement Provision
IRU	Internal Review Unit
IT	Information Technology
ITC	Information Technology Channel
JMD	Joint Ministerial Decision
KEAO	Centre for Social Security

KEDE	Code of Public Revenues
KEN-DRGs	Diagnosis Related Groups
KHMDHS	Central Electronic Registry for Public Contracts (CERPC)
KPI	Key performance indicators
KTEL	Joint Fund for Bus Receipts
LAGIE	Operator of electricity market
LG	Local Government
LNG	Liquefied Natural Gas
LPIS	Land Parcel Identification System
LTU	Large Tax Payers Unit
LTV	Loan-to-value
MAREG	Ministry of Administrative reform and Electronic governance
MD	Ministerial Decision
MEFP	Memorandum of Economic and Financial Policies
MLSSW	Ministry of Labour, Social Security and Welfare
MOF	Ministry of Finance
MoF	Ministry of Finance
MoL-SS	Ministry of Labour-Social Security
MOLSSW	Ministry of Labour, Social Security and Welfare
MoU	Memorandum of Understanding
MTFS	Medium-Term Fiscal Strategy
NHS	National Health System
NOME	New Organisation of Markets in Electricity
NPL	Non-performing loans
NSRF	National Strategic Reference Framework
OAED	Manpower Employment Organisation
OAEE	Freelancer Insurance Organisation
OASA	Athens Urban Transport Organisation
OBL	Organic Budget Law
ODIE	Hellenic Horse-race Betting Organisation
OECD	Organisation for Economic Cooperation and Development
OGA	Agricultural Insurance Organisation
OLP	Piraeus Port Authority
OLTH	Thessaloniki Port Authority
OSE	Railway Organisation of Greece
OTC	Over - the – counter
OTE	Hellenic Telecommunication Company
PAME	All Workers Militant Front
PAYE	Pay-as-you-earn
PDMA	Public Debt Management Agency
PFM	Public Financial Management
PIB	Public investment budget
PIT	Personal Income Tax
PPC	Public Power Corporation
PSC	Point of Single Contact
PSO	Public Service Obligation
PV	Photo-Voltaic

QPCs	Quantitative Performance Criteria
R&D	Research & Development
RAE	Regulatory Authority for Energy
RAS	Regulatory Authority for Railways
RES	Renewable Energy Sources
RIS3	Guide to Research and Innovation Strategies for Smart Specialisations
ROSCO	Rolling Stock & Railroad Maintenance business unit
RSPP	Radio Spectrum Policy Programme
SDOE	Corps for the Prosecution of Financial Crimes
SGC	Secretariat General for Coordination
SGPR	Secretary General for Public Revenue Administration
SMEs	Small and Medium Enterprises
SOE	State Owned Enterprises
SPA	Single Payment Authority
SPC	Statistical Process Control
SPPA	Single Public Procurement Authority
SPV	Special Purpose Vehicle
SSC	Social security contributions
SSF	Social Security Funds
SSM	Single Supervisory Mechanism
TA	Technical Assistance
TAP	trans-Adriatic pipeline
TAPIT	Private Sector Welfare Fund
TAXIS	Tax Information System
TEADY	Auxiliary Insurance Fund for Public Sector Employees
TEN-T	Trans European Transport network
TFEU	Treaty on the Functioning of the European Union
TPC	Tax Procedures Code
TRAINOSE	Railway Company
TRN	Tax Payer Registration Number
TSO	Transmission System Operator
UN	United Nations
VAT	Value Added Tax
VET	Vocational Education and Training
WHO	World Health Organisation



INTERNATIONAL MONETARY FUND



Press Release No.14/254
FOR IMMEDIATE RELEASE
May 30, 2014

International Monetary Fund
Washington, D.C. 20431 USA

IMF Completes Fifth Review Under Extended Fund Facility Arrangement for Greece and Approves €3.41 Billion Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the fifth review of Greece's performance under an economic program supported by an Extended Fund Facility (EFF) arrangement. The completion of this review enables the disbursement of SDR 3.01 billion (about €3.41 billion, or US\$4.64 billion), which would bring total disbursements under the arrangement to SDR 10.22 billion (about €11.58 billion, or US\$15.75 billion).

In completing the review, the Executive Board approved a waiver of nonobservance of the performance criterion on domestic arrears, given the corrective actions taken. In light of the delays in program implementation, the Board also approved the authorities' request for rephasing three disbursements evenly over the remaining reviews in 2014.

The EFF arrangement, which was approved on March 15, 2012 (see [Press Release No. 12/85](#)), is part of a joint package of financing with euro area member states amounting to about €173 billion over four years. It entails exceptional access to IMF resources equivalent to about 2,159 percent of Greece's quota.

Following the Executive Board discussion, Mr. Naoyuki Shinohara, Deputy Managing Director and Acting Chair, stated:

“The Greek authorities have made significant progress in consolidating the fiscal position and rebalancing the economy. The primary fiscal position is in surplus ahead of schedule, and Greece has gone from having the weakest to the strongest cyclically-adjusted primary fiscal balance in the euro area in just four years. However, several challenges remain to be overcome before stabilization is deemed complete and Greece is back on a sustainable, balanced growth path.

“Additional fiscal adjustment is necessary to ensure debt sustainability, through durable, high-quality measures, while strengthening the social safety net. It is essential that the authorities continue to improve tax collection, combat evasion, and strengthen expenditure

control. Public administration reforms need to be accelerated. The authorities are taking remedial actions to clear domestic arrears and expedite privatization.

“Despite significant wage adjustment, export performance remains comparatively weak. The redoubling of efforts to liberalize product and service markets is therefore welcome. Further measures are necessary to remove regulatory barriers to competition in key sectors and to reform investment licensing. The authorities are committed to revitalizing labor market reforms and improving the business climate.

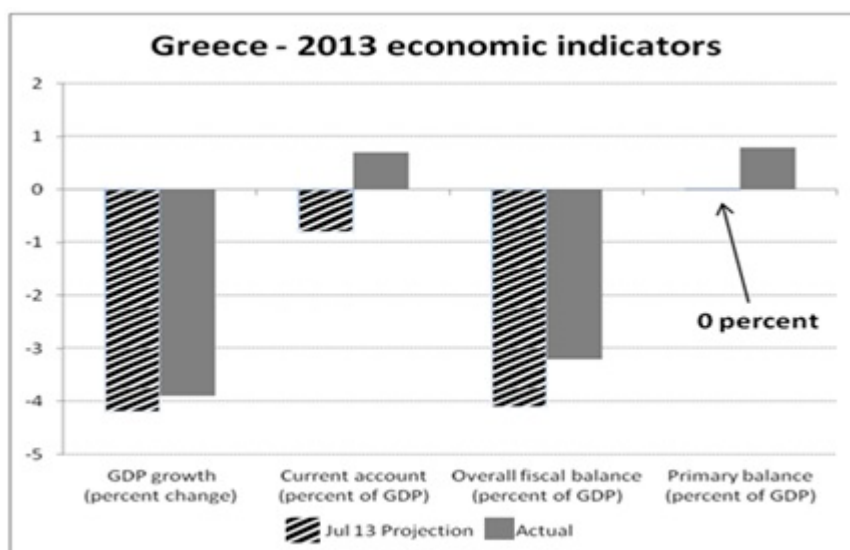
“Addressing the very high level of nonperforming loans remains an important priority. While there is no acute stability risk, it is critical for the economic recovery that banks be adequately capitalized upfront to recognize losses on the basis of realistic assumptions about loan recovery. Efforts are being made to recapitalize the banking system and set aside the buffer of the Hellenic Financial Stability Fund to deal with contingencies that may arise during the program. The private debt resolution framework should also be strengthened expeditiously.

“Public debt is projected to remain high well into the next decade, despite a targeted high primary surplus. The assurances of Greece’s European partners are welcome that they will consider further measures and assistance, if necessary, to reduce debt to substantially below 110 percent of GDP by 2022, conditional on Greece’s full implementation of the program,” Mr. Shinohara stated.

Statement by Thanos Catsambas, Alternate Executive Director for Greece
May 30, 2014

I. RECENT MACROECONOMIC DEVELOPMENTS AND OUTLOOK

The fifth review of the EFF arrangement coincides with an array of positive news for 2013 and the first few months of 2014. The 2013 macroeconomic outcomes demonstrated a better performance in the real economy, the external sector and the fiscal accounts than originally envisaged under the program, as the following table indicates.



The pace of the recession weakened markedly last year with an annual real GDP contraction of 3.9% for 2013 as a whole, slightly less than the program projection (-4.2%). A major adjustment also took place in the twin deficits, as both the fiscal and the external accounts registered better outcomes than program projections: the General Government overall balance was -3.2 percent of GDP compared to a target of -4.1 percent, and the General Government primary balance registered a surplus of 0.8 percent of GDP (according to the program definition) compared to a target of zero percent. At the same time the current account balance registered a surplus of 0.7 percent of GDP compared to an expected deficit of -0.8 percent—the first surplus in decades.

During the first four months of 2014, the economy continued to show signs of stabilization: the rate of real output decline slowed down to -1.1% in the first quarter of 2014 from -2.3% in the fourth quarter of 2013. Price competitiveness continued to improve, with inflation remaining well below the euro area average and recent signs of deflation. The unemployment rate declined marginally to 26.5% in February (latest month for which official data are available), after 20 consecutive quarterly increases. Private sector deposits are almost €13 billion higher than in June 2012. As a result, a return to positive annual growth of 0.6% is expected in 2014, followed by a stronger recovery of 2.9% in 2015.

In reflection of these positive developments, soft data continued to suggest an improvement in confidence through various sentiment indicators. The sharp fall in spreads observed in the past year facilitated the return of the Greek sovereign to global capital markets and on April 9 the Greek Government successfully launched a €3 billion, 5-year bond issue at 4.75 per cent coupon, which was oversubscribed sevenfold.

In short, four years after the beginning of the Fund-supported economic adjustment program, Greece can look forward to a year that is expected to record positive growth after six years of slump, will mark the end of increasing unemployment, and should initiate the return of the financial sector to normalcy. The following paragraphs analyze the achievements of the Greek economy since July 2013 (the time of the fourth review) as well as the new commitments and challenges that lie ahead.

II. EMPHASIS ON STRUCTURAL REFORMS

As I indicated in my Buff of July 24, 2013, the Greek authorities were poised to turn their attention to expanding and deepening structural reforms in many sectors of the economy. Indeed, in the past nine months the authorities have methodically, if at times slowly, made substantial progress in many areas. Reforms have consistently continued in the areas of revenue administration, tax policy, public financial management, privatization, civil service, health care, pensions, social welfare, education and the fight against corruption. The banking sector is undergoing a further recapitalization, attracting significant private capital. Key structural reforms in the areas of product markets and business environment have been recently undertaken to enhance competition and reduce administrative burden. While sizeable challenges remain in many areas, the number and scope of measures implemented since the last review as well as the new concrete commitments enshrined in the updated MEFP deserve recognition and respect.

Qualitative indices reflecting the business environment suggest that Greece is still ranked relatively low, but is the country with the largest improvements over the last year:

- The OECD “Product Market Regulation” indicator identifies Greece as the country with the biggest improvement between 2008-2013.
- The World Bank “Doing Business Report” indicates that Greece improved by 9 positions in “paying taxes”; 24 positions in “ease of doing business”; 70 positions in “protecting investors”; and 97 positions in “starting a business”.
- The Lisbon council and Berenberg Bank ranked Greece first in the “Adjustment Progress indicator” in 2012, 2013 and 2014; in 2014 Greece topped the list in three of the four subcategories and ranked second in the fourth.

The most important and politically challenging policies that the Government decidedly implemented in the past few months are summarized below.

The rationalization and modernization of the **public administration** have proceeded apace, and the Government is on track to reduce public sector employment by 150,000

compared with 2010. The targets for mandatory staff exits in 2014 are being met according to plan, with over 3,000 confirmed dismissals in March, significantly above the Q1 2014 target of 1,000. But the numbers do not tell the whole story; the ambition of the authorities is to go beyond statistics and improve *the quality and efficiency* of the public administration, through the reorganization of ministries, reallocation of personnel, competence-based evaluation for managers and staff, better financial management, and the simplification of rules that would reduce the scope for corruption. All these steps, including a rapid expansion of e-government, are expected to help improve the services provided by civil servants to businesses and citizens alike.

An important part of the structural policy package is the **reform of product markets**.

The authorities are taking significant steps to remove restrictions to competition in many areas of the economy, and action is on-going to reduce administrative burden. The Greek Government has already begun to implement the overwhelming majority of OECD recommendations resulting from an in-depth 2013 study of legislation and practices in the key sectors of tourism, retail trade, food processing and construction materials. Concrete measures are also being taken to liberalize the transport and residential rental markets, to develop the logistics market, and to open up professions with restricted entry.

The ambitious reforms implemented in the **labor market** since the beginning of the program have allowed Greece to eliminate a significant part of the stifling rigidities which had led to increases in wages disconnected from productivity. As the major previous reforms (reduction in average public sector salaries by 23 percent, reduction in the minimum wage by 22 percent and by 32 percent for young workers, significant cuts in severance payments) are taking hold with unit labor costs falling 14 percent between 2011-13 and the results on competitiveness become visible, Greece has undertaken measures to tackle remaining restrictions. One important measure under this review is the bold move to reduce the tax wedge by cutting social security contributions in one step, compared to a phased process originally envisaged under the program. In two important areas (collective dismissals and industrial action) the authorities are following a two-stage process: administrative steps are being adopted to simplify the system for collective dismissals, and, should these improvements prove ineffective, the system will be aligned with EU best practices through legislation in the autumn of 2014. Similarly, the authorities are first evaluating the framework for industrial action, in consultation with social partners, with a view to implementing the necessary reforms by October 2014.

III. A NEW ERA IN FISCAL POLICY AND STRUCTURAL FISCAL MEASURES

Since the beginning of the program the authorities recognized that fiscal policy and drastic improvements in revenue administration and public financial management would be the linchpin of the efforts to reverse the downward spiral of the economy and set the stage for a sustainable macroeconomic environment. These efforts are bearing visible

fruit: the 2013 fiscal performance exceeded program targets thanks to both stronger revenue performance and streamlined expenditure management. Greece has now introduced a completely new fiscal framework in line with best international practices, which envisages (a) multiannual planning, (b) binding expenditure ceilings, (c) numerical fiscal rules, and (d) strong expenditure monitoring mechanisms. In particular:

Revenue Administration has been greatly reshaped over the last year, and further reforms are being introduced in 2014. Key tax reforms include the Income Tax and Tax Procedures Codes that have broadened the tax base and modernized the rules of tax administration and the new unified Property Tax. A semiautonomous revenue administration has now been created with all competences on tax and custom issues. A strategic planning and financial directorate has been set up and an advisory council of external experts has been created. Tax collection has been consolidated in the largest offices and cash payments were replaced by transfers and checks. New tools are in place, including an important new IT system which supports compulsory electronic submission of tax returns. This stream of reforms has led to improved tax collections and its results are expected to become even more visible in terms of stronger revenues over the next quarters as implementation progresses.

Since the inception of the adjustment program, Greece has made significant progress in **Public Financial Management** reforms. These reforms now allow the provision of timely and accurate budgetary information, assure strict compliance with the ceilings of public entities' budget, and help the optimal utilization of each entity's resources. This stronger budgetary process underlies the adherence to hard budget constraints, which is a major improvement over earlier years.

IV. SUBSTANTIAL RECOVERY OF THE FINANCIAL SECTOR

Restoring the resilience of the Greek banking sector has been one of the top priorities of the authorities since the conclusion of the PSI in 2012. The latest financial results indicate improved margins and cost containment, as well as a slowdown in the flow of new non-performing loans. Recent stress tests conducted by the Bank of Greece estimated the capital needs of the banking sector at €6.4 billion based on a baseline scenario. In recognition of the fact that adverse contingencies may appear in the future, the Hellenic Financial Stability Fund (HFSF) will retain its buffers until at least the pan-European stress tests are completed later this year. The authorities have also amended the HFSF law to enhance the Fund's effectiveness.

All systemic banks have completed larger-than-required capital increases, with significant over-subscription; the total amount raised was close to €8.5 billion. Banks are regaining access to the international capital markets as demonstrated by recent bond issuances for the first time since 2009, validating investors' renewed trust in the Greek economy. As a result of lowering their interest rate margin and tapping the international

repo, debt and equity capital markets, Greek banks have substantially reduced their reliance on Eurosystem funding over the past few quarters.

The authorities are also committed to significantly strengthening the private sector debt resolution framework, and to facilitate the orderly and swift workout of impaired bank assets.

V. THE SLOW BUT STEADY PACE OF PRIVATIZATION

Privatization proceeds continue to come in, but at a slow pace. Despite the large number of assets available, current weak demand and immaturity of assets make it difficult to extract much value from real estate in the short term, which has resulted in some adjustment in the projections. Recent tenders have nevertheless produced satisfactory results, and some are expected to set significant private investments in motion over the coming years. In recognition of the slow pace of the privatization process, steps are being taken to reinforce the governance and effectiveness of the privatization process, with emphasis on real estate assets. The authorities, therefore, have undertaken to strengthen the institutions in charge, namely the Hellenic Republic Asset Development Fund (HRADF) and the Public Properties Company (ETAD). Both of them will undergo organizational changes in the near future.

VI. PROTECTING THE VULNERABLE

The adjustment has come at an unprecedented cost. The cumulative decline in real GDP since the start of the crisis amounts to 26.2 percent and unemployment stands at 26.5 percent, with youth unemployment nearing 60 percent. In addition, between 2009 and 2013 average disposable income declined by 35 percent and the share of population at risk of poverty or social exclusion rose from 28 percent to 35 percent. Cognizant of these developments, the program has a strong focus on **social welfare and reducing unemployment**. Besides the one-off "social dividend" underway for 2014 to bolster social cohesion, which was made possible by the extra-ordinary fiscal performance in 2013, efforts have been made to widen the scope of unemployment benefits to the long-term unemployed and to broaden access of the uninsured to health services through health passports. Action is also being taken to assist the re-integration of the long-term unemployed into the labor market through a 50 percent reduction of the "maturity" component of the minimum wage for these workers. In addition, a minimum income guarantee scheme is being launched on a pilot basis in two municipalities, with the intention to roll it out across the country in a phased manner, starting in 2015. All these measures, coupled with schemes financed with EU structural funds already in place to recruit young and long-term unemployed, will promote employment creation. In addition, a major reform and expansion of vocational education and apprenticeships will increase the level of skills and the employability of entrants to the labor market.

VII. HOW WILL GROWTH RETURN?

The adjustment program for Greece has helped restore fiscal and financial stability in the country and provides a comprehensive short- to long-term agenda for growth and employment, mainly because the initial stabilization efforts have been accompanied by wide-ranging and ambitious structural interventions.

However, the consolidation of the recovery and long-term growth will come from a genuine restructuring of the production base of the economy, which will be achieved through all the reforms that took place during the last four years in Greece, ranging from a flexible labor market to the dismantling of entry barriers for a number of closed professions and to the liberalization of product markets. *Designing a long term growth strategy in areas where Greece has strong needs and/or a comparative advantage is a priority of the Government.*

Indicatively, such sectors include tourism, the primary sector and the processing of agricultural products, fish farming, energy, logistics, technology and applied R&D, pharmaceuticals, metal and building materials industries and a series of activities related to shipping.

For the growth strategy to prove successful, it must be coupled with a consistent effort to tap all available resources, and the authorities are considering a two-pronged approach:

- Develop efficient and effective procedures to ensure timely disbursements of EU structural funds.
- Align technical assistance and explore bilateral ways for financing the economy, including the pooling of public and private financial resources.

Regarding the latter approach, the recently created Institution for Growth (IfG) is in the process of establishing three facilities: SME lending, SME equity, and infrastructure lending. Greece adopted the legal framework for creating the IfG in December 2013 and will invest up to EUR 350 million in it. My authorities are grateful to Germany and to private foundations that have pledged to further contribute to the funding of the IfG. The Government plans to take a leading role in further developing all these initiatives and in ensuring a collaborative effort among all parties involved.

VIII. RISKS AND THE WAY FORWARD

Despite the recent positive news, serious challenges remain. The successful return to the capital markets notwithstanding, my authorities are far from complacent and are continuously considering the implications of various external and internal risks. An **external downside risk** relates to a sharp correction of international asset prices and an increase in risk premia. There are two possible channels through which this could affect Greece. First, lower growth in the rest of the world would hurt exports; second, higher risk premia would worsen the already tight financial conditions, with negative consequences for investment. Geopolitical risks due to the situation in Russia and Ukraine and instability in Turkey could also weigh on Greek exports.

Internal downside risks mainly relate to the implementation of the agreed policies at a slower than envisaged pace due to capacity constraints and, in some cases, insufficient progress with the establishment of the required legal and regulatory framework. However, the authorities are politically committed to the success of the program, and are determined to improve the integrity and accountability of the civil service.

At the same time, there are also some **upside risks**, related to better export performance. Besides a very strong tourist season, shipping, which has acted as a drag on export revenues since 2008, may surprise on the upside in 2014 as excess supply in the industry declines and world trade picks up. All in all, my authorities agree with staff that the attainment of a durable improvement in investor sentiment in 2014 and beyond is a challenging task, but believe that risks are now more balanced than assessed at the fourth review in July 2013.

In conclusion, the Greek authorities fully understand that a successful and permanent exit from the crisis crucially depends on the Government's ability to combine short-term stabilization measures with wide-ranging structural reforms to achieve a long-term developmental vision based on exports and investment. Greece has made great strides thanks to the forbearance of its people and the resolve of its Government. With emphasis on strengthening competition and enhancing the effectiveness of the public administration and with the determination to confront vested interests and corruption, Greece is slowly but surely emerging stronger out of the crisis.