

## International Monetary Fund

[Greece](#) and the IMF

**Press Release:**

[IMF Completes First Review Under Stand-By Arrangement with Greece and Approves €2.57 Billion Disbursement](#)

September 10, 2010

**Greece:** Letter of Intent, Memorandum of Economic and Financial Policies, Technical Memorandum of Understanding, and Memorandum of Understanding on Specific Economic Policy Conditionality (European Commission and European Central Bank)

August 6, 2010

[Country's Policy Intentions Documents](#)

**E-Mail Notification**

[Subscribe](#) or [Modify](#) your subscription

The following item is a Letter of Intent of the government of Greece, which describes the policies that Greece intends to implement in the context of its request for financial support from the IMF, European Commission and European Central Bank. The document, which is the property of Greece, is being made available on the IMF website by agreement with the member as a service to users of the [IMF](#) website.

## I. LETTER OF INTENT

Athens, August 6, 2010

Mr. Dominique Strauss-Kahn  
Managing Director  
International Monetary Fund  
Washington DC

Dear Mr. Strauss-Kahn:

In the attached update to the Memorandum of Economic and Financial Policies (MEFP) of May 3, 2010, we describe the progress and policy steps towards meeting the objectives of the economic program that is being supported by a Stand-By Arrangement. The policies of the government of Greece remain fully oriented toward securing fiscal sustainability, safeguarding the stability of the financial system, and boosting potential growth and competitiveness.

We have made a vigorous start with our economic program. The fiscal program is progressing well, financial policies are being strengthened, and structural policies are ahead of schedule in key respects:

- The end-June quantitative performance criteria have all been met, led by a strong implementation of the fiscal program. Not unexpectedly, it has proven difficult to fully control expenditures at some entities, and in anticipation of such problems we significantly under-executed budget implementation at the state level, thereby ensuring that targets for the general government were met. Going forward, we are redoubling our efforts to strengthen controls at all levels of government and are determined to continue to over-perform at the state level until such controls become fully effective.
- Reflecting the weaknesses in expenditure controls at some entities, the indicative target on the non-accrual of domestic arrears has not been observed as the monitoring system for general government commitments, accounts payable, and arrears is still being developed and implemented. We commit to bringing these arrears down to zero by year-end, so that only a normal level of accounts payable is carried over into 2011.
- While the financial system continues to feel the effects of tight liquidity, sentiment indicators are gradually beginning to improve, and policy progress has been made by establishing the Financial Stability Fund to backstop any capital needs that banks might have in the future owing to an expected increase in impaired loans as the recession runs its course. Stress tests suggest that the funds allocated by the authorities for the FSF remain adequate.
- The government has made significant progress in structural reforms with far-reaching pension and labor market reforms being approved ahead of schedule. Parliament has also already adopted important budgetary reform and reforms of local government.

Other major reforms that are at an advanced stage aim at liberalizing the trucking industry and restructuring the railroad system, while reforms of the energy sector, protected professions, the licensing and business regulatory framework and preparations for implementation of the services directive are gaining momentum, as foreseen in our program.

On this basis and the completion of the prior action, we request completion of the first review under the Stand-By Arrangement, and the second purchase under this arrangement in the amount of SDR 2,162.7 million.

We believe that the policies set forth in the May 3, 2010 Letter of Intent and MEFP, and the attached update to the MEFP, are adequate to achieve the objectives under the program. We stand ready to take any corrective actions 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 this letter, in accordance with the Fund's policies on such consultations.

This letter is being copied to Messrs. Juncker, Rehn, and Trichet.

Sincerely,

/s/

/s/

---

George Papaconstantinou  
Minister of Finance

---

George Provopoulos  
Governor of the Bank of Greece

## II. GREECE—MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

1. **The government has made a vigorous start at implementing its economic program.** The fiscal program is progressing well, financial policies are being strengthened, and structural policies are ahead of schedule in key respects. The May 2010 Letter of Intent (LOI) and Memorandum of Economic and Financial Policies (MEFP) describing the 3-year economic program remain fully in force. This update to the MEFP combined with the updated MoU presents a review of achievements and policy steps toward the second review scheduled for late 2010.

2. **The growth outlook remains unaltered; short-run inflation is revised up.** The government continues to envisage a contraction of activity by about 4 percent in 2010 and some 2½ percent in 2011. However, because the government frontloaded a number of large indirect tax increases, which have been passed on as a step up in the price level, the rate of consumer price inflation and the implicit deflator have increased. The high pass through of indirect tax increases to final prices is indicative of a lack of competition and the prevalence of oligopolistic market structures. HICP inflation is now expected to approach 4¾ percent for the year. Inflation at constant taxes is falling and has declined below the euro-area average for the first time since the creation of the euro. Moreover, there is no evidence of pass through of higher prices to wages, and the national collective agreement just signed contributes to moderating wage growth and improving competitiveness.

### Fiscal Policies

3. **The fiscal program is making good progress.** The cash state budget is leading the consolidation effort with an impressive cut in its deficit by over 40 percent in January-June (y/y). Current revenue has increased in the January-June period by 7 percent, despite the deepening recession, and current expenditure and transfers have been cut by some 10 percent. Local governments, hospitals, and social security funds have also taken steps but their progress is more gradual as controlling their expenditures is more difficult, as was expected. Through June, the large margin under the targets created in the state budget has offset the overruns to date in subnational entities. However, there has been some undesirable buildup in accounts payable/arrears in hospitals and social security funds and, as described below, steps are underway to gain a firmer grip on risks for the targets going forward.

4. **Looking to the second half of the year and consistent with the May program, the government will limit the annual general government fiscal deficit (on accrual terms) to €18.5 billion:**

- **Continuing implementation of the measures:** The fiscal measures (VAT and excises, and particular the benefits from the pension and wage cuts) will be fully realized in the second half of the year and should generate substantial resources to allow all payments and the amortization of any mid-year arrears by end-2010.
- **Under-execution of spending:** In the January-June period, the government under-executed state budget primary spending by €5.6 billion. The government intends to maintain this overperformance through September, and to end the year by a margin of

overperformance of €4 billion to cover risks coming from other parts of general government. The expenditure containment will focus on operating expenses while making all required transfers to the social security funds and local governments to allow them to become current in their payments. At any time, should performance run short of these objectives, or revenue drop below schedule, the government stands ready to take corrective actions.

5. **The government achieved an important milestone in end-July by passing a new budget law that strengthens the fiscal management framework.** This implies that the budget for 2011 will be part of a three-year rolling medium-term framework, and that the Minister of Finance will be able to set top-down expenditure ceilings for line ministries, local governments and social budgets so as to broaden the scope of fiscal policy to general government. Also, the budget will now contain standard contingency margins to facilitate absorbing shocks, and the government will set up commitment registers in the line ministries (a structural benchmark for end-September) to manage better accrual spending—beyond cash outlays. In addition, the government is also developing monthly fiscal reporting for general government entities (a benchmark by end-September).

6. **The preparation of general government budgets for 2011 in line with the new budget law commitments is underway.** The budgets will be prepared under the new law and the government will present the pre-budget to parliamentary committees in early October together with the consolidated draft local government and social budgets and consistent with a general government fiscal deficit target (in ESA95 terms) of €17 billion in 2011. The government will take into account the sustainability of discretionary spending cuts, and if needed replace them with permanent savings. At the same time, the government will put in place the 2011 fiscal measures that were agreed in May.

7. **In line with the original Memorandum, the government will focus on bolstering tax administration and fighting tax evasion in the months ahead.** Improving tax administration is essential for fairness in the adjustment program and to facilitate broadening the tax base, with moderate average tax rates. The government will kick-start the improved tax administration by implementing the recommendations received from technical experts. By end-September, the government will set up five dedicated task forces to:

- Ensure prompt implementation of the new tax legislation,
- collect tax arrears,
- reorganize the large tax payers unit,
- strengthen the audits for high-wealth and income individuals,
- strengthen filing and payment controls, and improving tax payer services.

Meanwhile, the government will make intensive use of payments receipts to bolster tax compliance, and cross-check tax information with data on wealth and spending habits to reduce tax abuse and evasion in particular of high-income and wealthy tax payers, while also reviewing the existing legal processes to ensure timely and effective prosecution of tax offenders.

8. **Public administration reform is advancing.** The government is setting up a single payment authority through which wages of civil servants in central government will be paid by end 2010 and for general government by March 2011. Plans to move in 2011 to a simplified remuneration system are facilitated by the completed public employment census. A functional review of central administration, beginning in the second half of 2010, will seek to identify operational steps to rationalize and make more efficient the public administration.

9. **The government envisages specific efforts to limit risks to its program, in particular to help strengthen expenditure control in subnational entities.**

- *Health sector.* In the hospital sector the government will accelerate payments to avoid the buildup of arrears and to limit the carryover of obligations into 2011. Further, the government has reduced procurement prices of pharmaceuticals by 20 percent by implementing price caps for approved drugs lists, and improved profiles and benchmarking for patients and doctors to avoid unnecessary prescriptions, which should yield important savings during the second half of this year. Indeed, the government stands ready to reduce pharmaceutical costs further (where there is room to expand the drugs lists, the use of generics, and by introducing e-prescriptions). The government will enforce the €3 for regular outpatient services in public hospitals and extend the “all day” operation of hospitals (afternoon shift) in order to develop and improve healthcare services and increase hospital revenues, including with increased copayments of outpatient and diagnostic services. The government has placed accounting firms in state hospitals to improve their financial management to gain control over spending and accounts payable.
- *Local governments.* The recently passed Kallikratis bill for local government reform will sharply reduce the number of local administrations, entities, and elected and appointed officials. The government will tightly implement the bill, in particular the targeted employment reduction and efficiency-enhancing reforms to secure improved budgetary results of €500 million subsequently in each of the three years during 2011-13. To ensure that those savings contribute to the overall fiscal consolidation of general government, the government will limit borrowing, reduce transfers, and control local government budgets consistent with the medium-term fiscal strategy.
- *State enterprises.* The government will strengthen performance of the major loss-making public enterprises in order to reduce contingent risks to the budget, including by enhancing efficiency, increasing tariffs in public transportation, and further reducing excessive allowances and overtime. In particular, the government will restructure the loss-making railroad enterprise as described below. Under the restructuring plan operating PSO’s (public service obligation—subsidies) will be limited to €50 million per year, and no new debt guarantees by the state will be provided to the restructured rail enterprise, which has to break with a long history of large losses. The 10 largest loss-making enterprises will have their financial statements through 2009 published on the web before end-September (structural benchmark) to enhance transparency in their financial condition.

10. **Parliament approved a substantial pension reform ahead of schedule.** It introduces a new system consisting of a contributory pension to top-up a non-contributory, means-tested, basic pension, aiming to control the increase in pension spending. The National Actuarial Authority will complete an assessment of the effects of the reform on the main pension funds by end-December 2010, and of the largest auxiliary pension funds by end-March 2011. These assessments will determine whether further adjustments to the parameters of the pension system would be needed to contain the increase in pension spending to 2.5 ppts of GDP between 2009–2060. Any further adjustments, if needed, will be completed by end of June 2011 in consultation with pension experts, as foreseen in Law 3863.

11. **Financing and cash management.** The latest assessment confirms that the state financing need in 2010–11 remains fully financed from the loans of the Euro-area member states and the IMF, with the government able—as foreseen in the program—to roll over its relatively small stock of T-bills. However, the tight liquidity position will require careful cash management. In this light, the public debt management agency will start monthly T-bill auctions beginning in September (from quarterly placements) to improve cash management and smooth maturity profiles.

### **Financial Sector Policies**

12. **The Greek banking system continues to face a challenging environment.** In the first quarter of the year the banking system capital ratio declined by 0.05 percentage points to 11.7 percent as non performing loans grew to 8.2 percent from 7.7 percent at end 2009. Increases in provisions and revaluation losses in the trading book generated a loss for the system on a consolidated basis. All banks remained in compliance with the minimum capital adequacy requirement of 8 percent. The recent CEBS stress tests covered more than 90 percent of banking system assets and all but one bank passed. The results contributed to reduce market volatility.

13. **Liquidity conditions have remained strained although market volatility has declined.** The Greek banks have not regained access to wholesale markets to fund their operations and maturing interbank liabilities put pressure on their liquidity positions. The sovereign downgrade by Moody's in June put further pressure on collateral valuations and, to preserve adequate liquidity buffers in the sector, the authorities are committed to the adoption of the legislation enabling a new tranche of government guaranteed bank bonds in the amount of €25 billion (a prior action to proceed to the IMF Board meeting on September 10). Such guarantees will ensure sufficient loan provision from the ECB/Eurosystem to the Greek banks and economy, as well as to withstand possible further market turbulence.

14. **The FSF law was passed establishing a new backstopping facility for a sound level of bank equity.** On July 13 the Parliament enacted the Financial Stability Fund Law. Steps needed for the FSF to become operational by mid-September are well on course and it will receive its first tranche of funding at that time.

15. **Banking supervision is being strengthened.** Reporting requirements have heightened and reporting lags are being reduced. However expanding supervisory resources

is slow, especially taking into account the transfer of insurance supervision to the Bank of Greece. The necessary flexibility to address this issue will be provided.

16. **The government has commissioned an in-depth study on the strategic options for the banking sector.** In addition, the government has requested a preliminary due diligence analysis for those financial entities in which the state has a significant stake. Both the study and the due diligences will be completed by mid-September. Taking into account the outcome of the study and the due diligences, the Government, in consultation with experts, will formulate a program to preserve financial stability and enhance efficiency in the banking system.

17. **The authorities are following up on the result of the July 2010 CEBS stress tests.** While expecting the results of the due diligence, the single bank that did not pass the most stringent scenario will continue to implement interim restructuring measures under enhanced supervision by the BoG. The government has reaffirmed its full support to this bank and will ensure that it complies with the requirement of implementing a restructuring plan under the EU rules for state aid, including compliance with the 1 October 2010 deadline for submission.

18. **The Bank of Greece will maintain close coordination with home and host country supervisors.** Regular communications with regulators in SEE regarding risk assessments and liquidity contingency plans have intensified and participation in colleges of supervisors will continue. The authorities have also made good progress on their commitments under the MEFP and the personal insolvency law has been adopted after amending it to ensure that creditor's rights are adequately protected.

### **Structural reform policies**

19. **Consistent with the May Memorandum, the government is making headway on structural reforms that promote growth, competitiveness, and reduce budgetary risks.** The potential for raising productivity and output growth is large. Unleashing growth potential requires pursuing a genuine competition culture and ensuring collective bargaining institutions that deliver wages commensurate with productivity. Also, the reform agenda aims at developing open markets in a business-friendly environment. Finally, measures are needed to remove restrictions that hamper activity, innovation, and reforms in state-owned enterprises, and to promote the absorption of structural funds.

20. **Labor market reform is almost completed.** Substantive legislative changes were introduced in July easing employment protection legislation and collective dismissals, reforming minimum wages, reducing overtime premia, and allowing firm-level agreements to prevail over other levels. Alongside reforms in public employment to reduce labor-market distortions, these will increase adjustment capacity of firms, ultimately boosting employment. Further measures will be taken to reform collective bargaining, including the elimination of the automatic extension of sectoral agreements to those not represented in the negotiations. Finally, the government will adopt legislation to introduce symmetry in the arbitration system while strengthening its independence and transparency.

21. **The government will reform and/or privatize state-owned enterprises:**

- **Railways.** The draft enabling law to restructure the railway sector will be discussed in parliament by end-September and, in parallel, the government will approve a business plan with time-bound actions. Cost reductions aim at significantly reducing fiscal pressures from the enterprises, while making the train operator profitable for the fiscal year 2011. The business plan will include a clear strategy to render the infrastructure manager economically viable over the medium term in line with EU law. If necessary, further measures will be implemented to ensure that financial objectives are achieved.
- **Energy.** The government will enable the effective liberalization of the wholesale electricity market and proceed with the rationalization of tariffs while ensuring vulnerable groups are protected.
- **Other state-owned enterprises.** Privatization could boost domestic and foreign direct investments and stimulate growth. Thus, a list of privatization projects has been identified and a fully elaborated plan will be prepared before end-December.

22. **Efforts are underway to increase competition and achieve a rebound in growth:**

- **Restricted professions.** Pervasive restrictions to entry in a number of important professions impose high costs on the economy. As a first step, the government will remove barriers in the legal, pharmacy, notary, architecture, engineering, and auditing professions. This will include reducing licensing requirements, geographic restrictions, and regulated tariffs.
- **Services sectors.** An ambitious and strategic implementation of the Services Directive will be pursued. In road freight transport, by end-September the government will seek approval for the law that removes restrictions on licenses and liberalizes prices.
- **Business environment.** The government will take measures to facilitate start-ups by making fully operational one-stop shops and eliminating unnecessary fees. On licensing, legislation will be adopted to simplify and accelerate the authorization for enterprises, industrial activities, and professions. Remaining restrictions to business activity and innovation will be identified and an action plan (“business friendly Greece”) will be formulated to remove the most important ones.
- **Tourism and retail.** The government will also commission a report analyzing the potential contributions of tourism and retailing to growth and jobs, and follow up with pointed actions and legislation.
- **HCC.** The government will amend the Greek Competition Act to strengthen the independence of the Hellenic Competition Committee and increase its effectiveness.

23. **The absorption of structural funds will be raised.** To enhance the growth impact of funds, recourse to non-targeted *de minimis* state aid measures will be gradually reduced. The government will adopt legislation to tackle delays related to environmental, archeological and expropriation impediments. A task force has been established to address these and other implementation bottlenecks.

#### **Safeguards Assessment**

24. **The Bank of Greece safeguards assessment has been completed by the IMF.** A Memorandum of Understanding between the Minister of Finance and the Bank of Greece Governor has been signed regarding the management and use of Fund disbursements.

Table 1. Greece: Quantitative Performance Criteria 1/  
(Billions of euros)

	Jan-Jun 2010	Jan-Sep 2010	Jan-Dec 2010
1 Floor on primary balance			
Target	-5.0	-4.0	-5.7
Actual	-4.3		
Margin (+)	0.7		
2 Ceiling on state budget primary spending			
Target	34.0	50.0	67.0
Actual	28.4		
Margin (+)	5.6		
3 Ceiling on new domestic arrears 2/			
Target	0.0	0.0	0.0
Actual	1.0		
Margin (+)	-1.0		
4 Ceiling on the stock of debt			
Target	342.0	342.0	342.0
Actual	316.7		
Margin (+)	25.3		
5 Ceiling on new guarantees			
Target	2.0	2.0	2.0
Actual	0.3		
Margin (+)	1.7		
6 Ceiling on new external arrears			
Target	0.0	0.0	0.0
Actual	0.0		
Margin (+)	0.0		

Sources: LOI and MEFP; National authorities; and IMF staff calculations.

1/ As defined in the TMU.

2/ Indicative target.

Table 2: Greece: Structural Conditionality for 2010 1/

	Measures	Date	Status	Remarks
	<b>Structural benchmarks</b>	<b>End-June</b>		
1	Establish FSF		Observed	Law for FSF approved in parliament on July 13, 2010
2	Adopt Kallikratis law		Observed	Kallikratis Law approved in parliament on May 30, 2010
3	Adopt new Financial Management Law, amending the budget Law of 1995, and including: - 3-yr fiscal strategy - Top down budgeting with exp ceilings for state budget and expenditure estimates by line ministries - standard contingency margins - supplementary budget for overspending - commitment controls - effective for 2011 budget		Observed	New budget law approved in parliament on July 29, 2010
4	NAA to produce actuarial report		Incomplete	Rescheduled to end-December 2010 for main social security funds, and end-March 2011 for remaining supplementary funds, in recognition of size of task and to allow more data collection
	<b>Prior action for First Review Board Meeting</b>			
1	Enactment of €25 billion bond guarantee tranche			To support bank liquidity
		<b>End-September 2010</b>		
1	Adopt comprehensive pension reform		Well advanced; and mostly observed, with follow up at end-December 2010 and end-March 2011	Pension reform law was adopted in parliament on July 8, 2010. Incremental pension costs now estimated at slightly above 2.5 percent of GDP. Safeguard clause to be triggered in June 2011 pending full actuarial report.
2	- Establish commitment register - Publish monthly data on GG - Report all arrears monthly			ongoing ongoing ongoing
3	Publish financial statement of 10 largest loss-making SOEs			ongoing
4	Kick-off the tax administration plan and set up five task forces - collection of tax arrears - Reorganize large tax payers unit - Strengthen audits for high-wealth and income individuals - Start prosecuting worst offenders - Strengthen filing and payment controls			Progress underway ;TA received with follow-up planned ongoing ongoing ongoing ongoing ongoing
		<b>End-December 2010</b>		
1	Report with single payment authorities on public sector remuneration structures			Work has begun; employment census has been completed
2	Adopt new regulations for Statistical Action Plan			Work has begun; MOUs are being drafted; Greece has received resident expert; new President of ELSTAT in place
3	Present detailed privatization plan with dates and revenue guidelines			Work has begun; potential privatization list has been drawn up; details need to be fleshed out

1/ Benchmarks for 2011 to be set in reviews for end-September and end-December 2010 (second and third review).

### III. GREECE: TECHNICAL MEMORANDUM OF UNDERSTANDING

August 6, 2010

1. This Technical Memorandum of Understanding (TMU) sets out the understandings regarding the definitions of the indicators subject to quantitative targets (performance criteria and indicative targets), specified in the tables annexed to the Memorandum of Economic and Financial Policies. It also describes the methods to be used in assessing the program performance and the information requirements to ensure adequate monitoring of the targets. We will consult with the Fund, European Commission and ECB before modifying measures contained in this letter, or adopting new measures that would deviate from the goals of the program, and provide the European Commission, ECB and the Fund with the necessary information for program monitoring.
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 April 30, 2010. In particular, the exchange rates for the purposes of the program are set €1 = 1.3315 U.S. dollar, €1 = 125.81 Japanese yen, €1.135 = 1 SDR.

#### **General Government**

3. **Definition:** For the purposes of the program, the general government includes:
  - The central government. This includes:
    - The entities covered under the State Budget as defined in Chapter 2 of the Law 2362/1995 regarding “Public Accounting, Auditing of Government Expenditures and Other Regulations.”
    - Other entities or extra-budgetary funds (EBFs) not part of the State budget, but which are, under European System of Accounts (ESA95) rules (“*ESA95 Manual on Government Deficit and Debt*”), classified under central government.
  - Local government comprising municipalities, prefectures, and regional governments including their basic and special budgets, including all agencies and institutions attached thereto, which are classified as local governments according to ESA 95.
  - Social security funds comprising all funds that are established as social security funds in the registry of the National Statistical Service.

- This definition of general government also includes any new funds, or other special budgetary and extra budgetary programs that may be created during the program period to carry out operations of a fiscal nature. The government will inform IMF, European Commission and ECB staff of the creation of any such new funds, programs, or entities immediately. The general government, as measured for purposes of the program, shall not include entities that are re-classified from outside general government into general government during the course of 2010.

4. **Supporting material:** The Ministry of Finance (MoF) will provide to the European Commission, ECB and IMF detailed information on monthly revenues and expenditures, domestic and foreign debt redemptions, new domestic and foreign debt issuance, change in the domestic and foreign cash balances of the central government at the central bank of Greece, all other sources of financing including capital transactions, and arrears of the general government. Data will be provided within 30 days. The Bank of Greece will provide detailed monthly data on assets and liabilities of local authorities and social security funds in line with monetary survey data.

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

##### A. Floor of the Modified General Government Primary Cash Balance (Performance Criterion)

5. **Definition:** The modified general government primary cash balance (MGGPCB) is defined as the modified general government cash balance (MGGCB) minus interest payments by the state budget. The MGGCB is defined as the sum of the cash balances of the ordinary state budget, the cash balance of the public investment budget, the change in net financial assets of local government, the change in net financial assets of social security funds, and the change in net financial assets of extra-budgetary funds. Privatization receipts will be excluded from cash receipts. Net lending operations by the state budget will be recorded as cash expenditures.

- **The cash balance of the ordinary state budget.** The cash balance of the ordinary state budget will be measured from above the line, based on ordinary budget revenues (recurrent revenue plus non-recurrent revenue minus tax refunds) minus ordinary budget expenditures (ordinary budget expenditures will exclude amortization payments but include salaries and pensions; grants to social security funds, medical care and social protection; operational and other expenditure; returned resources; payments in exchange of claims of insurance fund for the personnel working in the Public Electricity Company; interest payments; payments for military equipment procurement on a cash basis; and NATO expenses net of NATO revenues) of the ordinary state budget as published monthly on the official website of the General Accounting Office of the Ministry of Finance, and in line with the corresponding line

items established in the ordinary state budget. Primary spending of the ordinary state budget shall also include capital transfers to social security funds by bonds, and called guarantees where the state or central government assumes payments on behalf of entities outside of the general government.

- **The cash balance of the public investment budget.** The cash balance of the public investment budget will be measured from above the line, based on investment budget revenues minus investment budget expenditures of the investment state budget as published monthly on the official website of the General Accounting Office of the Ministry of Finance, and in line with the corresponding line items established in the investment state budget.
- **The change in net financial assets of local governments** is defined on a transactions basis, as the change in the total of financial assets minus financial liabilities of local authorities adjusted for valuation changes by the Bank of Greece.
  - Financial assets include (but are not limited to) deposits of local governments in the Bank of Greece and deposits of local governments in the commercial domestic banking sector and in the Consignment Fund. Deposits will be measured at face value excluding accrued interest in line with recording for monetary survey data.
  - Financial liabilities include (but are not limited to) short and long term loans from the domestic banking system and in the Consignment Fund to local governments, measured at face value, consistent with recording for monetary survey data.
- **The change in net financial assets of social security funds** is defined on a transactions basis, as the change in the total of financial assets minus financial liabilities of social security funds, adjusted for valuation changes by the Bank of Greece; minus the change in the stock of accounts payable of public hospitals to the private sector.
  - Financial assets include
    - Deposits of social security funds in the Bank of Greece and direct deposits of social security funds in the domestic commercial banking system and indirect deposits held by the IKA mutual fund. Deposits are measured at face value excluding accrued interest, consistent with reporting requirements for monetary survey data.
    - Holdings of direct shares or indirect shares (through the IKA mutual fund), held by social security funds quoted on the Athens Stock Exchange.

- Direct or indirect holdings of Mutual Fund units issued by Greek management companies (other than the IKA mutual fund).
- Holdings of central government bonds, including short and long-term securities issued domestically, long-term securities issued abroad operated from Bank of Greece accounts, and indirect holdings through the IKA mutual fund. Holdings will be measured at nominal value.
- Bank bonds issued abroad.
- Financial liabilities include the short and long term loans from the domestic banking system to the social security funds, measured consistently with monetary survey data.
- The change in the stock of accounts payable of public hospitals to the private sector.
- **The change in net financial assets of extra-budgetary funds (EBFs)** is defined on a transactions basis, as the change in the total of financial assets minus financial liabilities of extra-budgetary funds, adjusted for valuation changes by the Bank of Greece. EBFs shall exclude ELGA and OPEKEPE.
  - Financial assets include
    - Deposits of EBFs in the Bank of Greece and deposits of EBFs in the commercial domestic banking sector. Deposits will be measured at face value excluding accrued interest in line with recording for monetary survey data.
    - Holdings of shares, held by EBFs quoted on the Athens Stock Exchange.
    - Direct or indirect holdings of Mutual Fund units issued by Greek management companies.
    - Holdings of central government bonds.
    - Bank bonds issued abroad.
  - Financial liabilities include the short and long term loans from the domestic banking system to EBFs, measured consistently with monetary survey data.

6. **Other provisions.**

- For the purpose of the program, the primary expenditure of the central government that is monitored excludes payments related to bank support, when carried out under the program's banking sector support and restructuring strategy. Transactions that may be excluded from the balance include loans to financial institutions and investments in equity of financial institutions (requited recapitalization); unrequited recapitalization; and purchases of troubled assets. However, any financial operation by central government to support banks, including the issuance of guarantees or provision of liquidity, will be immediately reported to IMF, European Commission and ECB staff.
- For 2010, capital transfers to social security funds by bonds and called guarantees will be excluded from primary spending. Similarly, during 2010, changes in the stock of accounts payable of public hospitals to the private sector will be excluded from the change in net financial assets of social security funds; the change in net financial assets of EBFs will also be excluded from the modified general government primary cash balance during 2010. However, from the 2011 fiscal year onward, these factors will be included.

7. **Revenue adjuster.** Further, this performance criterion will be adjusted upward for any possible revenue over-performance in the central government against the current projection as indicated below: Central government revenue (Cumulative from January 1, 2010)

- June 2010: €25,056 million
- September 2010: €41,232 million
- December 2010: €58,382 million.

8. **Supporting material.**

- Data on cash balances of the ordinary and state budgets will be provided to the European Commission, ECB and IMF by the General Accounting Office in the Ministry of Finance within three weeks after the end of the month. Data will include detailed information on revenue and expenditure items, in line with monthly reports that are published since January 2010 on the official website of the Ministry of Finance. Data will also include data on capital transfers to social security funds in bonds, and called guarantees.
- Data on net financial assets of local authorities and social security funds, and extra-budgetary funds will be provided to the IMF, European Commission and ECB by the

Statistics Department of the Bank of Greece within four weeks after the end of the month. Data on accounts payable of public hospitals will be provided by the Ministry of Health.

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

9. **Definition:** The state budget primary spending consists of state budget spending (spending of the ordinary state budget plus spending of the public investment budget) minus interest expenditures paid by the state budget, in line with the definitions provided above. Primary expenditure of the central government that is monitored for the Performance Criterion excludes any cash payments related to bank restructuring, when carried out under the program's banking sector restructuring strategy. Costs that may be excluded from the balance include loans to financial institutions and investments in equity of financial institutions (requited recapitalization); unrequited recapitalization; and purchase of troubled assets. However, any financial operation by central or general government to support banks, including the issuance of guarantees or provision of liquidity, will be immediately reported to European Commission, ECB and IMF staff.

10. **Other provisions.** Capital transfers to social security funds by bonds and called guarantees will be excluded from primary spending during 2010. However, from the 2011 fiscal year onward, such exclusion will no longer apply.

11. **Supporting material.** The General Accounting Office of the Ministry of Finance will provide monthly expenditure data of the ordinary and investment state budget, as defined above.

### **C. Non-accumulation of Domestic Arrears by the General Government (Continuous Indicative Target)**

12. **Definition.** For the purpose of the program, domestic arrears are defined as accounts payable to domestic suppliers past due date by 90 days. In case no due date is specified on the supplier contract, the due date is assumed to be 90 days of the initiation of the billing invoice. Data will be provided within four weeks after the end of the month. The continuous non-accumulation of domestic arrears is defined as no accumulation of arrears at the end of every month during which quarter the indicative target is being monitored.

13. **Supporting material.** The Ministry of Finance will provide data on monthly expenditure arrears of the general government, as defined above. Data will be provided within four weeks after the end of the month.

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

14. **Definition.** The overall stock of central government debt will refer to debt that corresponds to the activities of the state budget and will be defined for the purposes of the

program as the total outstanding gross debt liabilities of the central government. It will include, but not be limited to, liabilities in the form of securities and loans. It will exclude accounts payable. Debt will be measured at nominal value. The program exchange rate will apply to all non-euro denominated debt. Inflation indexation will apply to inflation indexed debt, using the relevant index as specified in the debt instrument. For the purposes of the program, the ceiling on the stock of central government debt will exclude debt arising from payments for bank restructuring, when carried out under the program's banking sector restructuring strategy. This includes loans to financial institutions and investments in equity of financial institutions (requited recapitalization); unrequited recapitalization; and purchase of troubled assets. However, any financial operation by the central government to support banks, including the issuance of guarantees or provision of liquidity, with the exception of Hellenic Republic intermediation in repos between foreign and domestic financial institutions will be immediately reported to IMF, European Commission and ECB staff.

15. **Adjusters.** The ceiling on the overall stock of central government debt will be adjusted upward (downward) by the amount of any upward (downward) revision to the stock of end-December 2009 central government debt. In addition, the ceiling on the overall stock of central government debt will also be revised upward by the amount of debt assumed by the central government following the railway sector restructuring.

16. **Supporting material.** Data on the total stock of central government debt will be provided to the European Commission, ECB and IMF staff by the General Accounting Office consistent with the debt published in the public debt bulletin no later than 30 days after the end of each month.

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

17. **Definition.** The ceiling on the new central government guarantees shall include new guarantees granted by the state, as well as new guarantees granted by any other entity that is classified under ESA95 under central government. Guarantees issued by TEMPME shall be included in the ceiling. The ceiling shall exclude guarantees to support banks and exclude guarantees related to EIB financed loans. New guarantees are guarantees extended during the current fiscal year. The latter shall include also guarantees for which the maturity is being extended beyond the initial contractual provisions.

18. **Other provisions.** The end-September 2010 PC on new central government guarantees shall exclude any new guarantees extended by entities (including TEMPME) other than the state. For the end-December 2010 PC on new central government guarantees, these factors shall be included on a cumulative basis starting October 1, 2010.

19. **Supporting material.** All new central government guarantees will be reported in detail, identifying amounts and beneficiaries. The General Accounting Office will provide the data on a monthly basis within three weeks after the end of each month. Non-state entities classified under the central government shall report the new guarantees they extended to the

General Accounting Office on a monthly basis within three weeks after the end of each month.

#### **F. Non-accumulation of External Debt Payments Arrears by the General Government (Continuous Performance Criteria)**

20. **Definition.** For the purposes of the program, an external debt payment arrear will be defined as a payment on debt to non-residents contracted or guaranteed by the general government, which has not been made within seven days after falling due. The performance criterion will apply on a continuous basis throughout the program period.

21. **Supporting material.** The stock of external arrears of the general government system will be provided by the General Accounting Office with a lag of not more than seven days after the test date.

#### **G. Overall Monitoring and Reporting Requirements**

22. Performance under the program will be monitored from data supplied to the EC, ECB and IMF by the Ministry of Finance, the General Accounting Office, and Bank of Greece. The authorities will transmit to the IMF, EC and ECB staff any data revisions in a timely manner.

#### **H. Monitoring of Structural Benchmarks**

23. **Pension reform.** Parliament adopted separate laws reforming pensions for the public and private sector in mid-July, ahead of the end-September deadline under the program. An actuarial evaluation of this law is currently underway. The National Actuarial Authority will complete an assessment of the effects of the reform on the main pension funds by the end of December 2010, which will be expanded to include the largest auxiliary pension funds by end of March 2011. This actuarial assessment will determine whether further adjustments to the pension system would be needed to contain the increase in pension spending 2010–2060 at 2.5 percentage points of GDP. Any needed adjustments to the parameters of the main pensions will be completed by end of June 2011 in consultation with the EC/IMF/ECB; and a full review of the auxiliary and welfare funds would be completed by end of December 2011.

24. **Financial information of the ten largest loss-making public enterprises.** The ten largest loss-making public enterprises will be defined based on the 2009 net income, after state budget subsidies. Net income will be defined based on financial statements that are compiled in line with Greek accounting standards. Published information on financial statements, however, will include the IFRS financial statements.

**IV. GREECE: LETTER OF INTENT AND MEMORANDUM OF  
UNDERSTANDING ON SPECIFIC ECONOMIC POLICY CONDITIONALITY**  
.....'Gwt qr gcp'Ego o kukqp'cpf 'Gwt qr gcp'Egpvt cilDcpm'

Athens, 6 August 2010

Mr. Jean-Claude Juncker  
President  
Eurogroup

Mr. Olli Rehn  
Commissioner for Economic and Monetary Affairs  
European Commission

Mr Jean-Claude Trichet  
President  
European Central Bank

Dear Messrs. Juncker, Rehn and Trichet,

In the attached update to the Memorandum of Economic and Financial Policies (MEFP) and the Memorandum of Understanding on Specific Economic Policy Conditionality of 3 May 2010, we describe the progress and further policy steps towards meeting the objectives of the economic program that is being supported by financial assistance provided by the euro-area Member States in the context of the loan facility agreement. The policies of the government of Greece remain fully oriented toward securing fiscal sustainability, safeguarding the stability of the financial system, and boosting potential growth and competitiveness.

We have made a vigorous start with our economic program. The fiscal program is progressing well, financial policies are being strengthened, and structural policies are ahead of schedule in key aspects:

- The end-June quantitative performance criteria have all been met, led by a strong implementation of the fiscal program. Not unexpectedly, it has proven difficult to fully control expenditures at some entities, and in anticipation of such problems we significantly under-executed budget implementation at the state level, thereby ensuring that targets for the general government were met. Going forward, we are redoubling our efforts to strengthen controls at all levels of government and are determined to continue to over-perform at the state level until such controls become fully effective.
- Reflecting the weaknesses in expenditure controls at some entities, the indicative target on the non-accrual of domestic arrears has not been observed as the monitoring system for general government commitments, accounts payable, and arrears is still

being developed and implemented. We commit to bringing these arrears down to zero by year-end, so that only a normal level of accounts payable is carried over into 2011.

- While the financial system continues to feel the effects of tight liquidity, sentiment indicators are gradually beginning to improve, and policy progress has been made by establishing the Financial Stability Fund to backstop any capital needs that banks might have in the future owing to an expected increase in impaired loans as the recession runs its course. Stress tests suggest that the funds earmarked for the FSF under the program remain fully adequate.
- The government has made significant progress in structural reforms with far-reaching pension and labor market reforms being approved ahead of schedule. Parliament has also already adopted important budgetary reform and reforms of local government. Other major reforms that are at an advanced stage aim at liberalizing the trucking industry and restructuring the railroad system, while reforms of the energy sector, protected professions, the licensing and business regulatory framework and preparations for implementation of the services directive are gaining momentum, as foreseen in our program.

On this basis and the completion of the prior action, we request the disbursement of the second instalment of financial assistance by the euro-area Member States in the amount of EUR 6 500 million, in line with the loan facility agreement.

We believe that the policies set forth in the 3 May 2010 Letter of Intent, MEFP and MoU, and the attached updates, are adequate to achieve the objectives under the program. We stand ready to take any corrective actions that may become appropriate for this purpose as circumstances change. We will consult with the European Commission and the ECB, as well as with the IMF, on the adoption of any such actions and in advance of revisions to the policies contained in this letter.

We are copying this letter to Mr. Strauss-Kahn, Managing Director of the IMF.

Sincerely,

/s/

---

George Papaconstantinou  
Minister of Finance

/s/

---

George Provopoulos  
Governor of the Bank of Greece

Athens, August 6, 2010

### Greece—Memorandum of Economic and Financial Policies

25. **The government has made a vigorous start at implementing its economic program.** The fiscal program is progressing well, financial policies are being strengthened, and structural policies are ahead of schedule in key respects. The May 2010 Letter of Intent (LOI) and Memorandum of Economic and Financial Policies (MEFP) describing the 3-year economic program remain fully in force. This update to the MEFP combined with the updated MoU presents a review of achievements and policy steps toward the second review scheduled for late 2010.

26. **The growth outlook remains unaltered; short-run inflation is revised up.** The government continues to envisage a contraction of activity by about 4 percent in 2010 and some 2½ percent in 2011. However, because the government frontloaded a number of large indirect tax increases, which have been passed on as a step up in the price level, the rate of consumer price inflation and the implicit deflator have increased. The high pass through of indirect tax increases to final prices is indicative of a lack of competition and the prevalence of oligopolistic market structures. HICP inflation is now expected to approach 4¾ percent for the year. Inflation at constant taxes is falling and has declined below the euro-area average for the first time since the creation of the euro. Moreover, there is no evidence of pass through of higher prices to wages, and the national collective agreement just signed contributes to moderating wage growth and improving competitiveness.

#### Fiscal Policies

27. **The fiscal program is making good progress.** The cash state budget is leading the consolidation effort with an impressive cut in its deficit by over 40 percent in Jan-Jun (y/y). Current revenue has increased in the Jan-Jun period by 7 percent, despite the deepening recession, and current expenditure and transfers have been cut by some 10 percent. Local governments, hospitals, and social security funds have also taken steps but their progress is more gradual as controlling their expenditures is more difficult, as was expected. Through June, the large margin under the targets created in the state budget has offset the overruns to date in subnational entities. However, there has been some undesirable buildup in accounts payable/arrears in hospitals and social security funds and, as described below, steps are underway to gain a firmer grip on risks for the targets going forward.

28. **Looking to the second half of the year and consistent with the May program, the government will limit the annual general government fiscal deficit (on accrual terms) to €18.5 billion:**

- **Continuing implementation of the measures:** The fiscal measures (VAT and excises, and particular the benefits from the pension and wage cuts) will be fully realized in the second half of the year and should generate substantial resources to allow all payments and the amortization of any mid-year arrears by end-2010.

- **Under-execution of spending:** In the January-June period, the government under-executed state budget primary spending by €5.6 billion. The government intends to maintain this overperformance through September, and to end the year by a margin of overperformance of €4 billion to cover risks coming from other parts of general government. The expenditure containment will focus on operating expenses while making all required transfers to the social security funds and local governments to allow them to become current in their payments. At any time, should performance run short of these objectives, or revenue drop below schedule, the government stands ready to take corrective actions.

29. **The government achieved an important milestone in end-July by passing a new budget law that strengthens the fiscal management framework.** This implies that the budget for 2011 will be part of a three-year rolling medium-term framework, and that the Minister of Finance will be able to set top-down expenditure ceilings for line ministries, local governments and social budgets so as to broaden the scope of fiscal policy to general government. Also, the budget will now contain standard contingency margins to facilitate absorbing shocks, and the government will set up commitment registers in the line ministries (a structural benchmark for end-September) to manage better accrual spending—beyond cash outlays. In addition, the government is also developing monthly fiscal reporting for general government entities (a benchmark by end-September).

30. **The preparation of general government budgets for 2011 in line with the new budget law commitments is underway.** The budgets will be prepared under the new law and the government will present the pre-budget to parliamentary committees in early October together with the consolidated draft local government and social budgets and consistent with a general government fiscal deficit target (in ESA95 terms) of €17 billion in 2011. The government will take into account the sustainability of discretionary spending cuts, and if needed replace them with permanent savings. At the same time, the government will put in place the 2011 fiscal measures that were agreed in May.

31. **In line with the original Memorandum, the government will focus on bolstering tax administration and fighting tax evasion in the months ahead.** Improving tax administration is essential for fairness in the adjustment program and to facilitate broadening the tax base, with moderate average tax rates. The government will kick-start the improved tax administration by implementing the recommendations received from technical experts. By end-September, the government will set up five dedicated task forces to:

- Ensure prompt implementation of the new tax legislation,
- collect tax arrears,
- reorganize the large tax payers unit,
- strengthen the audits for high-wealth and income individuals,
- strengthen filing and payment controls, and improving tax payer services.

Meanwhile, the government will make intensive use of payments receipts to bolster tax compliance, and cross-check tax information with data on wealth and spending habits to reduce tax abuse and evasion in particular of high-income and wealthy tax payers, while also

reviewing the existing legal processes to ensure timely and effective prosecution of tax offenders.

32. **Public administration reform is advancing.** The government is setting up a single payment authority through which wages of civil servants in central government will be paid by end 2010 and for general government by March 2011. Plans to move in 2011 to a simplified remuneration system are facilitated by the completed public employment census. A functional review of central administration, beginning in the second half of 2010, will seek to identify operational steps to rationalize and make more efficient the public administration.

33. **The government envisages specific efforts to limit risks to its program, in particular to help strengthen expenditure control in subnational entities.**

- *Health sector.* In the hospital sector the government will accelerate payments to avoid the buildup of arrears and to limit the carryover of obligations into 2011. Further, the government has reduced procurement prices of pharmaceuticals by 20 percent by implementing price caps for approved drugs lists, and improved profiles and benchmarking for patients and doctors to avoid unnecessary prescriptions, which should yield important savings during the second half of this year. Indeed, the government stands ready to reduce pharmaceutical costs further (where there is room to expand the drugs lists, the use of generics, and by introducing e-prescriptions). The government will enforce the €3 for regular outpatient services in public hospitals and extend the “all day” operation of hospitals (afternoon shift) in order to develop and improve healthcare services and increase hospital revenues, including with increased copayments of outpatient and diagnostic services. The government has placed accounting firms in state hospitals to improve their financial management to gain control over spending and accounts payable.
- *Local governments.* The recently passed Kallikratis bill for local government reform will sharply reduce the number of local administrations, entities, and elected and appointed officials. The government will tightly implement the bill, in particular the targeted employment reduction and efficiency-enhancing reforms to secure improved budgetary results of €500 million subsequently in each of the three years during 2011-13. To ensure that those savings contribute to the overall fiscal consolidation of general government, the government will limit borrowing, reduce transfers, and control local government budgets consistent with the medium-term fiscal strategy.
- *State enterprises.* The government will strengthen performance of the major loss-making public enterprises in order to reduce contingent risks to the budget, including by enhancing efficiency, increasing tariffs in public transportation, and further reducing excessive allowances and overtime. In particular, the government will restructure the loss-making railroad enterprise as described below. Under the restructuring plan operating PSO’s (public service obligation—subsidies) will be limited to €50 million per year, and no new debt guarantees by the state will be provided to the restructured rail enterprise, which has to break with a long history of large losses. The 10 largest loss-making enterprises will have their financial

statements through 2009 published on the web before end-September (structural benchmark) to enhance transparency in their financial condition.

34. **Parliament approved a substantial pension reform ahead of schedule.** It introduces a new system consisting of a contributory pension to top-up a non-contributory, means-tested, basic pension, aiming to control the increase in pension spending. The National Actuarial Authority will complete an assessment of the effects of the reform on the main pension funds by end-December 2010, and of the largest auxiliary pension funds by end-March 2011. These assessments will determine whether further adjustments to the parameters of the pension system would be needed to contain the increase in pension spending to 2.5 ppts of GDP between 2009-2060. Any further adjustments, if needed, will be completed by end of June 2011 in consultation with pension experts, as foreseen in Law 3863.

35. **Financing and cash management.** The latest assessment confirms that the state financing need in 2010–11 remains fully financed from the loans of the Euro-area member states and the IMF, with the government able—as foreseen in the program—to roll over its relatively small stock of T-bills. However, the tight liquidity position will require careful cash management. In this light, the public debt management agency will start monthly T-bill auctions beginning in September (from quarterly placements) to improve cash management and smooth maturity profiles.

### **Financial Sector Policies**

36. **The Greek banking system continues to face a challenging environment.** In the first quarter of the year the banking system capital ratio declined by 0.05 percentage points to 11.7 percent as non performing loans grew to 8.2 percent from 7.7 percent at end 2009. Increases in provisions and revaluation losses in the trading book generated a loss for the system on a consolidated basis. All banks remained in compliance with the minimum capital adequacy requirement of 8 percent. The recent CEBS stress tests covered more than 90 percent of banking system assets and all but one bank passed. The results contributed to reduce market volatility.

37. **Liquidity conditions have remained strained although market volatility has declined.** The Greek banks have not regained access to wholesale markets to fund their operations and maturing interbank liabilities put pressure on their liquidity positions. The sovereign downgrade by Moody's in June put further pressure on collateral valuations and, to preserve adequate liquidity buffers in the sector, the authorities are committed to the adoption of the legislation enabling a new tranche of government guaranteed bank bonds in the amount of €25 billion (a prior action to proceed to the IMF Board meeting on September 10). Such guarantees will ensure sufficient loan provision from the ECB/Eurosystem to the Greek banks and economy, as well as to withstand possible further market turbulence.

38. **The FSF law was passed establishing a new backstopping facility for a sound level of bank equity.** On July 13 the Parliament enacted the Financial Stability Fund Law. Steps needed for the FSF to become operational by mid-September are well on course and it will receive its first tranche of funding at that time.

39. **Banking supervision is being strengthened.** Reporting requirements have heightened and reporting lags are being reduced. However expanding supervisory resources is slow, especially taking into account the transfer of insurance supervision to the Bank of Greece. The necessary flexibility to address this issue will be provided.

40. **The government has commissioned an in-depth study on the strategic options for the banking sector.** In addition, the government has requested a preliminary due diligence analysis for those financial entities in which the state has a significant stake. Both the study and the due diligences will be completed by mid-September. Taking into account the outcome of the study and the due diligences, the Government, in consultation with experts, will formulate a program to preserve financial stability and enhance efficiency in the banking system.

41. **The authorities are following up on the result of the July 2010 CEBS stress tests.** While expecting the results of the due diligence, the single bank that did not pass the most stringent scenario will continue to implement interim restructuring measures under enhanced supervision by the BoG. The government has reaffirmed its full support to this bank and will ensure that it complies with the requirement of implementing a restructuring plan under the EU rules for state aid, including compliance with the 1 October 2010 deadline for submission.

42. **The Bank of Greece will maintain close coordination with home and host country supervisors.** Regular communications with regulators in SEE regarding risk assessments and liquidity contingency plans have intensified and participation in colleges of supervisors will continue. The authorities have also made good progress on their commitments under the MEFP and the personal insolvency law has been adopted after amending it to ensure that creditor's rights are adequately protected.

### **Structural reform policies**

43. **Consistent with the May Memorandum, the government is making headway on structural reforms that promote growth, competitiveness, and reduce budgetary risks.** The potential for raising productivity and output growth is large. Unleashing growth potential requires pursuing a genuine competition culture and ensuring collective bargaining institutions that deliver wages commensurate with productivity. Also, the reform agenda aims at developing open markets in a business-friendly environment. Finally, measures are needed to remove restrictions that hamper activity, innovation, and reforms in state-owned enterprises, and to promote the absorption of structural funds.

44. **Labor market reform is almost completed.** Substantive legislative changes were introduced in July easing employment protection legislation and collective dismissals, reforming minimum wages, reducing overtime premia, and allowing firm-level agreements to prevail over other levels. Alongside reforms in public employment to reduce labor-market distortions, these will increase adjustment capacity of firms, ultimately boosting employment. Further measures will be taken to reform collective bargaining, including the elimination of the automatic extension of sectoral agreements to those not represented in the

negotiations. Finally, the government will adopt legislation to introduce symmetry in the arbitration system while strengthening its independence and transparency.

45. **The government will reform and/or privatize state-owned enterprises:**

- **Railways.** The draft enabling law to restructure the railway sector will be discussed in parliament by end-September and, in parallel, the government will approve a business plan with time-bound actions. Cost reductions aim at significantly reducing fiscal pressures from the enterprises, while making the train operator profitable for the fiscal year 2011. The business plan will include a clear strategy to render the infrastructure manager economically viable over the medium term in line with EU law. If necessary, further measures will be implemented to ensure that financial objectives are achieved.
- **Energy.** The government will enable the effective liberalization of the wholesale electricity market and proceed with the rationalization of tariffs while ensuring vulnerable groups are protected.
- **Other state-owned enterprises.** Privatization could boost domestic and foreign direct investments and stimulate growth. Thus, a list of privatization projects has been identified and a fully elaborated plan will be prepared before end-December.

46. **Efforts are underway to increase competition and achieve a rebound in growth:**

- **Restricted professions.** Pervasive restrictions to entry in a number of important professions impose high costs on the economy. As a first step, the government will remove barriers in the legal, pharmacy, notary, architecture, engineering, and auditing professions. This will include reducing licensing requirements, geographic restrictions, and regulated tariffs.
- **Services sectors.** An ambitious and strategic implementation of the Services Directive will be pursued. In road freight transport, by end-September the government will seek approval for the law that removes restrictions on licenses and liberalizes prices.
- **Business environment.** The government will take measures to facilitate start-ups by making fully operational one-stop shops and eliminating unnecessary fees. On licensing, legislation will be adopted to simplify and accelerate the authorization for enterprises, industrial activities, and professions. Remaining restrictions to business activity and innovation will be identified and an action plan (“business friendly Greece”) will be formulated to remove the most important ones.
- **Tourism and retail.** The government will also commission a report analyzing the potential contributions of tourism and retailing to growth and jobs, and follow up with pointed actions and legislation.

- **HCC.** The government will amend the Greek Competition Act to strengthen the independence of the Hellenic Competition Committee and increase its effectiveness.

47. **The absorption of structural funds will be raised.** To enhance the growth impact of funds, recourse to non-targeted *de minimis* state aid measures will be gradually reduced. The government will adopt legislation to tackle delays related to environmental, archeological and expropriation impediments. A task force has been established to address these and other implementation bottlenecks.

### **Safeguards Assessment**

48. **The Bank of Greece safeguards assessment has been completed by the IMF.** A Memorandum of Understanding between the Minister of Finance and the Bank of Greece Governor has been signed regarding the management and use of Fund disbursements and there are no outstanding issues.

Table 1. Greece: Quantitative Performance Criteria 1/  
(Billions of euros)

	Jan-Jun 2010	Jan-Sep 2010	Jan-Dec 2010
1 Floor on primary balance			
Target	-5.0	-4.0	-5.7
Actual	-4.3		
Margin (+)	0.7		
2 Ceiling on state budget primary spending			
Target	34.0	50.0	67.0
Actual	28.4		
Margin (+)	5.6		
3 Ceiling on new domestic arrears 2/			
Target	0.0	0.0	0.0
Actual	1.0		
Margin (+)	-1.0		
4 Ceiling on the stock of debt			
Target	342.0	342.0	342.0
Actual	316.7		
Margin (+)	25.3		
5 Ceiling on new guarantees			
Target	2.0	2.0	2.0
Actual	0.3		
Margin (+)	1.7		
6 Ceiling on new external arrears			
Target	0.0	0.0	0.0
Actual	0.0		
Margin (+)	0.0		

Sources: LOI and MEFP; National authorities; and IMF staff calculations.

1/ As defined in the TMU.

2/ Indicative target.

Table 2: Greece: Structural Conditionality for 2010 1/

	Measures	Date	Status	Remarks
	<b>Structural benchmarks</b>	<b>End-June</b>		
1	Establish FSF		Observed	Law for FSF approved in parliament on July 13, 2010
2	Adopt Kallikratis law		Observed	Kallikratis Law approved in parliament on May 30, 2010
3	Adopt new Financial Management Law, amending the budget Law of 1995, and including: - 3-yr fiscal strategy - Top down budgeting with exp ceilings for state budget and expenditure estimates by line ministries - standard contingency margins - supplementary budget for overspending - commitment controls - effective for 2011 budget		Observed	New budget law approved in parliament on July 29, 2010
4	NAA to produce actuarial report		Incomplete	Rescheduled to end-December 2010 for main social security funds, and end-March 2011 for remaining supplementary funds, in recognition of size of task and to allow more data collection
	<b>Prior action for First Review Board Meeting</b>			
1	Enactment of €25 billion bond guarantee tranche			To support bank liquidity
		<b>End-September 2010</b>		
1	Adopt comprehensive pension reform		Well advanced; and mostly observed, with follow up at end-December 2010 and end-March 2011	Pension reform law was adopted in parliament on July 8, 2010. Incremental pension costs now estimated at slightly above 2.5 percent of GDP. Safeguard clause to be triggered in June 2011 pending full actuarial report.
2	- Establish commitment register - Publish monthly data on GG - Report all arrears monthly			ongoing ongoing ongoing
3	Publish financial statement of 10 largest loss-making SOEs			ongoing
4	Kick-off the tax administration plan and set up five task forces - collection of tax arrears - Reorganize large tax payers unit - Strengthen audits for high-wealth and income individuals - Start prosecuting worst offenders - Strengthen filing and payment controls			Progress underway ;TA received with follow-up planned ongoing ongoing ongoing ongoing ongoing
		<b>End-December 2010</b>		
1	Report with single payment authorities on public sector remuneration structures			Work has begun; employment census has been completed
2	Adopt new regulations for Statistical Action Plan			Work has begun; MOUs are being drafted; Greece has received resident expert; new President of ELSTAT in place
3	Present detailed privatization plan with dates and revenue guidelines			Work has begun; potential privatization list has been drawn up; details need to be fleshed out

1/ Benchmarks for 2011 to be set in reviews for end-September and end-December 2010 (second and third review).

## **Greece: Updated Memorandum of Understanding on Specific Economic Policy Conditionality**

August 6, 2010

The quarterly disbursements of bilateral financial assistance from euro area Member States will be subject to quarterly reviews of conditionality for the duration of the arrangement. The release of the tranches will be based on observance of quantitative performance criteria, and a positive evaluation of progress made with respect to policy criteria in the MEFP and in this Memorandum, which specifies the detailed criteria that will be assessed for the successive reviews, up to the end of 2011. Detailed criteria for the structural reform requirements in 2010 and 2011 have been updated and further specified during the summer 2010 mission.

The authorities commit to consult with the European Commission, the ECB and the IMF staffs on adoption of policies falling within the scope of this Memorandum allowing sufficient time for review. They will also provide them with all requested information for monitoring progress during program implementation and the economic and financial situation (Annex 1). Government provides quarterly a report in line with Article 4 of Council Decision 2010/320/EU.<sup>1</sup>

### **1. Actions for the second review (actions to be completed by end Q3-2010)**

#### **i. Fiscal consolidation**

Rigorously implement the budget for 2010 and the fiscal consolidation measures announced afterwards, including those in this Memorandum (including its previous version).

The Ministry of Finance ensures tight supervision of expenditure commitments by the government departments, and effective tax collection, to make certain that the general government deficit targets in cash and ESA95 bases (cumulative quarterly deficit ceilings in the Memorandum of Economic and Financial Policies (MEFP) including the Technical Memorandum of Understanding (TMU); and Article 1 of Council Decision 2010/320/EU) are achieved.

The 2011 budget will provide information and reliable projections on the entire general government sector and target a further reduction of the general government deficit in line with the original MEFP. It includes a detailed presentation of fiscal consolidation measures amounting to at least 3.2% of GDP (4.3% of GDP, if carryovers from measures implemented in 2010 are considered), and detailed information on the situation of public enterprises.

The budget will include the following measures, as planned in the original version of this Memorandum (in exceptional circumstances, measures yielding comparable savings could be considered in close consultation with European Commission, IMF and ECB staffs):

---

<sup>1</sup> OJ L 145, 11.6.2010, p. 6.

- Implement the rule of replacing only 20 percent of retiring employees in the public sector (central government, public companies, local governments, state agencies and other public institutions);
- Reduction in intermediate consumption of the general government by at least EUR 300 million compared to the 2010 level, on top of savings envisaged in the context of reforming public administration and the reorganisation of local government (see next measure);
- Government starts implementing legislation reforming public administration and the reorganisation of local government with the aim of reducing costs by at least EUR 1500 million from 2011 to 2013, of which at least EUR 500 million in 2011.
- Freeze in the indexation of pensions, with aim of saving EUR 100 million;
- Reduction in domestically-financed investments by at least EUR 500 million, by giving priority to investment projects financed by EU structural and cohesion funds;
- Temporary "crisis levies" on highly profitable firms, yielding at least EUR 600 million in additional revenue per year in 2011, 2012 and 2013;
- Incentives to regularize land-use violations, yielding at least EUR 1500 million from 2011 to 2013, of which at least EUR 500 million in 2011;
- Enforce the presumptive taxation of professionals, with a yield of at least EUR 400 million in 2011 and increasing returns in 2012 and 2013;
- Broaden the VAT base by including services that are currently exempted and move a significant proportion (at least 30%) of the goods and services currently subject to the reduced rate to the normal rate, with a yield of at least EUR 1000 million, or a measure of the same yield to be agreed with the EC/IMF/ECB staffs;
- Start phasing in a "green tax" on CO2 emissions, with a yield of at least EUR 300 million in 2011;
- Collect revenue from the licensing of gaming: at least EUR 500 million in sales of licenses and EUR 200 in annual royalties;
- Expand the base of the real estate tax by updating asset values to yield at least EUR 400 million additional revenue;
- Increase taxation of wages in kind, including by taxing car lease payments (at least EUR 150 million);
- Initiate the collection of a special tax on unauthorized establishments (at least EUR 800 million per year);
- Increase taxes on luxury goods by at least EUR 100 million;
- The budget will establish detailed expenditure ceilings for each line-ministry, local governments, and social security funds consistent with the general government deficit target. This also pertains to the medium-term fiscal framework for 2012-2013;
- The budget will contain indicative information on monthly revenue per category, and expenditure per Ministry. Updated figures will be regularly made available online.

Government implements the new organic budget law, and ensures that the draft budget law for 2011 onwards contains detailed information on outturn and plans of the entire general government sector – including local government, social security, hospitals and legal entities. An annex to the budget will present key figures on the financial performance of the largest public enterprises, concomitant budgetary and tax expenditures, and related fiscal risks.

## **ii. Structural fiscal reforms**

### *Tax administration*

Parliament adopts legislation to improve the efficiency of the tax administration and controls, implementing recommendations provided by the European Commission and IMF staffs. In particular, they put in place an effective project management arrangement (including tight oversight by the Ministry of Finance and taskforces) to implement the anti-evasion plan to restore tax discipline through:

- strengthened collection enforcement and recovery of tax arrears (coordinated with the social security funds) of the largest debtors;
- a reorganized large taxpayer unit focused on the compliance of the largest revenue contributors;
- a strong audit program to defeat pervasive evasion by high-wealth individuals and high income self-employed, including prosecution of the worst offenders; and
- a strengthened filing and payment control program.

### *Accounting and control*

Government implements the reform of the general accounting office (GAO), including the following elements:

- Strengthening of the role of the GAO in budget planning and control;
- Provision of the necessary resources in terms of high-level personnel, infrastructure and equipment support, managerial organization and information-sharing systems;
- Provision of safeguards for GAO staff against political interference, and personal accountability in the provision of reliable data;
- Strengthen the institutional mechanisms for providing reliable and plausible official budgetary forecasts that take into account available recent execution developments and trends; to this end, the official macroeconomic forecasts should be reviewed by external experts.

Government takes the following measures to ensure timely provision of reliable fiscal accounts and statistics:

- GAO starts, in June 2010, the publication of timely monthly statistics (on a cash basis) on revenue, expenditure and financing and accounts payable for the "available general government" and its sub entities (state, social security, hospitals, local governments and legal entities);
- Government adopts a detailed time-bound action plan, agreed with Eurostat, to improve collection and processing of general government data required under the existing EU legal framework, in particular by enhancing the mechanisms that

ensure the prompt and correct supply of these data, and ensure personal responsibility in cases of misreporting; and receive appropriate resident technical assistance to ensure rapid progress;

- Government starts to publish timely information on the financial situation in public enterprises (at least the 10 largest loss-making ones) and other public entities not classified in the general government (including detailed income statements, balance sheets and data on employment and the wage bill). To this end, a regular and timely reporting mechanism is introduced.

The Ministry of Finance establishes a comprehensive central registry for public enterprises.

### **iii. Financial sector regulation and supervision**

The Bank of Greece and the Government ensure that the Financial Stability Fund is fully operational.

Government makes available an in-depth study on the strategic options for the banking sector as well as a preliminary due diligence analysis for those financial entities in which the state has a significant stake.

Following up on the result of the July 2010 CEBS stress tests, the bank which did not pass the test implements interim restructuring measures under enhanced supervision by the Bank of Greece. Government provides its full support to this bank and ensures that it complies with the requirement of implementing a restructuring plan under the EU rules for state aid, including compliance with the 1 October 2010 deadline for submission.

The Bank of Greece commits to reduce remuneration of its staff in light of the overall effort of fiscal consolidation.

### **iv. Structural reforms**

#### ***To strengthen labour market institutions***

Following dialogue with social partners, Government adopts and implements legislation to reform wage bargaining system in the private sector, which should provide for a reduction in pay rates for overtime work and enhanced flexibility in the management of working time. . Government ensures that firm level agreements take precedence over sectoral agreements which in turn take precedence over occupational agreements. Government removes the provision that allows the Ministry of Labour to extend all sectoral agreements to those not represented in negotiations.

Government amends employment protection legislation to extend the probationary period for new jobs to one year, and to facilitate greater use of temporary contracts and part-time work.

Government amends regulation of the arbitration system, (Law 1876/1990), so that each of the parties can resort to arbitration if they disagree with the proposal of the mediator without

exceptions on subject or coverage, according to the provisions of Law 3863/2010. It should provide for an arbitration procedure that operates according to transparent objective criteria, and with an independent committee of arbitrators with decision making capacity free from government influence. The objectives of the arbitration should ensure that due attention is paid to cost competitiveness, thereby supporting job creation.

### ***To modernise public administration***

#### *Public sector wages and human resource management*

Government launches the process, including the principles and timetable, for establishing a simplified remuneration system covering basic wages and allowances. It shall apply to all public sector employees, and be part of an overall reform of Human Resource management. This should lead to a system where remuneration reflects productivity and tasks. As a general principle, it should avoid increases in remuneration for employees as a result of the transition process.

#### *Functional reviews*

Government launches independent functional reviews of the public administration at central level and of existing social programmes. It is to be conducted by internationally renowned and external experts. The Terms of Reference for the reviews will be agreed with the European Commission, IMF and ECB staffs. To ensure ownership, participation shall *inter alia* include the office of the Prime Minister, the Ministry of Interior, the Ministry of Finance, the Ministry of Labour and Social Security and the Ministry of Health and Social Solidarity.

The objectives of the review on public administration at central level are:

- To take stock of the use of resources, including human resources, to carry out government functions (e.g., employment, goods and services) in the central government and subordinated public institutions;
- To identify actions to rationalize the organisation of public administration and generate productivity gains, and quantify possible fiscal savings from implementation of these actions. The review shall encompass horizontal issues related to planning, organisation, staffing and control functions (including internal audit), and shall include specific studies for all main ministries and key public bodies.

The objectives of the review on existing social programmes are:

- To assess effectiveness and appropriateness of existing social programmes and make proposals for reform or cancellation of the least effective ones, while quantifying possible fiscal savings from implementation of these actions.
- To assess the options for reform of the overall health care system (both public and private) with the aim of securing more efficient use of public resources and delivery of better quality health care services.

#### *Public procurement*

Government agrees an action plan, with a timetable for concrete actions, leading to the creation of a central procurement authority, involving a swift implementation of the electronic platform for public procurement and introducing the use of an e-auctioning system. It should ensure a common approach across government authorities for tendering procedures, *ex ante* and *ex post* controls.

### ***To strengthen competition in open markets***

#### *Services Directive*

Under the Services Directive, the government finalizes the review (screening) of existing sectoral legislation, and provides a list of restrictions that are being abolished or amended as a result.

The Government also ensures that the electronic point of single contact is operational with a user-friendly internet portal which:

- lists all relevant information for the specific service;
- for each service activity provides an overview of procedures to be complied with, distinguishing between the requirements that apply in establishment cases and for cross-border service provision;
- allows common procedures (including for the most important regulated professions and in the areas of tourism, retail, education and construction) to be completed by electronic means with the necessary forms available on-line and recognising electronic signatures in accordance with Decision 2009/767/EC.

#### *Transport*

Government adopts a law on road freight transport that removes restrictions not provided for in Directive 96/26/EC of 29 April 1996 on admission to the occupation of road haulage, including minimum fixed prices.

The government adopts legislation, proposed by the Ministry of Infrastructure, Transport and Networks, establishing the necessary enabling conditions for the development and the implementation of a business plan in the railway sector and submits it to Parliament for voting. The legislation should *inter alia*:

- ensure compliance with all relevant EU legislation on the railway sector to effectively ensure market opening, employment and social policies, as well as competition and state aid policy
- establish an upper limit of EUR 50 million for the annual Public Service Obligation (PSO) contribution from the general government for the period 2011-2013 and establishes the principle that the State provides no additional explicit or implicit support to TRAINOSE;
- provide for any future changes to the level of PSO transfers to the railway operators to be approved only after an independent and transparent assessment by the Hellenic Competition Commission and to be fully in line with all legislation related to budgetary control and execution;

- provide certainty that the managing boards of TRAINOSE and OSE have the legal authority to negotiate new collective agreements covering remuneration and employment conditions and to take staffing decisions that assure a viable business;
- ensure that decisions on the transfer of debt to the State become effective only after the implementation of key actions in the approved business plan;

The government adopts a business plan, proposed by the Ministry of Infrastructure, Transport and Networks, with a detailed timetable for concrete actions, which *inter alia*:

- specifies how operational activities will be made profitable, including covering depreciation costs, as from 2011 including by closing loss-making lines, by increasing tariffs and by reducing wages and staffing;
- provides a detailed sensitivity analysis on the implications for wage costs of various scenarios for the outcome of collective agreement. This provides information on several options concerning staff;
- ensures the effective implementation of EU Directives, including EU Directives 2007/59/EC and 2007/85/EC on the Train Driver Certificate and on the Interoperability of the Rail System, respectively, allowing for competition amongst providers of railway services;
- provides for the restructuring of the holding company, including the sale of land and other assets.

### ***To promote investments and exports***

Government takes measures, in line with EU competition rules, to facilitate FDI and investment in innovation in strategic sectors (green industries, ICT, etc...), the adoption of measures to facilitate public private partnerships (PPPs), action to fast-track large FDI projects and measures to strengthen export promotion policy. These actions focus on removing rigidities and administrative constraints and must be fully in line with the fiscal requirements of the Memorandum of Understanding.

## **2. Actions for the third review (to be completed by end Q4-2010)**

### **i. Fiscal consolidation**

Government achieves the programme target for the 2010 general government deficit.

Parliament adopts the budget for 2011 targeting a further reduction in the general government deficit and including the required consolidation measures including those specified in this Memorandum.

The Ministry of Finance ensures tight supervision of expenditure commitments by the several government departments, and effective tax collection, to make certain that general

government deficit target in cash and ESA95 bases (see respectively Table 2 of MEFP and Article 1 of Council Decision 2010/320/EU) are achieved.

Government prepares a privatization plan for the divestment of state assets and enterprises with the aim to raise at least EUR 1 billion a year during the period 2011-2013. The restructuring and privatization programme will span the state's holdings in rail, road transport, airports, ports, utilities, the gaming industry and public real estate; leverage private investment so as to restructure the economy, foster economic growth and contribute to fiscal consolidation; use the know-how of the private sector through outright sales of government holdings, concession agreements, initial public offerings, strategic public-private partnerships and the establishment of new holding companies.

#### *Accounting and control*

Government ensures that the central registry for public enterprises is operational.

### **ii. Structural fiscal reforms**

#### *The fiscal framework*

Government implements legislation to strengthen the fiscal framework. The following elements should be part of the reform:

- Introduce a medium-term fiscal framework covering the general government based on rolling three-year expenditure ceilings for the State, social security entities and local governments;
- Strengthen the position of the Finance Minister vis-à-vis line ministries in both budget preparation and execution phases (giving him/her veto power on spending decisions and execution);
- Introduce a compulsory contingency reserve in the budget, corresponding to 10 percent of total appropriations of government departments other than wages, pensions and interest; the use of the contingency reserve will be decided by the Finance Minister;
- Ensure that Parliament does not modify the overall size of the budget at the approval stage, and focus on the composition of public expenditure and revenue, and reliability of projections for expenditure and revenue;
- Introduce stronger expenditure monitoring mechanisms, particularly by implementing an appropriate control of spending commitments, through which spending entities (line ministries, local authorities, social security funds, hospitals and legal entities) will report on a regular basis to the Treasury on their outstanding expenditure commitments against their authorised appropriations in the budget law;
- Introduce a revenue rule for the general government, according to which the allocation of higher-than-expected revenues should be specified *ex-ante* in the budget law;
- Creation of a fiscal agency attached to Parliament providing independent advice and expert scrutiny on fiscal issues, and reporting publicly on the budgetary plans and execution of the spending entities of the general government, and on macroeconomic assumptions used in the budget law.

Parliament adopts the reform of the public wage legislation consistent with this Memorandum.

***To complete the pension reform***

The National Actuarial Authority provides by 1 December 2010 interim long-term projections of pension expenditure up to 2060 under the July 2010 legislation covering the main pension schemes (IKA, OGA, OAEE, public sector scheme).

**iii. Financial sector regulation and supervision**

Taking into account the outcome of the strategic study and the due diligences of banks, the Government formulates a programme to preserve financial stability and enhance efficiency in the banking system.

**iv. Structural reforms**

***To reform and modernise public administration***

*Local administration*

Government adopts all necessary legislation and decrees for the full entry into force of the local administration reform (*Kallikrates*) and ensures that it achieves savings of EUR 500 million in 2011 and additional EUR 500 million per year in 2012 and 2013 for the general government as a whole. Government shall adopt a decree disallowing local governments to run deficits at least until 2014.

*Public sector wages and human resource management*

The Ministry of Finance together with the Ministry of Interior completes the establishment of a Single Payment Authority for the payment of wages in the public sector. The Ministry of Finance publishes a detailed report, in collaboration with the Single Payment Authority, on the structure and levels of compensation and the volume and dynamics of employment in the general government. The report should present plans for the allocation of human resources in the public sector for the period up to 2013 that *inter alia* specifies plans to reallocate qualified staff to areas necessary to implement the Memorandum of Understanding, including the tax administration, GAO, the labour inspectorate, regulators and Hellenic Competition Commission.

Government presents a detailed action plan with timeline to complete and implement a simplified remuneration system.

*Better Regulation*

Government adopts legislation and measures needed to implement the Better Regulation agenda.

***To modernise the health care systems***

Government adopts legislation on the institutional framework for health supplies (Law 3580/2007, as revised in May 2010 by Law 3846/2010), establishes new systems for the management of drugs that favour more use of generic medicines, including a new system for the electronic monitoring of doctors' prescriptions. The aim is to move to the average EU generic drug penetration rate, including by procurement of pharmaceutical products by hospitals and doctors' prescriptions on the basis of drastic substances.

Government enforces the payment of EUR 3 for regular outpatient services in public hospitals and extends the 'all day' functioning of hospitals (afternoon shift) in order to develop and improve healthcare services and increase revenue, including by increasing co-payment of outpatients and diagnostic services.

Government completes the programme of hospital computerisation, upgrading hospital budgeting systems, and the reform of management, the accounting (including double-entry accrual accounting) and financing systems.

Government ensures greater budgetary and operational oversight of health care spending by the Finance Minister, the publication of audited accounts and improvement in pricing and costing mechanisms.

Government seeks technical assistance from independent international experts on all aspects of the efficiency and effectiveness of the health procurement system and management of hospitals, aiming at enhancing efficiency and reducing waste.

### ***To enhance competition in open markets***

Government makes the General Commercial Registry (GEMI) fully operational.

#### *Services directive*

Government adopts changes to existing (sectoral) legislation in key services sectors such as tourism, retail and education services. New legislation should:

- facilitate establishment, in particular, by
  - abolishing or amending requirements which are prohibited by the Services Directive; and
  - significantly reducing requirements, including those relating to quantitative and territorial restrictions, legal form requirements, shareholding requirements, fixed minimum and/or maximum tariffs and restrictions to multidisciplinary activities.
- facilitate the provision of cross-border services so that service providers providing cross-border services only have to comply with specific requirements laid down in Greek legislation in exceptional cases (when admitted by Articles 16 or 17 of the Services Directive).
- provide legal certainty for service providers providing cross-border services by clearly setting out in the respective (sectoral) legislation which

requirements can and which requirements cannot be applied to cross-border services.

Government specifies, a limited number of priority service sectors, which are key for growth, a timetable for adopting sectoral legislation by end Q2 2011 that ensure full compliance with the requirements of the Services Directive.

#### *Restricted professions*

Government proposes legislation to remove restrictions to competition, business and trade in restricted professions including:

- the legal profession, to remove unnecessary restrictions on fixed minimum tariffs, the effective ban on advertising, territorial restrictions on where lawyers can practice in Greece;
- the pharmacy profession, covering limits on the number of pharmacies and minimum profit margins;
- the notary profession, covering fixed tariffs, limits on the number of notaries, territorial restrictions on where notaries can practice and the effective ban on advertising;
- architects, covering fixed minimum tariffs;
- engineers, covering fixed minimum tariffs;
- auditing services, covering fixed tariffs.

Government adopts legislation and takes all necessary measures to complete the effective transposition of EU rules on recognition of professional qualifications, including compliance with all ECJ rulings (*inter alia*, related to franchised diplomas), the setting up of the administrative structures responsible for the application of the rules of recognition of professional qualifications as well as timely information of citizens about their pending requests for recognition.

#### *Sectoral growth drivers*

Government presents a report analysing the potential contribution of the tourism sector to growth and jobs in the Greek economy. It should identify all legislative, administrative and other obstacles hindering competition and market entry to the realisation of the potential.

Government presents a report analysing the potential contribution of the retail sector to price flexibility, growth and jobs in the Greek economy. It should identify all legislative, administrative and other obstacles hindering competition and market entry to the realisation of the potential.

#### *Business environment*

Government adopts legislation to simplify and accelerate the process of licensing enterprises, industrial activities and professions, which *inter alia* revises Law 3325/05, makes the spatial plan and Law 3333/05 for business areas operational.

Government adopts an 'action plan for a business friendly Greece' that presents a timetable for the removal of 30 of the most important remaining restrictions to business activity, investment and innovation.

Government accelerates the completion of the land registry and prepares a progress report, including an action plan.

Government adopts a law modifying the existing institutional framework of the Hellenic Competition Commission (HCC) with the aim of abolishing the notification system for all agreements falling within the scope of Article 1 of Law 703/1977/, to give the HCC the power to reject complaints, to increase the independence of HCC members, and to establish reasonable deadlines for the investigation and issuance of decisions.

### *Energy*

Government presents its detailed plans for the liberalisation of the energy market, including opening up lignite-fired electricity generation to third parties in line with EU requirements.

Government adopts plan for phased transitory cost-based access to lignite-fired generation, taking into account the decommissioning of the power plants scheduled under the Government's Energy Plan to meet the 20-20-20 target. This access will remain in place until effective implementation of the liberalisation has taken place.

Government adopts a plan to either award the hydro reserves management to an independent body or to assign this role to the independent system operator.

Government adopts a mechanism to ensure that the energy component of regulated tariffs reflects, gradually and at the latest by June 2013, wholesale market prices, except for vulnerable consumers. Government adopts a revised definition of vulnerable consumers and a tariff for this category of consumers.

In order to ensure that network activities are unbundled from supply activities as foreseen in the second and third energy liberalisation packages, Government identifies the assets and personnel associated with the electricity transmission system and the electricity distribution system.

### *To promote investments and exports*

Government carries out in depth evaluation of all R&D and innovation actions, including in various Operational Programmes, in order to adjust the national strategy and limit the use of government subsidies and guarantees.

Government creates an external advisory council financed through the 7th R&D programme, to consider how to foster innovation, how to strengthen links between public research and Greek industries and the development of regional industrial clusters.

### ***To raise the absorption rates of Structural and Cohesion Funds***

Government meets targets for payment claims in the absorption of Structural and Cohesion Funds set down in the table below. Compliance with the targets shall be measured by certified data. In addition, Government achieves an annual target of submitting 10 major projects applications to the Commission services. In meeting absorption rate targets, recourse to non-targeted *de minimis* state aid measures should be gradually reduced.

Government presents a report on the activities of the task force assessing progress in ensuring the rapid implementation and absorption of structural funds, and proposing improvements when necessary.

<b>Programming period 2007-2013</b> <i>(in EUR million)</i>	<b>Payment claims to be submitted between 2010 and 2013</b>			
	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
<i>European Regional Fund and Cohesion Fund</i>	2330	2600	2850	3000
<i>European Social Fund</i>	420	750	880	890
<i>Target of first half of the year</i>		1105	1231	1284
<i>Target of second half of the year</i>		2245	2499	2606
<i>Total annual target</i>	2750	3350	3730	3890

Without prejudice to the Greek Constitution, Government adopts legislation to tackle delays in the implementation of public works and investment projects in general. Legislation should *inter alia*:

- shorten and simplify judicial procedures challenging contract awards or land expropriation decisions;
- shorten deadlines to get permits by the Central Archaeological Council in Athens;
- simplify and shorten procedures to complete studies on environmental impact and to get the approval of environmental terms for infrastructure projects.

### **3. Actions for the fourth review (to be completed by end Q1-2011)**

#### **i. Fiscal consolidation**

Government rigorously implements the budget for 2011 in line with this Memorandum. Progress is assessed against the (cumulative) quarterly deficit ceilings in the MEFP (including the TMU).

#### **ii. Structural fiscal reforms**

Parliament adopts legislation to strengthen the fiscal framework, consistent with this memorandum.

#### ***To complete the pension reform***

The National Actuarial Authority submits comprehensive long-term projections of pension expenditure up to 2060 under the adopted reform; the projection will be peer-reviewed and

validated by the EU Economic Policy Committee and the European Commission, IMF and ECB. The projections shall encompass the supplementary (auxiliary) schemes, based on comprehensive set of data collected and elaborated by the National Actuarial Authority.

### **iii. Structural reforms**

#### ***To reform and modernise public administration***

##### *Public procurement*

Government completes effective transposition of Directive 2007/66/EC on public procurement regarding remedies, and at the same time ensures that responsibility for the review of award procedures be vested with the administrative courts. Government completes the transposition of Directives 2009/81 on defence and security expenditure.

#### ***Reforms to improve the business environment:***

##### *Restricted professions*

Government adopts specific legislation on restricted professions including for the legal profession, the pharmacy profession, the notary profession, architects, engineers and auditing services.

##### *Sectoral growth drivers*

Government adopts legislation and takes other structural actions to implement the findings of the report analysing the potential contribution of the tourism sector to growth and jobs in the Greek economy.

Government adopts legislation and takes other structural actions to implement the findings of the report analysing the potential contribution of the retail sector to price flexibility, growth and jobs in the Greek economy.

#### ***To enhance competition in open markets***

##### *Energy*

Government commences implementation of plan for opening up lignite-fired electricity generation to third parties.

Government implements its decision to either award the hydro reserves management to an independent body or to assign this role to the independent system operator.

Government starts to implement the mechanism to ensure that the energy component of regulated tariffs reflects, gradually and at the latest by June 2013, wholesale market prices, except for vulnerable consumers.

In order to ensure that network activities are unbundled from supply activities as foreseen in the second and third energy liberalisation packages, the following measures are implemented:

- Government adopts decision on the modalities of unbundling of the transmission system operator in line with the third energy liberalization

package and adopts necessary legislation to ensure the creation of fully unbundled electricity and gas transmission system operators by March 2012.

- Government ensures the creation of an independent Distribution System Operator, in line with the third energy liberalisation package.

Government transfers to RAE (Regulatory Authority for Energy) all regulatory powers assigned to EU energy regulators in the third energy liberalisation package (licensing, network access, network charges, market monitoring, etc).

Government adopts measures to ensure the independence of RAE (impartial and transparent nomination of board, management authority with regard to budget and personnel, etc. in line with the third energy liberalisation package).

#### **4. Actions for the fifth review (to be completed by end Q2-2011)**

##### **i. Fiscal consolidation**

Government rigorously implements the budget for 2011 in line with this Memorandum, and the fiscal consolidation measures in the budget. Progress is assessed against the quarterly deficit ceilings in the MEFP (including the TMU).

##### **ii. Structural fiscal reforms**

###### ***To complete the pension reform***

Government revises the main parameters of the pension system provided by Law 3863/2010, if the projections by the National Actuarial Authority show that the projected increase in public pension expenditure would exceed the limit of 2.5 percentage points of GDP over 2009-60. The revision should be designed in close consultation with the European Commission, the IMF and the ECB staffs.

Government implements an in-depth revision of the functioning of supplementary/auxiliary public pension funds. The aim of the revision shall be to stabilise pension expenditure and guarantee the budgetary neutrality of supplementary/auxiliary schemes.

Government substantially revises the list of heavy and arduous professions, and reduces its coverage to no more than 10% of the labour force. The new list of Difficult and Hazardous Occupations shall apply with effect from 1 July 2011 to all current and future workers.

The Bank of Greece commits not to grant pension privileges to its staff and to revise the main parameters of its pension scheme to align them with those of IKA.

### iii. Structural reforms

#### ***To modernise public administration***

##### *Public sector wages and human resource management*

Government adopts legislation establishing a simplified remuneration system covering basic wages and allowances that applies to all public sector employees ensuring that remuneration reflects productivity and tasks: this reform should be part of an overall reform of Human Resource management in the public sector.

##### *Functional reviews*

Government assesses the results, including operational policy recommendations, of a first phase of the independent functional review of public administration at central level are presented by the external experts. This should include the results of studies applied to a number of core ministries. The functional review of existing social programmes is finalised.

##### *Public procurement*

Government implements the reform of the public procurement system, as defined in the action plan.

#### ***To strengthen labour market institutions***

Government completes the reform to strengthen the Labour Inspectorate, which should be fully resourced with qualified staff and has quantitative targets on the number of controls to be executed.

Government adapts the legislation on tackling undeclared work to require the registration of new employees before they start working.

Review the scope for improvements in the targeting of social expenditures to enhance the social safety net for the most vulnerable.

#### ***To strengthen competition in open markets:***

##### *Services Directive*

Government adopts legislation on a limited number of priority service sectors identified in Q4 2010. Government specifies, for a limited number of priority service sectors, a timetable for adopting sectoral legislation by end Q4 2011 that ensure full compliance with the requirements of the Services Directive.

##### *Business environment*

Government presents an impact assessment evaluating Law 3853/2010 on simplification of procedures for the establishment of personal and capital companies in terms of the savings achieved in time and cost to set up a business.

Government ensures that the point of single contact is fully operational and completion of procedures by electronic means possible in all sectors covered by the Services Directive.

### *Energy*

Government removes regulated tariffs for customers except households and small enterprises (as defined in the second and third energy liberalisation packages).

### ***To raise the absorption rates of Structural and Cohesion Funds***

Government meets targets for payment claims to be measured against certified data.

Government presents a report on the activities of the task force assessing progress in ensuring the rapid implementation absorption of structural funds, and proposing improvements when necessary.

## **5. Actions for the sixth review (to be completed by end Q3-2011)**

### **i. Fiscal consolidation**

Government rigorously implement the budget for 2011 in line with this Memorandum. Progress is assessed against the quarterly deficit ceilings in the MEFP (including the TMU).

Government adopts the draft budget for 2012 aiming at a further reduction of the general government deficit in line with the programme and including the detailed presentation of consolidation measures amounting to at least 2.2% of GDP, including the following measures (in exceptional circumstances, measures yielding comparable savings could be considered in close consultation with European Commission, IMF and ECB staffs):

- Reduce public employment on top of the rule of 1 recruitment for each 5 retirements in the public sector; the reduction in public employment on top of the 5-to-1 rule should allow savings of at least EUR 600 million;
- Establish excises for non alcoholic beverages, for a total amount of at least EUR 300 million;
- Continue the expansion of the base of the real estate tax by updating asset values to yield at least EUR 200 million additional revenue;
- Continue the reorganisation of local government, to generate at least EUR 500 million in savings;
- Nominal freeze in pensions;<sup>2</sup>
- Continue to increase the effectiveness of the presumptive taxation of professionals, with the aim of collecting at least additional EUR 100 million;
- Reduction of transfers to public enterprises by at least EUR 800 billion following their restructuring;

---

<sup>2</sup> Adjustments may be needed in case of negative inflation.

- Make unemployment benefits means-tested (aiming at savings of EUR 500 million);
- Collect further revenue from the licensing of gaming: at least EUR 225 million in sales of licences and EUR 400 in annual royalties;
- Further broadening of VAT base with the aim of collecting at least additional EUR 300 million.

## **ii. Structural reforms**

### ***To modernise public administration***

Government ensures full operation of the Better Regulation Agenda to reduce administrative burden by 20% compared with 2008 level, and sends report to the European Commission.

### ***To improve the business environment***

Government changes legislation to mitigate tax obstacles to mergers and acquisitions such as the non-transfer of accumulated losses, together with the company and the complex computation of "excessive benefit" (Law 3522/2006, Article 11) in the transfer of private limited companies.

Government takes decisions to simplify the process to clear customs for exports and imports and give larger companies or industrial areas the possibility to be certified to clear cargo for the customs themselves; Government abolishes the requirement of registration with the exporter's registry of the chamber of commerce for obtaining a certificate of origin.

## **6. Actions for the seventh review (to be completed by end Q4-2011)**

### **i. Fiscal consolidation**

Government achieves the programme targets for the 2011 general government deficit.

Parliament adopts the budget for 2012 a further reduction of the general government deficit and including consolidation measures amounting to at least 2.2% of GDP, in line with Memorandum.

### **ii. Structural reforms**

#### ***To modernise public administration***

##### *Functional reviews*

Government assesses the results of a second phase of the independent functional review of public administration at central level are presented by the external experts The government adopts legislation and measures to implement the first set of operational recommendations of

the functional review of public administration at central level and the review of existing social programmes.

***To strengthen competition in open markets***

*Energy*

Government removes regulated tariffs for customers except households and small enterprises (as defined in the second and third energy liberalisation packages).

***To raise the absorption rates of Structural and Cohesion Funds***

Government meets targets for payment claims (to be measured against certified data).

Government introduces web-based open-access monitoring tool of procedures for approval of project proposals and for implementation of public projects.

Government ensures that the managerial capacity of all Managing Authorities and Intermediate Bodies of operational programmes under the framework of the National Strategy Reference Framework 2007-2013 has been certified by the International Organization for Standardization according to the standard ISO 9001:2008 (Quality Management).

Government presents a report on the activities of the task force assessing progress in ensuring the rapid implementation absorption of structural funds, and proposing improvements when necessary.

## Annex 1. Provision of data

During the programme, the following indicators and reports shall be made available to the European Commission, the ECB and the IMF staffs by the authorities on a regular basis.

---

### To be provided by the Ministry of Finance

Preliminary monthly data on the state budget execution (including functional breakdown by main categories of revenue and expenditure and by line ministry)	Monthly, 15 days after the end of each month; these data should also be included in subsequent transmissions in case of revision
Updated monthly plans for the state budget execution for the remainder of the year, including functional breakdown by main categories of revenue and expenditure and by line ministry	Monthly, 30 days after the end of each month
Preliminary monthly cash data on general government entities other than the State	Monthly, 30 days after the end of each month, these data should also be included in subsequent transmissions in case of revision
Monthly data on the public wage bill (of general government, including a functional breakdown in nominal wage and allowances paid to government employees per line ministry and public entity), number of employees (including a functional breakdown per ministry and public entities outside the central government) and average wage (including the relative shares of the base wage, allowances and bonuses).	Monthly, 30 days after the end of each month (starting in June 2010)
Quarterly data on general government accounts, and debt as per the relevant EU regulations on statistics	Quarterly accrual data, 90 days after the end of each quarter
Weekly information on the Government's cash position with indication of sources and uses as well of number of days covered	Weekly on Friday, reporting on the previous Thursday
Data on below-the-line financing for the general government	Monthly, no later than 15 days after the end of each month; these data should also be included in subsequent transmissions in case of revision
Data on expenditure pending payment (including arrears) of the general government, including the State, local government, social security, hospitals and legal entities	Quarterly, within 55 days after the end of each quarter
Data on expenditure pending payment (arrears) of the State and hospitals	Monthly, 30 days after the end of each month
Public debt, and new guarantees issued by the general government to public enterprises and the private sector	Monthly, within one month
Income and expenditure statement and balance sheets of 30 largest public enterprises by total expenditures	Quarterly, three months after the end of the quarter

---

---

Data on EU project grants (reimbursements and advances), capital expenditures and subsidies covered by EU advances or eligible for EU reimbursement on EU supported projects specifically agreed with the EU	Monthly, within three weeks of the end of each month
Monthly statement of the transactions through off-budget accounts	Monthly, at the end of each month
Monthly statements of the operations on the special account	Monthly, at the end of each month
Report on progress with fulfillment of policy conditionality	Monthly, at 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 <sup>3</sup>	Monthly, 15 days after the end of each month
External funding flows for the banking, corporate and government sector, including also expected developments in the 12 months ahead	Monthly, 30 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, 15 days after the end of each quarter depending on data availability
Report on results from the regular quarterly solvency stress tests	Quarterly, 15 days after the end of each quarter depending on data availability
Detailed report on the balance sheet of the Financial Stability Fund with indication and explanation of changes in the accounts	Weekly, next working day

---

<sup>3</sup> All forms of debt instruments and capital, as well as net deposits provided to subsidiaries abroad.

## **Annex 2. Financial Stability Fund**

### **General**

- The purpose of the Financial Stability Fund (the ‘Fund’) is to maintain the stability of the Greek banking system by providing equity capital in case of a significant decline of capital buffers.
- The Fund will not provide liquidity support, which will be provided under existing arrangements.
- The equity will be provided in the form of preference shares to credit institutions authorised to operate in Greece by license from the Bank of Greece. The preference shares will be convertible into ordinary shares at a later stage under certain conditions to be further specified in the legislation establishing the Fund.
- Participation in the Fund will be mandatory, based on a trigger linked to the minimum required level of capital adequacy requirements, as established for specific credit institutions by the Bank of Greece, in its capacity as the competent supervisory authority, if no private solution has been found.
- If banks are then not able to expeditiously raise additional capital on their own and repay the Fund, a restructuring process will take place under the lead of the Fund, in line with EU competition and state aid requirements
- The Fund will be established by specific Greek legislation.
- An initial lifespan of seven years will be set for the Fund. After the end of the lifespan of the Fund, the ownership of the Fund rests with the Greek state to the extent of its shareholding in the Fund

### **Legal status**

- The Fund will be established as a private law legal entity in order to enhance its flexibility and efficiency (e.g., to facilitate the recruitment and remuneration of appropriately qualified staff).
- The legal structure of the Fund should allow for private participation.

### **Funding**

- The FSF will be fully funded by the government out of the resources available under the EU-IMF program for this purpose in the amount of EUR 10 billion. This implies that the risk of losses arising out of the Fund’s operations would lie exclusively with the Greek Government, as the primary shareholder in the Fund. The purchase of preference shares by the Fund shall be made in cash.

### **Organizational issues**

- The Fund will be managed by a Governing Council composed of (1) a Chairperson, a Chief Executive and three directors appointed by the Governor of the Bank of Greece and (2) two ex officio directors who represent the Minister of Finance and the Governor of the Bank of Greece. The European Commission and the ECB will each nominate an

observer who would have a right to participate, without voting, in meetings of the Governing Council (without prejudice, in the case of the Commission observer, to the application by the Commission of state aid and competition rules).

- The Chairperson, Chief Executive and the non-ex officio directors will be required by law to be persons of recognised standing in banking or financial matters in Greece, the EU or internationally.
- Each of the Chairperson and the non-ex officio directors will be appointed to a five year term of office, renewable for a further two years, and may only be compulsorily removed from office by an appropriate Greek court on application of either the Governor of the Bank of Greece or the Governing Council of the Fund where (1) no longer capable of fulfilling the conditions required for the performance of the duties of office or (2) guilty of serious misconduct.
- No member of the Governing Council may be represented on the board of directors of any credit institution.
- The legislation establishing the Fund will provide that, when exercising the powers and carrying out the tasks and duties conferred upon them under the legislation, neither the Governor of the Bank of Greece nor the members of the Governing Council of the Fund shall seek or take instructions from the Greek Government or any other State entity, institution, body or undertaking.
- The Governing Council will present a semi-annual report to the Greek Parliament, the European Commission, the ECB and the IMF.
- The operating expenses will be covered by the Fund.

### **Powers of the Fund**

- In order to fulfill its purposes the Fund will enjoy certain powers over credit institutions receiving capital from the Fund, to be exercised following consultation of the BoG. These powers will be without prejudice to the supervisory powers of the Bank of Greece, and will include, without limitation, the power:
  - o to require the BoG to provide the Fund with all information on financial institutions necessary for it to fulfill its tasks;
  - o to appoint a member of the Board of Directors of a credit institution;
  - o to require a credit institution to present a restructuring plan;
  - o to veto key decisions of a credit institution (e.g., business strategy, dividend distributions, salary caps, liquidity and asset-liability management, etc.);
  - o to call a general shareholders' meeting for a credit institution in accordance with Greek company law;
  - o to require conversion of preference shares into ordinary shares insofar as a credit institution fails to meet (1) the minimum required level of capital adequacy requirements established for credit institutions generally under applicable regulatory requirements or (2) certain financial conditions to be established in the restructuring plan for the credit institution; the legislation establishing the Fund will further specify an objective procedure to be followed in establishing a market-based conversion price, taking account of the impact of the Fund's intervention, the rights of shareholders under Greek law and EU state aid requirements; and

- to conduct diagnostic studies and special audits with the help of outside consultants to assess the solvency of a credit institution where the Fund considers this necessary.
- Each of the Bank of Greece, in its capacity as the competent authority for the supervision of credit institutions, and the Fund will be authorised to exchange confidential information with one another to the fullest extent permitted by EU law.

### **Conditions applicable to capital increases**

- The conditions applicable to any capital increases should be aligned with the Commission Decision of 19.11.2008 (N 560/2008 support measures for the credit institutions in Greece). The granting of equity capital is made subject to the following conditions in particular.
- The credit institutions will be expected to pay a market-oriented, non-cumulative remuneration unless an analysis of the restructuring plan warrants an alternative approach. A market-oriented, non-cumulative remuneration can either be 10% as stipulated in the above decision or depending on the risk profile of the credit institution and the quality of the capital, between 7% and 9.3%, whereas core tier 1 capital for fundamentally sound credit institutions should normally be remunerated at not less than 9%.
- The credit institutions will not pay dividends or coupon on hybrid capital, unless they are legally obliged to do so, which is typically the case when a credit institution is profit making (the credit institution should however not be allowed to use reserves to book a profit).
- Preference shares shall be repurchased by the credit institution for an amount that is equivalent to the amount originally invested in the credit institution. After five years the shares shall be repurchased or be remunerated at penal rates. If they cannot be repurchased because the capital adequacy requirements are not fulfilled, the preference shares shall be converted into ordinary shares.

### **Approval of restructuring plan by European Commission**

- Any restructuring plan needs to be in accordance with State aid rules and approved by decision of the European Commission ensuring that the credit institutions will restore viability at the end of the restructuring period, burden sharing of shareholders is achieved and distortion of competition is limited.