

## International Monetary Fund

[Greece](#) and the IMF

### Press Release:

[IMF Executive Board  
Completes Fourth  
Review Under Stand-  
By Arrangement for  
Greece and Approves  
€3.2 Billion  
Disbursement](#)  
July 8, 2011

**Greece:** Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

July 4, 2011

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## GREECE—LETTER OF INTENT

Athens, July 4, 2011

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

Dear Ms. Lagarde:

In the attached update to the Memoranda of Economic and Financial Policies from May 3, August 6, December 8, 2010, and February 28, 2011 (MEFPs), we describe progress and policy steps towards meeting the objectives of the economic program of the Greek government which is being supported by a Stand-By Arrangement.

We continue to make progress with our economic program:

- Quarterly quantitative performance criteria for end-March have been met, along with the continuous criterion on external arrears. Information on other end-June performance criteria is not yet available, but we expect to meet these targets as well, and request a waiver of their applicability. However, our end-March indicative target on the accumulation of new domestic arrears by the general government was again exceeded. The deep recession and associated revenue slump has complicated the achievement of fiscal targets, but we will take appropriate measures to overcome this challenge, as laid out in the attached MEFP.
- Fiscal-structural reforms have been moving forward. A comprehensive medium-term fiscal strategy has been approved by parliament as well as first-stage legislation to implement policy reforms, in each case as a prior action for this review. Parliament has also approved a detailed time-bound privatization plan (a prior action for the review), and a law establishing a privatization agency has been passed (also a prior action for the review). A structural benchmark on appointing financial accounting officers in line ministries and general government entities, and a benchmark covering an actuarial study on the main supplementary pension funds were observed with delay. Earlier end-December benchmarks covering a study on public employment and compensation, and on improving the statistical reporting to ElStat are now fully implemented.
- Our policy efforts to support financial system stability continue. In March we submitted legislation to parliament allowing for the unbundling of the commercial activities of the HLCF and authorizing a new €30 billion tranche of government guarantees for uncovered bank bonds. The legislation was passed in May (allowing us

to observe two program structural benchmarks, one with delay). Furthermore, banks have submitted draft medium-term funding plans to the ECB and Bank of Greece, and the Bank of Greece has issued guidance to banks to refine the plans in line with the program's macroeconomic framework.

- To support these efforts with an appropriate level of financing, we have defined a strategy to achieve substantial and credible contributions from the private sector and official sectors. In this context we will aim to finalize the relative contributions by private creditors and the official sector by the time of the Fifth Review. In parallel, the ECB is working with Greek banks on medium-term funding plans to ensure that they reduce their exposure to exceptional Eurosystem liquidity support at a pace consistent with the program's macroeconomic framework.
- On this basis, we request completion of the fourth review under the Stand-By Arrangement, and the fifth purchase under this arrangement in the amount of SDR 2,883.6 million. We also request the establishment of quantitative performance criteria for end July, applicable for the fifth review. As detailed below, we propose new structural benchmarks in support of our fiscal adjustment program (implementation of fiscal adjustment measures and covering achievement of revenue administration operational targets); and in support of our financial sector stability efforts (parliamentary approval of legislation strengthening the FSF operating framework and bank resolution framework) (Table 2).
- We believe that the policies set forth in the May 3, 2010 Letter of Intent and MEFP, and subsequent updates (including the one now attached), 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, as well as with the European Commission and ECB 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.

/s/

/s/

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Evangelos Venizelos

George Provopoulos

Deputy Prime Minister

Governor of the Bank of Greece

Minister of Finance

## GREECE—MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

### The Economic Outlook

1. **The government expects the economy to stabilize in late 2011.** Revised national account figures for end-2010 suggest that the contraction of domestic demand has been somewhat deeper than previously expected. Economic activity stabilized during the first quarter of 2011 and external demand is recovering strongly, but with fiscal adjustment continuing to represent an important headwind, GDP is now projected to decline by 3¾ percent in 2011. The economy should return to positive year-on-year growth in early 2012.
2. **Competitiveness should continue to improve.** The private sector is adjusting at an accelerating pace, reducing costs and reorienting production towards the external sector. Unit labor costs have declined in 2010, and are projected to decrease further in 2011. Inflation pressures have remained elevated on the back of higher commodity prices and additional indirect tax rate adjustments. However, inflation at constant taxes is expected to remain well below the Euro area average, buttressing external competitiveness. With goods exports recovering strongly, and improving prospects for the tourism sector, we expect the external current account deficit to narrow to 8¼ percent of GDP in 2011.
3. **The remainder of the memorandum explains how the program's policy framework will be implemented to address these continuing challenges.** The key priorities at the current juncture are: securing the fiscal adjustment needed to restore confidence and market access; facilitating larger capital buffers in banks, while ensuring orderly transition to sustainable medium-term funding; transferring public assets to more productive private sector uses; improving implementation of structural reforms and making them more comprehensive in scope; and establishing the financing to support implementation of program policies.

### Fiscal Policy

4. **The government of Greece is determined to bring fiscal policy back to a sustainable position.** The boom over the last decade disguised a deep deterioration of Greece's underlying structural fiscal balance, which the ensuing recession exposed. We succeeded in bringing the deficit down by 5 percent of GDP in 2010, but with the deficit still above 10 percent of GDP, and debt approaching 150 percent of GDP, this was just a first step. Our efforts going forward will continue to be anchored on reducing the overall deficit of the general government to €17 billion (7½ percent of GDP) in 2011, and to under 3 percent of GDP by 2014. This should allow the ratio of debt-to-GDP to begin declining in 2013. Our strategy, discussed in what follows, is to rapidly enact and start implementing far-reaching fiscal policy reforms to help secure achievement of our 2011 fiscal target, and reduce the deficit in the medium-term. Simultaneously, we will work to strengthen fiscal institutions—

revenue collection and expenditure management—to support strong and effective implementation of our fiscal policies.

5. **The government has prepared a medium-term fiscal strategy (MTFS), with the aim to reduce the overall deficit to below 3 percent of GDP by 2014.** The strategy envisions a further reduction in the deficit in 2015. It has been approved by parliament as a **prior action** for the program. The MTFS is the first of its kind in Greece, and specifies multi-annual expenditure ceilings for line ministries and the overall state budget, and estimates of revenue, expenditures and deficits for the various components of the general government (social security funds and hospitals, local governments, state owned enterprises, and extra budgetary funds). It also includes a baseline fiscal policy forecast and a set of policy adjustment measures (which together underpin the ceilings), along with an initial fiscal risk analysis. Given the likely evolution of revenues and spending over the next several years, the government forecasts that about 10 percent of GDP in measures are needed to achieve the 2014 target (including 3 percent of GDP to close a 2011 gap).

6. **The medium term plan is anchored on several key fiscal-structural reforms, which together aim to make a permanent break with Greece’s past fiscal problems.** Our guiding aims include to improve the efficiency and quality of public spending, to reduce waste and inefficiency in the broader public sector, and to broaden the tax base and reduce tax and social contribution evasion. Specific measures have been designed with a view to protect and improve the core of the social safety net, and to the extent possible minimize the impacts on economic growth. Overall, during 2011-14 the adjustment is split almost evenly between revenue increases and spending restraint. The measures include:

*Expenditure adjustments:*

- **A reduction of public employment** (0.3 percent of GDP). The government aims to reduce public sector employment by 150,000 or about 20 percent by 2015. To achieve this target, we expect to apply attrition (a 1:10 hiring rule in 2011 and 1:5 subsequently), reductions in contract employment, and involuntary redundancies. Redundant employees will be identified from units targeted for closure or merger (see below). Beyond the public sector, in the case of state enterprises, redundancies will be identified by reference to measures of spare capacity or benchmarking against similar companies in Europe (with this exercise to be complete by end-July 2011). Excess public employees will be either separated immediately or furloughed into a separate labor reserve. Time spent in the reserve would be limited to no more than 12 months at no more than 60 percent of their wage (excluding overtime and other extra payments). Transfers from the labor reserve to other public sector entities will be possible, but only under the attrition-related hiring limit, and with a positive evaluation of the employee from ASEP. At the end of the twelve month period, separation would be mandatory. To help manage the public sector with fewer

employees, working hours have been extended to match the 40-hour work week private sector norm.

- **Closure of non-essential public entities and agencies** (0.5 percent of GDP). We have already made progress in this area, with some 4,500 entities closed or merged under the “Kallikratis” local government reform. The focus will now shift to the more than 1,500 public entities under line ministries and in the social security sector. We have already closed 77 of these entities and by mid-August we will pass legislation to close a further 40 small entities, merge 25 other small entities, and to close, merge or consolidate an additional 11 large entities with total current employment of 7,000 (including existing asset management companies; construction companies; and public television stations). To further this work, we will review the functions and cost structure of all such public entities, and close those with no essential function, merge those with overlapping mandates, and set cost benchmarks for the remaining entities. An initial stock taking exercise will be completed in October 2011, with results to inform closures and mergers in the context of the 2012 budget.
- **Adjustments in public employee compensation** (0.6 percent of GDP). A new wage structure will be introduced by mid-August and phased in over 3 years. It will bring wages into line with private sector norms (achieving “equal pay for equal work”) and decompress the wage structure to better reward performance. Overall savings will be achieved by eliminating special wage regimes and allowances, and reducing automatic wage drift. Wages of state-owned enterprises employees will be in line with the new wage grid for the public sector.
- **Streamlining and better targeting of social benefits** (0.9 percent of GDP). We have reviewed Greece’s social benefit system, with a view to preserve its core features, but to reduce abuse and improve the fairness of benefits. Key adjustments to be made include: caps on total pension income; and tightening of criteria to access several benefits (including unemployment benefits, social security contribution discounts, and benefits in kind). By September 2011 we will complete a social spending review to identify further ways to rationalize this spending, improve benefit targeting and curtail unnecessary services. Based on this, we will issue legislation and regulations by Q1 2012 aiming at an overall annual saving of about €760 million by 2014.
- ***Reforms to social security***

  - **Pension reforms** (1 percent of GDP). The government maintains an objective to limit the increase in the expenditures of pension funds to below 2½ percent of GDP by 2060. With reforms to the main pension funds put in place during 2010, the focus will now shift to other pension schemes:

- **Supplementary pension funds.** Reforms will be adopted during Q3 2011 and implemented beginning in January 2012. The aim will be to eliminate imbalances, introduce a stricter link between benefits and contributions to guarantee the sustainability of all funds, and reduce the number of funds substantially.
- **Arduous professions.** The government will revise the list to reduce workers in arduous professions to less than 10 percent of total employees, with the list to be effective from July 2011.
- **Disability pensions.** The government will revise the definition of disability and its application by end-August. To reduce spending for disability pensions, now 14½ percent of overall pension spending to 10 percent, we will issue a regulation by end-August 2011 requiring the (re)certification of disabilities, and we will also make operational a central evaluation office.
- **Lump sum pensions.** Lump sum pensions for civil servants and public enterprise employees will be cut by at least 10 percent. By end-September studies of other lump sum pensions will be completed to identify where they are out of line with contributions. Adjustments to link these lump sum amounts with contributions will be made by end-year.
- **Health sector reforms** (0.7 percent of GDP). Over the past year, the government has designed a new institutional structure for the health sector merging different health funds, curtailing pharmaceutical spending, and introducing tighter accounting and spending controls in hospitals. Measures in these areas will continue to generate savings in the next three years. To build on these reforms, a task force will produce a report by September 2011 defining policies and quantitative targets in specific areas, including service provision, pharmaceutical spending, financing, governance of the health system, and accounting systems. On this basis, the government will adopt a time bound action plan to map out the next steps by end-November 2011.
- **Revenue increases**
  - **The elimination of tax exemptions and special regimes** (2.8 percent of GDP). To make the tax system fairer, simpler, and easier to administer, we are significantly scaling back preferential tax regimes. We have: (i) broadened the personal income tax base (by introducing a ceiling for the use of some tax credits and income deductions, reducing the tax free threshold, removing invoice-based tax refunds under the personal income tax, and introducing a special low rate solidarity charge on individual income, including currently exempt income); (ii) increased some reduced VAT rates on non basic items; (iii) widened the property tax base and raise rates (to bring revenues closer to the European average); and (iv) reduced expenditure on tax benefits for investment and for heating oil (in the latter case to come fully into effect

by 2011 for legal entities and 2013 for households) . To ensure that these changes translate into savings for the central government, we have adjusted revenue sharing agreements with sub-national entities. Looking further ahead, by end-September we will table tax reform legislation covering the VAT, personal income tax and corporate income tax. The reform will have the objective to simplify each tax and broaden the base with the aim to reduce rates and improve growth prospects. The reform will overall be fiscally neutral, and we are committed to identify additional expenditure rationalization to help fund it.

- **Stronger enforcement of tax laws** (1½ percent of GDP through 2014). As discussed below, in the context of a comprehensive program of revenue administration reform, we will increase tax audits, boost debt collection, prosecute tax offenders, and use presumptive tax methods to capture undeclared tax bases. Projected gains are assumed to largely arise later in the forecast period, recognizing the uncertainty with respect to their precise timing and amount.
- ***Reforms to state enterprises***
  - **Improvements in the operating performance of state enterprises** (0.4 percent of GDP). A benchmarking exercise to best international practices, by sector, has provided guidance on areas where companies' operations can be rationalized and where tariffs can be increased. Using these benchmarks, companies have been instructed to update their business plans by end-July 2011 with specific actions to achieve potential savings.

7. **We are committed to front-loaded implementation of the measures in our medium-term program.** Key reforms (Annex I), representing 4.5 percent of GDP of the required total measures (and 2.4 percent of GDP of the required 2011 adjustment) have been legislated in an MTFS Implementing Bill as a **prior action** for the program. A second phase of implementing acts will be passed by August 15, covering among other things, laws to effect pension adjustments, adjust the civil service wage grid, and close extrabudgetary funds (we propose that completion of this second phase be a program **structural benchmark**). A separate aspect of front loading concerns the yield of measures across budget years. The phasing of our fiscal program provides for an extra amount of measures in each year through 2013, as a contingency margin against any technical delays in the implementation of measures, or shortfalls in their yields.

8. **Fiscal adjustment efforts will be supported by institutional reforms.** Weak tax compliance and poor spending control remain challenges that we must overcome to secure full implementation of our fiscal plans. Correcting tax compliance problems will improve fairness—by ensuring that all share in the tax burden—and better spending control will eliminate the need for costly and unintended borrowing (including arrears).



- Improvements in tax compliance will be supported by deep reforms to the **revenue administration**. We will need to better organize and focus its efforts, and eliminate barriers to its effectiveness. We have already made some progress over the last year, but much remains to be done:
  - We have put in place a **management structure** to design and guide our reform efforts. In 2010, a steering committee started overseeing the work of 5 task forces which have designed short-term anti-tax evasion action plans, and identified barriers to effective administration that need to be removed. This management structure will now oversee a strategy to overhaul the administration into a more modern functionally-based organization.
  - A key near-term priority is to implement the recently announced **anti-tax evasion action plan**. In April, the Ministry of Finance published this operational plan to guide present and future actions by the revenue administration. It includes stepped-up risk-based audits of large taxpayers, high wealth and self-employed individuals, as well as accelerated collection and resolution of tax arrears. Progress in these areas will be closely monitored under the program via quarterly quantified performance indicators. Achieving these targets is proposed as a program **structural benchmark** for end-December 2011.
  - A second key aim is to remove **barriers to effective tax administration**. In March, a tax law was passed to this end. The administration will now implement the key reforms in the law, including reassessing tax auditors' qualifications and hiring new auditors by end-September. The government will also make operational the newly established arbitration agency by end-September and, in addition, set up an independent fast track administrative dispute resolution process by end-July to deal rapidly with large dispute cases (i.e. within 90 days). To support these reforms, the government has also created the possibility for courts to introduce dedicated chambers for tax cases (to speed up judicial appeals). These are already operational in some courts and the initiative is expected to be fully in place by end-September.
  - A **strategic plan for medium term reforms** will be completed by end-July. The plan will set the priorities and timeline for reform of the tax administration, including adopting risk management approaches, establishing a large taxpayer unit, reshaping tax audit, debt collection, and administrative dispute resolution and introducing taxpayer services. The launch of the plan will be followed by the establishment of a central directorate general for debt collection by end-July and the initiation of a large taxpayers unit by end-September, and by the merger and closure of about 200 local tax offices identified as uneconomic and inefficient (beginning in July for completion by end-December).

- Surmounting problems with arrears will require modernization of **public financial management**. We have been working to this end over the last year under a three-pronged strategy, covering budgeting, spending control, and reporting. We have made much progress with strengthening budgeting—including a new budget code and Greece’s first medium-term framework (above)—but considerable challenges remain in other areas:
  - The infrastructure for more effective **spending control** must be firmly put into place, in the form of financial accounting officers and commitment registers. Interim financial accounting officers have already been appointed, and the process of appointing permanent officers with adequate qualifications will be complete by August. A circular, to be issued by end-July, will clarify their responsibility to ensure that spending obligations are incurred within budget and cash releases, and the sanctions for failing to abide. General directorates for financial services will be established in all line ministries by September. The implementation of commitment registers in line ministries and general government entities has been slow to take hold. To identify and eliminate obstacles now present, the general accounting office of the ministry of finance will undertake inspections in line ministries and general government entities with the largest arrears, to ensure the application of registers. Inspections will be complete by end-July and will cover entities accounting for 75 percent of arrears. Once initial implementation issues are overcome, commitment registers will be expanded to cover the investment budget.
  - **Fiscal reporting** has improved under a vigorous application of sanctions, but comprehensiveness, timeliness and accuracy can yet be improved. We have increased the coverage of fiscal and arrears data to, on average, 98 percent of general government spending. To improve the quality of arrears reporting, the government has set up inter-ministerial committees to coordinate arrears data collection in the most critical areas (e.g. health and social protection). We now aim to improve the quality of data reporting and reduce the discrepancy between fiscal and financial data. We have published consistent arrears and consolidated general government fiscal reports through end-April (excluding small general government entities) expect to meet the end-June **structural benchmark** upon publication of May results.
  - **Management of the reform initiative** will be strengthened to help improve implementation. Coordination committees will be established for budget preparation, fiscal reporting and the implementation of commitment registers. These committees will have performance targets (e.g. publish the MTFS, reduce discrepancy in fiscal reports below a certain level, complete the roll out of commitment registers, reduce arrears), will be overseen by a central coordinator,

and will regularly prepare reports on progress towards these targets for the Minister of Finance, commencing in July.

### **Financial sector policies**

9. **The government and the Bank of Greece will continue to take all necessary steps to safeguard financial stability.** Greece's sovereign financing crisis has put the financial system under stress. Liquidity has been pressured by deposit outflows, and capital has been affected by the impact of the recession on loan quality. Wholesale market access has been all but eliminated. Systemic problems have been avoided, with the ECB providing exceptional liquidity support through its monetary policy operations and some banks being able to raise capital from private sources. However, with the ongoing impact of the recession on deposits, and the delayed return of the sovereign to bond markets, challenges have accumulated. Our strategy to help the system involves ensuring sufficient system liquidity, requiring banks to strengthen capital buffers, restructuring or resolving banks facing particular challenges, and enhancing the regulatory framework to facilitate appropriate capital support, resolution procedures, and supervision.

10. **The government and the Bank of Greece are committed to preserve sufficient system liquidity.** Parliament has passed the legislation for a €30 billion expansion of the government program of guarantees for uncovered bank bonds. Moreover, in May, legislation was passed permitting the Ministry of Finance to guarantee the Bank of Greece's financial exposure stemming from support provided to credit institutions. Over the medium term, banks will need to reduce their reliance on Eurosystem refinancing operations and state guarantees, at a pace consistent with the program's macroeconomic, fiscal, and financial framework. To this end they have been asked to set up and maintain medium-term funding plans. The Bank of Greece will regularly provide guidance to banks on such matters as assumptions pertaining to deposit growth (which should be in line with the projected recovery), and the projected pace of re-access to wholesale markets (in line with the government's projected return to market access).

11. **Banks will be required to maintain an adequate capital buffer.** This will help them manage increasing balance sheet risks, and over time should facilitate earlier access to wholesale funding markets. To ensure that banks have an adequate capital base, several steps will be taken:

- Banks will be required to maintain minimum Core Tier 1 capital of 10 percent from the beginning of 2012. The Core Tier 1 capital requirements will exclude hybrid capital, but include preference shares issued by banks and subscribed by the Greek government at the outset of global financial crisis in 2008-09. The Bank of Greece will also require additional capital buffers against potential further deterioration of the operational environment, based on each bank's specific risk profile and the European stress test results.

- As part of the Pillar II exercise to increase capital buffers, a single reputable and qualified international advisory firm (paid for by banks) will be commissioned by the Bank of Greece to perform a diagnostic of banks' loan portfolios. The Bank of Greece, in consultation with the EC/ECB/IMF, will agree on the terms of reference for the diagnostic. This exercise is to be completed by end-2011 and will be carried out in coordination with the EC/ECB/IMF. Banks will be required to present plans to the Bank of Greece by end-January 2012 on how they intend to reach the new capital requirements through market solutions. The Bank of Greece will require banks to meet higher capital buffers, taking into account the outcome of the diagnostic exercise, no later than end-September 2012. Banks will be required to exhaust all efforts to meet new capital requirements within this timeframe. In the interim, banks not meeting the capital requirements will be subject to intensive supervision.
- The Greek authorities will continue to encourage banks to step up their exploration of strategic alliances with domestic and foreign partners to strengthen capital and address their structural funding issues. State representatives on the Boards of banks which receive government support will not use their veto right to block measures favorable to financial stability, such as a cross-border alliance.

**12. We will continue to strengthen our framework for supporting bank restructuring and resolution:**

- **We will revise the FSF operating framework and the bank resolution framework to make them more effective.** Legislation to this effect will be submitted to parliament by mid-August, and we propose that the passage of the legislation be a new program **structural benchmark** for September 15, 2011:
  - **The Financial Stability Fund (FSF) operational framework.** The FSF is available as a capital backstop for viable banks, to safeguard macrofinancial stability. The State commits not to request FSF resources to recapitalize state-owned banks, but will instead exercise its full responsibilities as the main shareholder. Concerning private banks, we will amend the FSF law in line with EU State aid rules and other necessary laws to require existing shareholders of listed and non-listed banks to absorb the full loss coming out of the forward-looking Pillar II assessments prior to any recapitalization by the FSF. In order to avoid that private shareholders are effectively subsidized by the public sector, and to enhance the prospect for private capital injection, the FSF will also require that, before banks and their shareholders can receive any funds, they must demonstrate that they have tried everything to achieve the necessary capital increase via private sources. Thus listed firms should demonstrate that they offered new shares (right issues) at prices substantially below the average market price prevailing after the announcement of bank capital needs. If banks are nevertheless not able to raise capital from the private sector, the FSF may decide to offer a

capital injection at prices substantially below the average market price prevailing after the announcement of bank capital needs, subject to conditions to minimize downside risks and thus the burden on taxpayers. The FSF will dispose of any acquired bank holdings within 24 months of the recapitalization, and to this end take measures to facilitate a merger or takeover or transfer of activities to another financial organization.

- **The resolution framework.** In the context of ongoing initiatives at the EU level, we will strengthen the resolution framework for problem banks and to allow timely and effective intervention and resolution consistent with EU Treaty rules and international sound practices. In this context, we have been preparing to introduce a broad set of tools to ensure that a resolution regime for financial institutions is put into place to safeguard financial stability and ensure effective depositor protection.
  - **FSF funding.** The Bank of Greece will, on a quarterly basis, continue to undertake forward looking assessments of bank profitability in the context of its regular Pillar II reviews. This will allow it to project more precisely the potential use of FSF funding in consultation with the EC/ECB/IMF, in the context of program reviews. The next such assessment will be completed by end-September. At this point an assessment will also be made, in consultation with the EC/ECB/IMF, of any impact of the revised program financing strategy (paragraph 29, below) on banks' balance sheets. If necessary, the government will establish a revised total level for FSF capital, and an amended schedule for transfers into the dedicated government account used to fund the FSF. Transfers from this account to the FSF will be made as required.
  - **Supervisory capacity and inter-agency coordination.** The Bank of Greece needs to strengthen its supervisory capacity to deal with growing responsibilities. However, there have been long delays in the recruitment of appropriately qualified staff through ASEP. Thus, the Bank of Greece will transfer staff with prerequisite specialist skills (banking, financial analysis, accounting, data management and IT) into the bank supervision department by end-July. The Bank of Greece will also consider requesting long-term technical assistance to be resourced from other European supervisory authorities by this date. By end-July, the FSF will address its staffing shortfall. Finally, by end-July the Bank of Greece and FSF will complete a memorandum of understanding to further strengthen their cooperation, including sharing of appropriate supervisory information.
13. **We will take action to address banks that have a capital base that falls short of regulatory requirements at present.** The Bank of Greece will require capital shortages to be addressed by end-September, or take other appropriate actions to deal with the situation. Until capital shortages have been resolved, the Bank of Greece will closely monitor affected banks and continuously enforce appropriate remedial measures.

14. **Plans to restructure two state banks have been approved, and a schedule has been set for their implementation.** All state banks have been included in the government's strengthened privatization program.

- At the beginning of April, **ATE Bank** announced plans for a share capital increase of €1,260 billion through a rights issue. The Commission approved the restructuring plan of ATE Bank on May 23, 2011. By 2013, the plan foresees (i) a reduction in balance sheet size by 25.7 percent (from the end-2009 level), (ii) a cost reduction by 25 percent, (iii) the sale of non-core subsidiaries and banking participations, and (iv) the run-off of certain portfolios. Moreover, ATE Bank remains committed to the asset quality reinforcement policy, by maintaining a coverage ratio above 50 percent throughout the duration of the restructuring plan.
- At the beginning of May 2011, the government adopted a law on the unbundling of the **HCLF**. The law stipulates the carve-out of the commercial activities into a separate entity. An implementing decree will establish that the remaining activities in the fund will not be in competition with commercial activities, and specify a detailed timetable for the steps necessary to fully dispose of commercial activities during the next 12 months.

15. **Work to strengthen the insurance sector is underway.** The Bank of Greece has developed a supervisory watch list for weak insurance companies, and will complete comprehensive on-site inspections by end-June. Several weak insurance entities have been closed, and capital raising initiatives are underway for other entities in the sector. The Bank of Greece is participating in the European Insurance and Occupational Pensions Authority's second Europe-wide stress testing exercise for the insurance sector. Results are anticipated by end-July, and the Bank of Greece will use its supervisory powers to deal with firms which do not pass the stress test. This would include requiring them to increase capital or take structural measures to address the situation within a specific timeframe.

### **Privatization**

16. **The government is committed to transferring assets to more productive uses, and to use the proceeds to reduce Greece's debt.** Transferring assets in key sectors of the economy (such as ports, airports, energy and real estate) to more productive use through privatization and concessions should help encourage higher investment and thereby support a swifter economic recovery. It will also help to deleverage Greece's balance sheet, which can contribute to stronger market sentiment over time, and help Greece return to bond markets.

17. **The government has prepared a privatization and real estate development strategy.** It has been approved by parliament, in the context of the medium-term fiscal strategy, as a **prior action** for the program. It aims at proceeds of €5 billion by end-2011, €15 billion by end-2012, and €50 billion by end-2015. The strategy includes (Annex II):

- **A detailed inventory of targeted assets.** The targeted assets include: shareholdings in listed and non-listed state companies and banks; and shareholdings in public infrastructure (e.g. airports, highways, and digital dividends). Public control will be limited only to cases of critical network infrastructure and will be implemented in the context of minority shareholdings (consistent with Annex II). The targeted assets also include commercial real estate and publicly held land (with location and zoning specified). The inventory of assets targeted under the plan has an estimated value in excess of €50 billion (i.e. valuing listed companies at their market price, unlisted companies by reference to discounted projected cash flows, and real estate by reference to market comparators and other internationally accepted methods of valuation).
  
- **A timeline for divesting each asset.** The strategy provides for a quarterly schedule of transactions through 2013, and an annual schedule for 2014 and 2015. For 2011, the government has initiated the sale procedure and will sell 10 percent of the shares it holds in the national telephone company (OTE) by end-June 2011. During the third and fourth quarters of 2011, the government will sell holdings in Hellenic Postbank, Piraeus and Thessaloniki Port, Thessaloniki Water, the Public Gas Corporation, Trainose, Larco, Casino Mont Parnes, ETA, as well as other assets listed in Annex II. Sales of listed companies, non-listed company holdings, public infrastructure concession SPVs, are targeted for completion by end-2012. Proceeds from the development of real estate would commence in Q4 2011, and continue through 2015. We propose a new program quantitative **performance criterion** on cumulative privatization proceeds to support monitoring of progress against our timeline. If necessary we will adjust the scheduling of transactions to ensure achievement of the cumulative proceeds target.
  
- **An action plan to prepare assets for privatization.** This covers:
  - Intermediate steps to be taken before shareholdings can be sold. The key steps during the remainder of 2011 and 2012 include: (i) the unbundling of Athens water by Q2 2012; (ii) the unbundling of PPC by Q3 2011; (iii) the unbundling of the public gas company (DEPA) by Q3 2011; (iv) the extension of the concession for the Athens International Airport by end-Q3 2011; (v) the extension of the concession for the OPAP gaming company and granting of new concessions to it by end-Q3 2011; (vi) incorporation of regional airports by Q2 2012; and (vii) concerning the privatization of ATE, enacting legislation to establish equal treatment of farm collateral across financial institutions for end-September 2011.
  
  - Steps towards the development of real estate. Steps already taken in the context of the MTFS implementation law include: (i) laws for surface rights and long-term leaseholds; (ii) laws to develop tourism properties and establish clear land titles; and (iii) a framework law to assign land use. As a key additional step a single

asset inventory will be set up in four tranches, starting with the first tranche in June 2011 and completed with a fourth tranche by Q4 2012;

18. **To facilitate transactions, the government will establish a Privatization Fund (the National Wealth Fund) into which to place assets ready for privatization.**

Legislation creating the fund will be a **prior action** for the review and the Fund will become operational within a month of the legislation entering into force. It will have the following features:

- **Governance.** The fund will be established under Greek law for a period of 6 years, professionally run, and governed by a Board of Directors. Directors will be appointed by parliament, upon the proposal of the Minister of Finance for a renewable fixed term. The Board will be comprised of individuals known for their international expertise in the field and will be vested with broad powers to perform all acts of divestment and administration within the Fund's purpose and interest. The European Commission and the Eurogroup will have the right to appoint two observers in the Board of Directors. The fund may also establish an Advisory Board to allow it to benefit from international experience and technical expertise. Directors and staff of the fund will be indemnified for actions undertaken in the context of their official duties.
- **Transparency.** The Board will, on a quarterly basis, publish a report on its activities, along with an audited report of its finances. The activity report will be submitted to parliament and will cover where each asset held stands in the transaction process.
- **Asset Transfer and Management.** Full legal and economic ownership of the assets to be privatized (including all rights attached to them such as voting rights) will be transferred to the fund in an irreversible manner. Neither the state nor the transferring entity will have any residual rights of ownership or otherwise over these assets without prejudice to the regulatory power of the state.
- **Mandate.** The fund will have a mandate to privatize these assets at prevailing market conditions as soon as technically feasible and in an open and transparent manner. The fund will not be able to transfer assets back to the general government unless the transaction has been completed (i.e. a concession or lease). The Ministry of Finance will retain the responsibility for any operating subsidies for the assets in question. If it is determined by the Board (on the advice of the fund's panel of experts) that an asset cannot be sold, it will be unbundled and sold by the fund (with liquidation retained as an option). The fund will be provided with quarterly targets for proceeds to be transferred back to the government.
- **Operations.** The fund will finance its operations by an initial €30 million capital injection by the state and subsequently from an appropriate portion of privatization



proceeds (as determined by the Board in consultation with the advisory board). The fund will be entitled to hire advisors for each transaction to enable it to conduct its activities with sufficient flexibility. Advisors already hired for transactions by the Special Secretariat for Asset Restructuring and Privatizations (at the Ministry of Finance) will be retained and their mandates transferred. All advisors for transactions in 2011-12 will be appointed by end-June 2011.

- **Limits on borrowing.** The fund will be able to raise money, on market terms, including by discounting or selling revenue streams of specified assets (such as interests in concessions). The fund may not grant liens over any of its assets if this might prevent or delay the relevant assets from being privatized. Net proceeds generated as a result of money raising operations will be paid over to the State, as will net proceeds of other privatizations. Any borrowing would be coordinated with the Ministry of Finance and the PDMA.

19. **Assets will be transferred to this Fund upon the decision of the Inter-Ministerial Committee of Asset Restructuring and Privatization (ICARP).** Non real estate assets will be transferred to the Fund within 1 month of the completion of any intermediate steps necessary to mature the assets for sale (Annex II). Concerning real estate, marketable portfolios will be formed in August and December 2011, and June and December of 2012, with an estimated total value of at least €35 billion, and transferred to the fund within 1 month of formation.

### **Structural reform policies**

20. **The government's priority is to accelerate the implementation of structural reforms aimed at promoting employment, investment, and market efficiency.** Greece's competitiveness has suffered due to a lack of contested markets coupled with an unfriendly business environment. These have discouraged labor force participation and have stymied private sector investment, productivity, and exports. To address these issues, in mid-2010 we launched a comprehensive structural reform program covering all key sectors described in our May 2010 Memorandum of Understanding (MoU) and Memorandum of Economic and Financial Policies (MEFP). Our updated program represents a continuation of the 2010 agenda, enhanced to also cover reforms of the judicial system and reforms to tackle Greece's high labor tax wedge. Looking forward, effective and timely implementation of our reform agenda—covering labor, product and service market reforms, reductions in red tape, and judicial reforms—will be crucial to reap its benefits and start a new growth cycle.

21. **The government is committed to creating a well-functioning labor market.** This is crucial to help Greece improve its competitiveness, including by facilitating a shift of labor resources toward the tradable sector. We had some early success in this area, with legislation enacted to introduce changes in minimum wages, improve arbitration, and reduce entry and exit costs. However, unemployment has been rising. Towards stronger job growth, the

government will focus on establishing an appropriate employment and bargaining framework and on cutting the labor tax wedge:

- **Employment and bargaining framework.** Recent developments suggest that firms are taking advantage of part-time, irregular, and individual contracts to manage their labor costs but have not made wide use of the special firm-level collective agreements allowed by the new law. The government will continue to closely monitor the implementation of this reform and underscore the right of social partners at the firm level to utilize special firm level agreements, as well as reaffirm the nonbinding nature of the Labor Inspectorate assessments. The government is prepared to amend the legislation by end-July 2011 if it proves necessary to support greater firm-level wage flexibility. In addition, we have passed legislation providing for more flexibility in working-time management (by permitting individuals to work longer hours for a longer period, while reducing the use of overtime pay) and in the use of fixed-term contracts (by lowering severance pay associated with such contracts and limiting the times they can be renewed), as well as for an introduction of term contracts for youth to gain work experience at sub-minimum wages.
- **Cutting the labor tax wedge.** Given our fiscal constraint, any reduction in the social contribution rate will require a broadening of the base. To this end, we will gradually raise the income ceilings for social security contributions and subsequently reduce the rates in an offsetting way (ensuring that the reform does not affect pension obligations). A first step will be taken by January 1, 2012. We will also step up our efforts to boost payment compliance, for instance by strengthening the effectiveness of the labor inspectorate in combating the informal economy and launching the electronic labor card pilot project evaluating how incentives could encourage stronger compliance. We will evaluate realized collections against our projections, and to the extent any unforeseen compliance improvement occurs beyond present program projections, we will reduce rates (again ensuring that the reform does not affect pension obligations).

22. **The government is committed to removing barriers to investment and exports.** This is essential to jump-start the recovery and support long-run growth. Visible progress has been made over the last year with the implementation of one-stop shops for business start-ups, which has cut procedures, cost, and time to set up a business. We will next focus on:

- **The fast-track law for investment projects.** To help the new system begin to operate and complement our privatization agenda, we will take one large project through the approvals by end-September 2011. We will also work to attract new investments and finalize the applications currently in the pipeline. As soon as the system is functioning, the thresholds for qualifying for the framework will be significantly lowered and generalized.

- **Licensing procedures.** We will pass the new law for environmental permits by end-July 2011. The main ministerial decisions required to make operational this law and the recently passed licensing law for technical professions and industry will be published by end-October 2011. Thereafter, we will start to integrate the provision of manufacturing licenses within the one-stop-shop framework and to develop an electronic environmental-licensing registry.
- **Export procedures.** By end-September 2011, new legislation will be finalized removing obstacles to exports (e.g. by simplifying customs procedures). We will also develop a single electronic window centralizing standardized trade-related information and documents by end-September 2011.
- **Simplification of legislation.** Within the government's new better regulation agenda, by end-July 2011 we will identify priority areas, set targets, and develop a timetable for the screening of the entire body of existing regulation with the aim to codify, recast, consolidate, repeal obsolete legislation, and simplify existing legislation.

**23. We will continue to implement reforms to liberalize service markets.** This will lower the cost of doing business in Greece and create opportunities for entry and new investment. Over the past year we have enacted legislation liberalizing the transportation sector and regulated professions. Our efforts in both areas will continue and expand to encompass the electricity sector:

- **The recent liberalization of regulated professions** will become fully operational on July 2 2011. A list of professions subject to the new law—comprised of 128 professions beyond those already explicitly identified in the law—was published in May. The government is committed to evaluate any requests for exemptions from the liberalization according to the principles of non-discrimination, necessity, and proportionality and implement them no later than July 2, 2011. Similarly, as regards notaries, all required decisions significantly reducing pro-rata and other fees will be published by end-September, 2011. Once the new law enters into effect, we will prepare a timetable to screen and amend existing legislation to bring it into consistency with the new law.
- We are advancing with reforms of the **transportation sector**. Regarding the new road haulage law, a secondary decree will be published by end-December 2011 establishing the new, lower licensing fees, which should not exceed administrative costs. Legislation liberalizing tourist coaches has been finalized and will be passed by end-July. The required Ministerial decisions establishing the cost (also proportionate to administrative costs) and required timing (20 business days) to receive licenses will be issued no later than end-September 2011.

- The liberalization of the **energy sector**—expected to foster competition and improve services—is proceeding. The new energy law will be passed by end-July 2011. It will strengthen the power of the regulatory authority, provide for consumer protection, and allow for unbundling electricity and gas transmission (to be completed by end-March 2012). Meanwhile, we will liberalize tariffs for all customers except vulnerable households by Q2 2013. Finally, the government will take all measures needed, including legislation where required, to ensure competitive access to lignite-fired generation by end-July, 2011.

**24. We are diagnosing obstacles to growth in key sectors and will on this basis identify concrete actions needed to jump-start the recovery:**

- **Tourism.** The external study has been finalized, pointing to a need to develop and upgrade infrastructure, ports and marinas, facilitate investment in integrated resorts and vacation home complexes, and increase flight connectivity with high-growth markets. The fast-track law, sales of publicly-owned real estate, and laws on land use and title will support achievement of these objectives. A tourism law, to be passed by end-August 2011 will address specific remaining barriers related to vacation homes and resorts.
- **Other sectors.** A number of studies are in progress, covering specific sectors where we believe there is upside growth potential (including manufacturing, energy, retail and wholesale trade), as well as on cross-sectoral barriers to growth. Based on these, we will finalize a plan defining concrete actions and a timeline for implementation for the retail sector by end-September 2011, and for the additional sectors by end-December 2011.

**25. The government will implement a medium-term reform of the judicial system (without prejudice to the constitutional principles and the independence of justice).**

Inefficiencies in the system—due to excessively low cost of litigation, complex procedures, incentives to postpone cases, cumbersome execution of court decisions, and lack of transparency and lack of linkage between court performance and budgeting—have led to a large backlog of unresolved civil and administrative cases (including tax cases) and have negatively affected private investment, FDI, entrepreneurship, exports, and fiscal performance. Reform will focus on the following key dimensions:

- **Simplification of procedures for tax cases.** Building on recently adopted legislation—which also supports other reforms in tax administration—by end-September 2011 the government will finalize the process of establishing and fully operationalizing specialized tax chambers in administrative tribunals and courts with at least three chambers, staff them with experienced judges who will have received special tax training, and monitor their activities by starting to publish on a quarterly basis their recovery rates, number of filings, and number of decisions. Moreover, by

end-December 2011, the Ministry of Justice will conduct assessments of: (i) the impact of the recently introduced rule of the 50 percent deposit requirement for appeal in tax and customs matters; (ii) the effectiveness of the measures limiting the maximum number of suspensions by tax courts; (iii) the effectiveness of the e-filing and e-tracking systems introduced in the tax chambers of the four largest administrative tribunals and related courts of appeal. We stand ready to modify the relevant legislation as well as the e-filing and e-tracking systems as required.

- **Clearing the existing case backlog in courts.** The Ministry of Justice will conduct, jointly with an external body, a study of the backlog in all administrative tribunals and courts of appeal by end-January 2011. Based on the recommendations of the study, we will develop an action plan by end-March 2012 with a timetable for a targeted reduction of at least 50 percent of the backlog of tax cases by end-July 2012, with a view to achieving full clearance of such backlog by end-July 2013. For all other courts, including the Supreme Court and the Supreme Administrative Court, a similar study will be finalized by end-June 2012.
- **Improving case processing.** By end-September 2011, the government will reduce the processing time of cases through the adoption of specific additional efficiency measures, including: (i) simplifying case registration; (ii) rationalizing docket management with a view to allowing the resolution of docketed cases, and by providing computer support to judges in order to allow the issuance of formal written decisions within two weeks from the judges taking the decision. The government will also increase the court registration fees in civil and administrative matters by end-December 2011.
- **Reviewing the Code of Civil Procedure.** By end-June 2012, the government will establish a task force—to broadly represent the legal community and include independent representatives of the legal professions—to review the Code of Civil Procedure so as to bring it in line with international best practices, including on: (i) case management; (ii) the execution of decisions and orders to pay, in particular small claims cases, with a view to reducing the role of the judge in these procedures; and (iii) enforcing statutory deadlines for court processes (especially for injunction procedures), as well as for debt enforcement and insolvency cases. This task force will make specific recommendations by end-December 2012.
- **Designing a performance and accountability framework for courts.** By end-December 2011, the government will establish a task force that will design a performance framework for courts by end-September 2012, including the development of a dependable data management system, a workload measurement system, and a management structure, that is conducive to a more cost effective, responsive, and accountable judicial management. Also by end-September 2012 we will fully operationalize and make publicly available a database with case data for

each court (as well as consolidated data for all courts), providing basic performance data, including number of judges and staff, number of cases (including by case type) and backlogs. Finally, by end-September 2012, we will develop a work plan on benchmarking cases for workload measurement, including focusing on delays in case processing, and the types of cases where such delays are most acute.

**26. To help our structural reform efforts deliver the expected outcomes, we will establish a formal project-management framework.** We will amend legislation as necessary to set up a committee to oversee the structural reform work. It will be mandated to identify where more capacity and technical assistance are required, and propose any required adjustments to the growth strategy. The committee will appoint project managers for each initiative to be carried out in the various areas (labor market reform, product and service market reform, investment promotion, and judicial reform), establishing clear lines of responsibility and accountability. The committee will also be responsible to develop, utilize, and publish on the government's website monitoring indicators for each of the key structural reform initiatives, on a quarterly basis, starting with end-June 2011 data.

### **External financing**

**27. Additional financing will be needed to help support the policies under the program.** In light of the current difficult circumstances, Greece is unlikely to meet its programmed return to private market access by early 2012, leaving additional public sector financing needs of €55 billion for the remainder of the program period.

**28. To fill our additional financing need we will seek financing commitments from the private sector and official sector.** The precise modalities of private sector involvement and additional funding from official sources will be determined in the coming weeks so as to ensure that, inter alia, required program financing is in place. Consultations with Greece's creditors have begun in order to define the modalities for voluntary private sector involvement with a view to achieving a substantial reduction in Greece's financing needs. This financing strategy is intended also to form the basis for launching a new medium-term program to support Greece's adjustment efforts.

### **Technical assistance**

**To support timely and effective implementation of our program we will expand our use of technical assistance.** The government has been facing significant capacity constraints in implementing its broad fiscal and structural agenda. Technical assistance from the IMF and the EC has to date provided vital support to our efforts. Looking forward, we will expand this process by making use of bilateral expert assistance from the EU member states. Areas identified for additional assistance are tightly linked to the execution of our reform initiatives. They include: health and social security reforms (e.g. e-procurement, e-prescription, and IT systems); state enterprise reforms (e.g. performance reviews); and growth enhancing structural reforms (e.g. labor training). They also include: fiscal

management reforms (e.g. administrative reorganization and budget monitoring systems); and taxation reforms (e.g. anti-corruption reforms and audit techniques), which will be closely coordinated under our existing TA program and long-term advisors

Table 1. Greece: Quantitative Performance Criteria  
(Billions of Euro, unless otherwise indicated)

	2011							Medium Term 4/	
	Mar-11		Jun-11		Jul-11	Sep-11	Dec-11	Dec-12	Dec-13
	Progr. 1/	Actual	Progr. 1/	Actual	Progr. 1/	Progr. 1/	Progr. 1/	Progr. 2/	Progr. 3/
<b>Performance Criteria (unless otherwise indicated)</b>									
1. Floor on the modified general government primary cash balance	-2.0	-0.9	-4.3	..	-5.1	-5.0	-1.5	2.4	7.4
2. Ceiling on State Budget primary spending	15	13	30	..	34.7	44.5	60.1	68	69
3. Ceiling on the overall stock of central government debt	394	366	394	..	394	394	394	..	..
4. Ceiling on the new guarantees granted by the central government	1.0	0.1	1.0	..	1.0	1.0	1.0	0.0	0.0
5. Ceiling on the accumulation of new external payments arrears on external debt contracted or guaranteed by general government 5/	0.0	0.0	0.0	[0.0]	0.0	0.0	0.0	0.0	0.0
6. Floor on privatization receipts 6/	..	..	..	..	0.39	1.70	5.00	15.00	22.00
<b>Indicative Targets</b>									
7. Ceiling on the accumulation of new domestic arrears by the general government	0.0	4.3	0.0	..	0.0	0.0	0.0	0.0	0.0

1/ Cumulatively from January 1, 2011 (unless otherwise indicated).

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

3/ Cumulatively from January 1, 2013 (unless otherwise indicated).

4/ Indicative targets.

5/ Applies on a continuous basis from January 1, 2010 onward.

6/ Cumulatively from January 1, 2011.



Table 2. Greece: Structural Conditionality for the 4th Review and Proposed Structural Conditionality

Measures	Macrocritical relevance	Status
<b>End-March structural benchmarks</b>		
1. Appointment of financial accounting officers in all line ministries and major general government entities (with the responsibility to ensure sound financial controls).	Improves control and transparency of budget expenditures.	Met with a delay. Interim accounting officers have been appointed in line ministries and financial officers appointed accounting officers in general government entities.
2. Pass legislation to separate the core consignment activity from the commercial activities of the HCLF.	Fosters banking sector stability.	Met with a delay.
3. The National Actuarial Authority to produce a report for the main supplementary funds to assess whether the parameters of the new system significantly strengthen long-term actuarial balance.	Reduces budgetary costs of ageing and improves long-term fiscal sustainability. Increases labor force participation.	Met with a delay.
4. Government to put forward for legislative adoption a new tranche of government guarantees for uncovered bank bonds.	Assures sufficient banking system liquidity.	Observed.
<b>End-April structural benchmarks</b>		
5. Publish the medium-term budget strategy paper, laying out time-bound plans to address: (i) restructuring plans for large and/or loss making state enterprises; (ii) the closure of unnecessary public entities; (iii) tax reform; (iv) reforms of public administration; (v) the public wage bill; and (vi) military spending.	Supports fiscal consolidation.	Converted to prior action (below)
<b>End-May structural benchmarks</b>		
6. Commercial banks to submit medium-term funding plans to the ECB and the Bank of Greece (end-May 2011)	Aims at reducing banks' reliance on Eurosystem refinancing operations and state guarantees over the medium term.	Observed.
<b>End-June structural benchmarks</b>		
7. Articulate a strategic plan of medium-term revenue administration reforms to fight tax evasion (end-June 2011).	Institutionalizes and consolidates the results of the anti-evasion plan.	In progress. Preliminary draft plan has been elaborated.
8. Publish three consecutive months of consistent arrears and consolidated general government fiscal reports (excluding small local governments) (end-June 2011).	Supports measures to reduce arrears across general government.	In progress
9. Adopt the necessary changes to enact the plan to reform the general government personnel system (end-June 2011)	Supports the medium term fiscal adjustment plan.	In progress.
<b>End-July structural benchmarks</b>		
10. The Council of Ministers to adopt a comprehensive privatization plan through 2015 (end-July, 2011).	Upscaled privatization program to contribute to debt reduction and to support higher investment and growth.	Converted to prior action (below)
<b>Prior actions</b>		
1. Parliament to approve medium-term budget strategy (MTFS).	To reduce the overall deficit to below 3 percent of GDP by 2014.	Observed.
2. Government to legislate key fiscal-structural reforms in an MTFS Implementation Bill (detailed in Annex I).	To improve the efficiency and quality of public spending, to reduce waste and inefficiency in the broader public sector, and to broaden the tax base, and to reduce tax and social contribution evasion.	Observed.
3. Parliament to approve privatization and real estate development strategy.	To transfer public assets to more productive uses, and to use proceeds to reduce Greece's debt.	Observed.
4. Government to legislatively establish a Privatization Agency (a private law vehicle into which privatizable assets will be transferred to be sold).	To facilitate privatization transactions.	Observed.
<b>Proposed structural benchmarks</b>		
<b>August 15</b>		
1. Government to enact legislation in the context of MTFS implementation (phase II) to: (i) introduce pension adjustment bill stipulating freezes through 2015, introducing individual social security numbers, caps, means testing, and rationalizing benefits of pension funds; (ii) introduce single public pay scale bill, temporarily freeze automatic progression, and halve productivity allowance; and (iii) close 40 small public entities, merge 25 more small entities, and close an additional 10 large entities under line ministries and in the social security sector.	To reduce the overall deficit to below 3 percent of GDP by 2014.	Proposed.
<b>September 15</b>		
2. Parliament to pass legislation revising the FSF operating framework (to address conditions for recapitalization) and revising the bank resolution framework (in particular, the deposit guarantee scheme, and the early intervention and bank liquidation frameworks).	To strengthen the resolution framework for problem banks and to allow timely and effective intervention and resolution.	Proposed.
<b>end-December</b>		
3. Government to achieve quantitative targets set under its anti-tax evasion plan.	To combat tax evasion and improve tax collection.	Proposed.

## MEFP Annex I. The MTFS Implementation Bill

Action	Description
1	<p>Wages and employment</p> <ul style="list-style-type: none"> <li>• Application of the 1:10 employment rule during 2011 and extension of the 1:5 rule until 2015</li> <li>• Reduction of civil servants' overtime compensation to not more than 20 hours per month</li> <li>• Reduction in fixed term and temporary contracts (50 percent in 2011 and 10 percent thereafter)</li> <li>• Introduction of part-time employment and extension of unpaid leave</li> </ul>
2	<p>Tax measures</p> <p>a. VAT and PIT exemptions</p> <ul style="list-style-type: none"> <li>• Eliminate preferential reduced rate on food and drinks sold by restaurants and bars (from 13 percent to 23 percent)</li> <li>• Reduce the tax free threshold from €12,000 to €8,000 and introduce a 10 percent tax rate on income between €8,000-€12,000 (with some exclusions for pensioners, young people and disabled)</li> <li>• Impose a solidarity contribution on individual incomes (without deduction) at 1-5 percent rate depending on income.</li> <li>• Eliminate selected tax credits and deductions and set an overall cap on total tax credits and deductions to be used</li> <li>• Eliminate invoice based tax refunds in 2012</li> <li>• Increase the criteria for presumptive taxation by 60 percent</li> <li>• Introduce a minimum tax of €300 on self-employed for financial year 2011 and of at least €400 for 2012 with the exception of professionals of less than five years activity or of less than three years to retirement.</li> </ul> <p>b. Property tax exemptions</p> <ul style="list-style-type: none"> <li>• Reduce the threshold for the individual property tax to €200,000 and increase the minimum rate to 0.2 percent.</li> </ul> <p>c. Excises and other indirect tax</p> <ul style="list-style-type: none"> <li>• Increase the specific component of the excise on cigarettes</li> <li>• Introduce excises on natural gas, LPG, and non alcoholic beverages</li> <li>• Increase the excise tax on heating oil for households and legal entities</li> <li>• Introduce a luxury levy on vehicles, with an exemption regarding cars hired by disable people, motorbikes and pools</li> <li>• Increase circulation fee for cars</li> <li>• Introduction of a special levy on permits for smoking spaces</li> </ul>

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|---|--|---|
| 3 | State owned enterprises                      | <ul style="list-style-type: none"><li>• Establishment of a labor reserve for staff furloughed by SOEs at 60 percent of the base wage</li></ul>  |
| 4 | Social contributions and pension adjustments | <ul style="list-style-type: none"><li>• Increase of unemployment solidarity contribution for private sector employees by 1 percent, civil servants by 2-3 percent, and a monthly fee for self-employed</li><li>• Increase of the pension solidarity contribution rates for monthly pensions exceeding €1.700, and an additional increase in the special contribution for pensioners younger than 60 years old who have monthly pensions exceeding €1.700</li><li>• Introduction of special income-scaled contribution on supplementary pensions above €300 per month</li><li>• Sector-specific percentage of annual corporate turnover to be paid to OAEE starting 2013</li><li>• Increase in contribution rates for professional pension funds and OAEE</li><li>• Reduction in lump-sum pensions for public enterprises by 10 percent (except PPC at 15 percent)</li><li>• Reduction of NAT (sail men pension fund) pensions by 6 percent and cut in subsidy to OTE.</li><li>• Family allowance to be included in the ceiling on maximum pensions</li><li>• Tighten criteria for seasonal unemployment benefits.</li></ul> |
| 5 | Other  | <ul style="list-style-type: none"><li>• Suspend the sharing formula with sub-national governments for the additional revenue deriving from anti-crisis measures and reduce transfers to them, consistent with the local government adjustment measures included in the MTFP.</li></ul>  |
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## Annex III. Greece--Privatization Plan

Date	Name	Participation to be sold	Type of Sale	Intermediate steps
<b>2011</b>	Q2 OTE	10.0%	share sale	
	Q3 Thessaloniki Water (EYATH)	at least 40%	share sale of SPV	
	Q3 Athens Intl Airport	100.0%	Concession	
	Q3 OPAP 1	100.0%	Concession	
	Q3 OPAP 2	100.0%	New games	Gaming law enacted by end-August
	Q3 Thessaloniki Port	23.3%	share sale of SPV	
	Q3 State Lotteries	100.0%	share sale of SPV	
	Q4 Piraeus Port	23.1%	share sale of SPV	
	Q4 Hellenic Defense Systems (EAS)	99.8%	share/asset sale	
	Q4 Hellenic Postbank	34.0%	share sale	
	Q4 Public Gas Company (DEPA)	65.0%	share sale	Operations and infrastructure to be separated by Q3-2011
	Q4 Public Gas Company (DESFA)	31.0%	share sale	
	Q4 Railway Operator (TRAI NOSE)	100.0%	share sale	
	Q4 Larco	55.2%	share sale	
	Q4 Alpha bank	0.6%	share sale	
	Q4 National Bank of Greece (NBG)	1.2%	share sale	
	Q4 Hellenic Horse Racing (ODIE)	100.0%	share sale	Gaming law enacted by end-August
	Q4 Mobile Telephony Licenses	100.0%	sale of rights	
	Q4 Casino Mont Parnes	49.0%	share sale	
	Q4 Hellenic Vehicle Industry (ELBO)	72.6%	share sale	
	Q4 OPAP	34.0%	share sale	
	Q4 Hellenikon 1	100.0%	share sale of SPV	Land use assigned by Q3-2011
	Q4 Four Airbus Aircraft	100.0%	Sale	
	Q4 Real Estate Assets 1 (incl. office spac	100.0%	share sale of SPV	Land use assigned by Q3-2011
<b>2012</b>	Q1 Athens Intl Airport (AIA)	at least 21%	share sale of SPV	
	Q1 Hellenic Petroleum (ELP)	35.5%	share sale	Resolve issue of strategic reserves, sale of DEPA by Q4-2011
	Q1 Piraeus Bank	1.3%	share sale	
	Q1 Hellenic Agricultural Bank (ATE)	at least 38.6%	share sale	Collateral issue to be solved by Q3-2011
	Q1 Egnatia Odos Rd	100.0%	share sale of SPV	
	Q1 Hellenic Post (ELTA)	at least 40%	share sale	
	Q1 Ports 1	100.0%	share sale of SPV	Ports group being created by Q4-2011
	Q2 Athens Water (EYDAP)	27.3%	share sale of SPV	To be unbundled by Q2-2012
	Q2 Loan and Consignment Fund	100.0%	share sale of SPV	
	Q2 Real Estate Assets 2	100.0%	share sale of SPV	Portfolio to be created by Q4-2011, land use assigned Q1-2012
	Q3 Public Power Corporation	17.0%	share/asset sale	To be unbundled by Q3-2011
	Q3 Hellenic Motorways 1	100.0%	share sale of SPV	Renegotiate of concession agreements by Q4-2011
	Q3 Regional airports 1	100.0%	share sale of SPV	Incorporatized and grouped by Q2-2012
	Q4 Hellenikon 2	100.0%	share sale of SPV	
	Q4 Real Estate Assets 3	100.0%	share sale of SPV	Portfolio to be created by Q2-2012, land use assigned Q3-2012
	Q4 Digital dividend 1	100.0%	sale of rights	Law on digital broadcasting by Q3-2011
	Q4 Thessaloniki Water (EYATH)	34.0%	share sale of SPV	Market to be regulated by Q2-2012
	Q4 Hellenic Goldmines 1	100.0%	share sale of SPV	Licencing of existing 3 concessionaries by Q1-2012
<b>2013</b>	Q1 Offshore Gas Storage Fac.	100.0%	share sale of SPV	
	Q2 Regional airports 2	100.0%	share sale of SPV	Incorporatized and grouped by Q4-2012
	Q2 Ports 2	100.0%	share sale of SPV	Incorporatized and grouped by Q1-2013
	Q3 Real Estate Assets 4	100.0%	share sale of SPV	Portfolio to be created by Q4-2012, land use assigned Q1-2013
	Q3 Hellenic Goldmines 2	100.0%	share sale of SPV	
	Q4 Digital dividend 2	100.0%	sale of rights	
	Q4 Athens Water (EYDAP)	34.0%	share sale of SPV	Market to be regulated by Q2-2012.
	Q4 Hellenic Motorways 2	100.0%	share sale of SPV	
<b>2014</b>	Real Estate/Land	100.0%	share sale of SPV	Portfolio to be created by Q4-2012, land use assigned Q2-2013
	Hellenic Motorways 3	100.0%	share sale of SPV	
<b>2015</b>	Real Estate/Land	100.0%	share sale of SPV	Portfolio to be created by Q4-2012, land use assigned Q2-2014
	Hellenic Motorways 4	100.0%	share sale of SPV	

**GREECE—TECHNICAL MEMORANDUM OF UNDERSTANDING**

July 4, 2011

29. 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.

30. 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 May 31, 2011. In particular, the exchange rates for the purposes of the program are set €1 = 1.4385 U.S. dollar, €1 = 116.30 Japanese yen, €1.1128 = 1 SDR.

***General Government***

31. **Definition:** For the purposes of the program, the general government includes:

- The central government. This includes:
  - The entities covered under the State Budget as defined in Chapter 2 of the Law 2362/1995 as being modified by Law 3871/2010 regarding “Public Accounting, Auditing of Government Expenditures and Other Regulations,” and other entities belonging to the budgetary central government.
  - Other entities or extra-budgetary funds (EBFs) not part of the State budget, but which are, under European System of Accounts (ESA95) rules (“*ESA95 Manual on Government Deficit and Debt*”), classified under central government. This includes ETERPS and the National Wealth Fund.
  - The following state enterprises and organizations included by the National Statistical Service (ELSTAT) under the definition of central government (ATTIKO METRO, ETHEL, ISAP, HLPAP, TRAM, ELGA, HELLENIC DEFENCE SYSTEMS S.A., OSE, TRAINOSE, ERT, ELECTROMECHANICA KYMI LTD, OPEKEPE, KEELPNO, EOT, INFORMATION SOCIETY IN GREECE, Unit for the Organization and Management of Development Projects S.A.). References to individual

companies are understood to include all of their subsidiaries which are to be consolidated under IFRS requirements.

- Local government comprising municipalities, prefectures, and regional governments including their basic and special budgets, including all agencies and institutions attached thereto, which are classified as local governments according to ESA 95.
- Social security funds comprising all funds that are established as social security funds in the registry of ELSTAT.
- Other extra budgetary entities included by ELSTAT under general government, which are not yet counted under central government.
- This definition of general (central) government also includes any new funds, or other special budgetary and extra budgetary programs that may be created during the program period to carry out operations of a fiscal nature. The government will inform IMF, European Commission and ECB staff of the creation of any such new funds, programs, or entities immediately. The general (central) government, as measured for purposes of the program monitoring in 2011, shall not include entities that are re-classified from outside general (central) government into general (central) government during the course of 2011.

32. **Supporting material:** The Ministry of Finance (MoF) will provide to the European Commission, ECB and IMF detailed information on monthly revenues and expenditures, domestic and foreign debt redemptions, new domestic and foreign debt issuance, change in the domestic and foreign cash balances of the central government at the central bank of Greece, all other sources of financing including capital transactions, and arrears of the general government. The Ministry of Finance, in collaboration with the Ministry of Interior, will provide monthly data on revenues and expenditures for local governments, as collected in the Ministry databank. The Minister of Finance, in collaboration with the Ministry of Labor and Social Security, will provide monthly data on revenues and expenditures in main social security funds (including IKA, OGA, OAEE, OAED). The Bank of Greece will provide detailed monthly data on assets and liabilities of local authorities, social security funds, ETERPS (and other extra-budgetary funds), and state enterprises included in the definition of general government in line with monetary survey data. Data will be provided within four weeks after the closing of each month.

## A. Quantitative Performance Criteria, Indicative Ceilings, and Continuous Performance Criteria: Definitions and Reporting Standards

### Floor on the Modified General Government Primary Cash Balance (Performance Criterion)

33. **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, minus the change in stock of arrears from line ministries, the change in net financial assets of local government, the change in net financial assets of social security funds minus the change in the stock of arrears of public hospitals, the change in net financial assets of ETERPS, the change in net financial assets of reclassified public enterprises (RPEs) minus guarantees called to entities within the general government and the spending by the National Wealth Fund. Privatization receipts, as defined below and the proceeds from the sale of land and buildings will be excluded from cash receipts. Net lending operations by the state budget will be recorded as cash expenditures.

- **The cash balance of the ordinary state budget.** The cash balance of the ordinary state budget will be measured from above the line, based on ordinary budget revenues (recurrent revenue plus non-recurrent revenue, including NATO revenues, 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; the reserve, interest payments; transfers for the settlement of past debt, payments for military equipment procurement on a cash basis; NATO expenses, capital transfers to social security funds or other entities by bonds; and called guarantees where the state or central government assumes payments on behalf of entities outside of the general government) of the ordinary state budget as published monthly on the official website of the General Accounting Office of the Ministry of Finance, and in line with the corresponding line items established in the ordinary state budget.
- **The cash balance of the public investment budget.** The cash balance of the public investment budget will be measured from above the line, based on investment budget revenues minus investment budget expenditures of the investment state budget as published monthly on the official website of the General Accounting Office of the Ministry of Finance, and in line with the corresponding line items established in the investment state budget.

- **The change in the stock of arrears from line ministries.** The change in stock will be measured on a cumulative basis as the stock of arrears prevailing at the time of measurement of the PC minus the stock of arrears prevailing at the end of the previous year. The stock of arrears will reflect all arrears outstanding, irrespective of the time period in which the unpaid commitments were entered into. The stock of arrears of line ministries or other spending bodies with a vote in the budget (including the Secretariat General of Information/Secretariat General of Communication, Secretariat General of Prefectures, Presidency of the Hellenic Democracy, and the Hellenic Parliament) will include any arrears (as defined under subsection C) related to the activities of the ordinary and investment budgets. Data will be in line with the monthly publications of state budget arrears, published on the Ministry of Finance website, and will be based on survey data, until data from commitment registers are assessed by IMF, European Commission, and ECB staff to provide comprehensive and reliable information.
- **The change in net financial assets of local governments** is defined on a transactions basis, as the change in the total of financial assets minus financial liabilities of local authorities adjusted for valuation changes by the Bank of Greece.
  - Financial assets include (but are not limited to) deposits of local governments in the Bank of Greece and deposits of local governments in domestic credit institutions. Deposits will be measured at face value excluding accrued interest in line with recording for monetary survey data.
  - Financial liabilities include (but are not limited to) short and long term loans from domestic credit institutions to local governments, measured at face value, consistent with recording for monetary survey data.
- **The change in net financial assets of social security funds** is defined on a transactions basis, as the change in the total of financial assets minus financial liabilities of social security funds, adjusted for valuation changes by the Bank of Greece; minus the change in the stock of arrears of public hospitals (NHS hospitals) to entities outside of the general government (as defined below).
  - Financial assets include
    - Deposits of social security funds in the Bank of Greece and deposits of social security funds in the domestic credit institutions and deposits held either directly or indirectly through the IKA mutual fund. Deposits are measured at face value excluding accrued interest, consistent with reporting requirements for monetary survey data.



- Holdings of shares quoted on the Athens Stock Exchange held by social security funds either directly or indirectly through the IKA mutual fund.
    - Direct or indirect holdings of Mutual Fund units issued by Greek management companies (other than the IKA mutual fund).
    - Holdings of central government bonds, including short and long-term securities issued domestically, long-term securities issued abroad operated from Bank of Greece accounts, and indirect holdings through the IKA mutual fund. Holdings will be measured at nominal value.
    - Holdings of bonds issued abroad and other foreign assets.
  - Financial liabilities include the short and long term loans from domestic credit institutions to the social security funds, measured consistently with monetary survey data.
  - The change in the stock of arrears of public hospitals (NHS hospitals) to entities outside of the general government. Data on arrears of hospitals should be available within four weeks of the end of each month. The change in stock of arrears will be measured on a cumulative basis as the stock of arrears prevailing at the time of measurement of the PC minus the stock of arrears prevailing at the end of the previous year. The stock of arrears will reflect all arrears outstanding, irrespective of the time period in which the unpaid commitments were entered into, but will exclude the 5.34 billion hospital arrears to pharmaceutical companies which were incurred by end-2009 to the extent these are still outstanding. The stock of arrears of public hospitals will include any arrears (as defined under subsection C) related to the activities of the 134 NHS hospitals. Data will be in line with the monthly publications of hospital arrears, published on the Ministry of Finance website, and will be based on survey data, until data from commitment registers are assessed by IMF, European Commission, and ECB staff to provide comprehensive and reliable information.
- **The change in net financial assets of ETERPS** is defined on a transactions basis, as the change in the total of financial assets minus financial liabilities of ETERPS, adjusted for valuation changes by the Bank of Greece.
  - Financial assets include
    - Deposits of ETERPS in the Bank of Greece and deposits of ETERPS in domestic credit institutions. Deposits will be measured at face value

excluding accrued interest in line with recording for monetary survey data.

- Holdings of shares, held by ETERPS, quoted on the Athens stock exchange.
  - Holdings of Mutual Fund units issued by Greek management companies.
  - Holdings of central government bonds.
  - Holdings of other bonds issued abroad.
- Financial liabilities include the short and long term loans from the domestic credit institutions to ETERPS, measured consistently with monetary survey data, or other lending from the Bank of Greece.
- **The change in net financial assets of reclassified public enterprises (RPEs)** is defined on a transactions basis, as the change in the total of financial assets minus financial liabilities of RPEs, adjusted for valuation, minus the amount of guarantees called from entities which are consolidated within the general government. RPEs will include the following organizations: ELGA, KEELPNO, OPEKEPE (excluding the account ELEGEPE), EOT, ATTIKO METRO, HELLENIC DEFENCE SYSTEMS S.A., ERT, ETHEL, TRAINOSE, ISAP, HLPAP, ELECTROMECHANICA KYMI LTD, INFORMATION SOCIETY IN GREECE, Unit for the Organization and Management of Development Projects S.A., OSE, and TRAM.
  - Financial assets include
    - Deposits of RPEs in the Bank of Greece and deposits of RPEs in the credit institutions (domestic and foreign). Deposits will be measured at face value excluding accrued interest.
    - Holdings of shares, held by RPEs quoted on the Athens Stock Exchange.
    - Holdings of Mutual Fund units issued by Greek management companies.
    - Holdings of central government bonds.
    - Holdings of other bonds issued abroad.
  - Financial liabilities include the short and long term loans from the domestic credit institutions to RPEs, measured consistently with monetary survey data,

short and long term loans from the foreign banking system, as well as loans from the EIB or other official lenders.

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

34. **Other provisions.**

- For the purpose of the program, the primary expenditure of the central government that is monitored excludes payments related to bank support, when carried out under the program's banking sector support and restructuring strategy. Transactions that may be excluded from the balance include loans to financial institutions and investments in equity of financial institutions (requited recapitalization); unrequited recapitalization; purchases of troubled assets, and operations related to the FSF. However, any financial operation by central government to support banks, including the issuance of guarantees or provision of liquidity, will be immediately reported to IMF, European Commission, and ECB staff.
- The change in net financial assets of RPEs will be excluded for the end-June PCs in 2011. However, for the measurement of the end-July, end-September and end-December 2011 PCs, the change in net financial assets of RPEs will be included, measured on a cumulative basis from January 1, 2011 onward.
- Capital transfers to social security funds or other entities by bonds shall exclude bond issuance for settlement of end-2009 health related arrears, and the settlement related to the judiciary liabilities, and to the compensation for former Olympic Airways employees.

35. **Supporting material.**

- Data on cash balances of the ordinary and state budgets will be provided to the European Commission, ECB and IMF by the General Accounting Office in the Ministry of Finance within three weeks after the end of each month. Data will include detailed information on revenue and expenditure items, in line with monthly reports published on the official website of the Ministry of Finance. Data will also include data on capital transfers to social security funds or other entities in bonds and called guarantees.

- Data on net financial assets of local authorities and social security funds, extra-budgetary funds including ETERPS, AKAGE, and reclassified public enterprises will be provided to the IMF, European Commission and ECB by the GAO in cooperation with the Statistics Department of the Bank of Greece within four weeks after the end of each month. Monthly data on arrears of public hospitals (NHS hospitals) will be provided by the Ministry of Health and arrears of line ministries by the Ministry of Finance within four weeks after the end of each month.

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

36. **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 plus the change in the stock of the arrears of line ministries to entities outside the general government, in line with the definitions provided above. Primary expenditure of the central government that is monitored for the Performance Criterion excludes any cash payments related to bank restructuring, when carried out under the program's banking sector restructuring strategy. Costs that may be excluded from the balance include loans to financial institutions and investments in equity of listed and non-listed financial institutions (required 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.

37. **Supporting material.** The General Accounting Office of the Ministry of Finance will provide monthly expenditure data of the ordinary and investment state budget, as defined above. The ministry of Finance will further provide monthly data on the stock of arrears of line ministries.

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

38. **Definition.** For the purpose of the program, domestic arrears are defined as the unpaid invoices that have past the due date by 90 days. In case no due date is specified on the supplier contract, an unpaid commitment is considered to be in arrears 90 days after the initiation of the invoice. Data will be provided within four weeks after the end of each month. The continuous non-accumulation of domestic arrears is defined as no increase in the stock of all general government arrears outstanding at the end of every month during which quarter the indicative target is being monitored, irrespective of the time period in which the unpaid commitments were entered into. This does not include the arrears which are being accumulated by the Civil Servants' Welfare Fund. It will also exclude €5.34 billion hospital arrears to pharmaceutical companies which were incurred by end-2009 to the extent these are still outstanding.

39. **Supporting material.** The Ministry of Finance will provide consistent data on monthly expenditure arrears of the general government, as defined above. Data will be provided within four weeks after the end of each month and will also include accounts payable overdue for more than 30 and 60 days.

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

40. **Definition.** The overall stock of central government debt will refer to ESA95 central government debt, which includes the state debt, debts of extrabudgetary funds and public enterprises that are consolidated into the central government, and other ESA 95 adjustments. It will be defined for the purposes of the program as total outstanding gross debt liabilities. It will include, but not be limited to, liabilities in the form of securities and loans. It will exclude accounts payable. Debt will be measured at nominal value. The program exchange rate will apply to all non-euro denominated debt. Inflation indexation will apply to inflation indexed debt, using the relevant index as specified in the debt instrument. For the purposes of the program, the ceiling on the stock of central government debt will exclude debt arising from payments for bank restructuring, when carried out under the program's banking sector restructuring strategy (this does not cover the debt related to the Financial Stability Fund). This includes loans to financial institutions and investments in equity of financial institutions (requited recapitalization); unrequited recapitalization; and purchase of troubled assets. However, any financial operation by the central government to support banks, including the issuance of guarantees or provision of liquidity, with the exception of Hellenic Republic intermediation in repos between foreign and domestic financial institutions will be immediately reported to IMF, European Commission and ECB staff.

41. **Adjusters.** For 2011, the ceiling on the overall stock of ESA95 central government debt will be adjusted upward (downward) by the amount of any upward (downward) revision to the stock of end-December 2010 ESA95 central government debt of 353.761 billion.

42. **Supporting material.** Data on the total stock of central government debt will be provided to the European Commission, ECB and IMF staff by the General Accounting Office consistent with the ESA95 definition no later than 30 days after the end of each month.

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

43. **Definition.** The ceiling on the new central government guarantees shall include new guarantees granted by the state, as well as new guarantees granted by any other entity that is classified under ESA95 under central government, but exclude guarantees to entities whose debt is covered under the ceiling on the stock of central government debt as defined in paragraph 13 and 14. 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.

44. **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 Payment Arrears by the General Government (Continuous Performance Criterion)**

45. **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.

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

#### **G. Floor on Privatization Proceeds (Performance Criterion)**

47. **Definition.** Privatization proceeds will be defined as the cash receipts from the asset sales to be carried out by the privatization agency (the National Wealth Fund) and prior to its establishment directly by the government. These will include, but not be limited to, the sale of equity of listed or non-listed companies and banks, shareholdings in public infrastructure, shareholdings in SPVs, leasehold in commercial real estate and publicly held land, sale-lease back operations, securitization of asset-related cash streams, or other assets incorporated in the authorities' privatization program, as well as sale of rights and concessions (including securitization of the proceeds of concessions). Proceeds will be valued in euro and reported on a gross basis, excluding any associated capital expenditure or other restructuring costs as well as the operating costs of the National Wealth Fund, which will be recorded as an expenditure according to the modified cash deficit definition. Proceeds will be measured as the inflows of cash received by the National Wealth Fund, and prior to its establishment directly by the government, as deposited in the Special Privatization Account at the Bank of Greece on the day the transaction is settled.

48. **Supporting material.** Quarterly information on the cash receipts from asset sales, quarterly balances of the privatization account, inflows to the account (by project), and outflows to the state budget, will be made available by the Minister of Finance, in collaboration with the National Wealth Fund, no later than two weeks after the end of each quarter. The Ministry of Finance will also provide a quarterly progress report on the

Sovereign Wealth Fund activity, including a description of its operations, information on any borrowing (amounts, terms, and collateral), updates on the key steps in the operational plan, and latest estimates of the expected proceeds and timeline for completion of the transactions. In addition, quarterly reports on the National Wealth Fund's activities, along with an audited report of its finances will be published on the website of the Ministry of Finance as from end-December 2011.

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

49. 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.

### **I. Monitoring of Structural Benchmarks**

50. **Public financial management reforms.** The authorities will publish (i) monthly reports on arrears of the general government; and (ii) monthly consolidated general government reports with aggregate revenue, expenditures and intra-governmental transfers for each sub-sector of the general government, within four weeks after the end of each month. The arrears reports will include both ordinary and investment budget arrears across all line ministries, public hospitals, and the largest social security funds, extra-budgetary funds and local governments, with the latter defined as follows:

- The “largest” social security funds will cover at least the top 50 funds in terms of spending as from ELSTAT reporting.
- The “largest” extra-budgetary funds will cover 80 percent of existing extra budgetary funds, including at least all public enterprises classified under the general government, ETERPS, and the top 100 entities in terms of expenses as from ELSTAT reporting.
- The largest local governments will be defined to include at least the 100 largest local authorities in terms of population out of the 324 authorities as defined under the “kallikrates” law.
- To meet the end-July 2011 benchmark, three consecutive months of reports will need to be published.

51. **Benchmarks on progress in revenue administration.** Progress in revenue administration, to be reported by the authorities on a monthly basis and assessed quarterly, will be defined as follows:

- Completion of 75 full-scope audits and 225 VAT audits of large taxpayers, as identified by relevant taskforce, by end-December 2011;
- Collection of 20 percent of all assessed taxes and penalties from new audits of large taxpayers within 3 months of the assessment date; and collection of 30 percent of all assessed taxes and penalties from new audits within 6 months of the date of assessment;
- Collection for the year of 5 percent of the estimated stock of collectable tax debt (€8 billion), with €300 million by end-December 2011.
- Completion of 1000 VAT audits of VAT non-filers as identified by the relevant task force by end-December 2011.
- Collection of 20 percent of all assessed taxes and penalties from new VAT audits of non filers within 3 months of the assessment date; and collection of 30 percent of all assessed taxes and penalties from new audits within 6 months of the date of assessment.

52. **Supporting material.** Monthly information on full-scope audits and VAT audits of large taxpayers and non filers, collection of assessed taxes and penalties, and collection of tax debt will be made available by the Minister of Finance, in collaboration with the steering committee on revenue administration, no later than two weeks after the end of each month. First data submission will include data back to the beginning of 2011. Information will continue to be provided after December 2011.

53. **Benchmark on progress in MTFS implementation (Phase II).** As part of the second phase of the MTFS implementation, the authorities will enact the following legislation by August 15, 2011:

**1. Single public wage scale bill:**

- Introduction of a single pay scale for the public sector;
- Reduction in productivity allowance (by 50 percent);
- Tightening of the ceiling on overtime;
- Reduction in the remuneration for committee participation;
- Hiring from state-owned enterprises, private law entities and from the furlough scheme to count against the hiring rule.



**2. Pension adjustment bill:**

- Introduction of individual social security numbers and a cap on total pensions paid to a single pensioner;
- Expansion of means testing of pensioners' social solidarity benefit to include all types of income and wealth (EKAS);
- Reduction in lump-sum pensions for civil servants, starting in 2011;
- Extend freeze of main and supplementary pensions to 2015;
- Reduction in the core pension of OGA and in the lower pension thresholds of other SSFs, and tightening of beneficiary criteria based on location of permanent residence.

**3. Closing non essential public entities and other miscellaneous legislation**

- Closure and downsizing of 40+11, and merger of 25 already identified general government entities;
- Reduce penalties to allow the registration of boats currently registered as commercial boats (for tax avoidance) as privately owned boats, provided VAT and other taxes are paid;
- Reevaluate fines on unauthorized buildings and settlement of planning infringements

**GREECE—LETTER OF INTENT TO EC AND ECB**

Athens, July 4, 2011

Mr. Jean-Claude Juncker,  
President,  
Eurogroup,  
Brussels.

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

Mr. Jean-Claude Trichet,  
President,  
European Central Bank,  
Frankfurt am Main.

Dear Messers. 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 (MoU) from 3 May, 6 August, 22 November 2010 and 23 February 2011, we describe progress and policy steps towards meeting the objectives of the economic programme of the Greek government which is being supported by financial assistance provided by the euro-area Member States in the context of the loan facility agreement.

We continue to make progress with our economic program:

- Quarterly quantitative performance criteria for end-March have been met, along with the continuous criterion on external arrears for end-June. Information on other end-June performance criteria is not yet available. However, regarding our end-March indicative target on the accumulation of new domestic arrears by the general government, was again exceeded. The deep recession and associated revenue slump has complicated the achievement of fiscal targets, but we will take appropriate measures to overcome this challenge, as laid out in the attached MEFP and MoU.
- Fiscal-structural reforms have been moving forward. A comprehensive medium-term fiscal strategy has been approved by parliament as well as first-stage legislation to implement policy reforms, in each case as a prior action for this review. Parliament has also approved a detailed time-bound privatization plan (a prior action for the

review), and a law establishing a privatization agency has been passed: also a prior action for the review. A structural benchmark on appointing financial accounting officers in line ministries and general government entities, and a benchmark covering an actuarial study on the main supplementary pension funds were observed with delay. Earlier end-December benchmarks covering a study on public employment and compensation, and on improving the statistical reporting to Elstat are now fully implemented.

- Our policy efforts to support financial system stability continue. In March we submitted legislation to parliament allowing for the unbundling of the commercial activities of the HLCF and authorizing a new EUR 30 billion tranche of government guarantees for uncovered bank bonds. The legislation was passed in May. Furthermore, banks have submitted draft medium-term funding plans to the ECB and Bank of Greece, and the Bank of Greece has issued guidance to banks to refine the plans in line with the program's macroeconomic framework.
- To support these efforts with an appropriate level of financing, we have defined a strategy to achieve substantial and credible contributions from the private sector and we aim to finalize their contributions by the time of the Fifth Review. In parallel, the ECB is working with Greek banks on medium-term funding plans to ensure that they reduce their exposure to exceptional Eurosystem liquidity support at a pace consistent with the program's macroeconomic framework.
- On this basis, we request the disbursement of the fifth installment of financial assistance by the euro-area Member States, pooled by the European Commission, in the amount of EUR 8 700 million.
- We believe that the policies set forth in the 3 May 2010 Letter of Intent, MEFP and MoU and subsequent updates (including the one now attached), 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.

This letter is being copied to Mr Lipsky.

/s/

/s/

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Evangelos Venizelos

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George Provopoulos

Deputy Prime Minister

Governor of the Bank of Greece

Minister of Finance

**GREECE—MEMORANDUM OF UNDERSTANDING ON  
SPECIFIC ECONOMIC POLICY CONDITIONALITY**

(fourth update)

July 4, 2011

The quarterly disbursements of bilateral financial assistance from euro-area Member States are subject to quarterly reviews of conditionality for the duration of the arrangement. The release of the tranches will be based on observance of quantitative performance criteria and a positive evaluation of progress made with respect to policy criteria in Council Decision 2010/320/EU of 10 May 2010 (as amended; hereinafter the Council Decision), the memorandum of economic and financial policies (MEFP) and in this Memorandum. These criteria have been updated and further specified during the May 2011 review.

The annex on data provision is part of the Memorandum and how well it has been respected will be considered in the assessment of compliance.

The authorities commit to consult with the European Commission, the ECB and the IMF staff 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 programme's implementation. Government provides a quarterly report in line with Article 4 of the Council Decision.

## 1 FISCAL CONSOLIDATION

### *Achieving 2011 fiscal target*

Adoption of additional fiscal measures for 2011 with the aim of reducing the deficit to EUR 17 065 million (see Annex 1) **[Q2-2011]**.

### *Medium-term fiscal strategy*

Adoption by Parliament of the medium-term fiscal strategy (hereinafter MTFS) through 2015 and respective implementing bill. The MTFS elaborates on the permanent fiscal consolidation measures, which ensure that the deficit ceiling for 2011-15 as established by the Council Decision are not exceeded, and that the debt-to-GDP ratio is put on a sustainable downward path. **[Q2-2011]**

The MTFS includes, in particular:

- prudent macroeconomic forecasts;
- baseline revenue and expenditure projections for the state and for the other government entities;
- a description of permanent fiscal measures, their timing and quantification;
- annual spending ceilings for each ministry and fiscal targets for other government entities through 2015;
- post-measures fiscal projections for general government in line with the deficit and debt targets;
- longer-term debt projections based on prudent macroeconomic and fiscal projections, and privatisation plans.

The MTFS provides for fiscal consolidation measures as described in Annex 1.

### *Budget implementation*

Government rigorously implements the budget for 2011, including supplementary measures. Government stands ready to define and enact additional measures if needed to respect the budgetary ceilings established in Council Decision 2010/320/EU.

**[continuous]**

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

quantitative criteria (Article 1 (2 and 3) of Council Decision 2010/320/EU, as amended, and Table 2 of the MEFP). **[continuous]**

The Ministry of Finance releases not more than 1/14 of the annual budgetary appropriation (excluding wages, pensions and interest) per month to each ministry. The remaining budgetary appropriations will not be released before September of each year, and may be cancelled by the Ministry of Finance, according to the need to respect the government deficit ceiling. **[continuous]**

Government will adopt and implement the budget for 2012 and subsequent years in line with the MTFS, this Memorandum, and Council Decision 2010/320/EU.

## 2 STRUCTURAL FISCAL REFORMS

### 2.1 *Asset management and privatisation*

Government privatises assets worth at least EUR 390 million, and adopts a privatisation programme [Q2-2011] with the aim of collecting at least EUR 15 billion by end-2012, and at least EUR 50 billion by end-2015 (see the list of assets to be privatised in Annex III of the MEFP)

Proceeds from privatisation of financial and non-financial assets are to be used to redeem outstanding medium- and long-term debt and do not substitute fiscal consolidation efforts. When restructuring state-owned enterprises with a view to preparing them for privatisation, specific attention will be given to a timely clearance of state aid issues. [continuous]

A privatisation fund with sound governance is established to accelerate the privatisation process and guarantee its irreversibility and professional management (see Annex 2). [Q2-2011]

Government privatises assets (listed and non-listed companies, concessions and real estate) to collect receipts in line with Annex 3. [continuous]

Government publishes an inventory of state-owned assets, including stakes in listed and non-listed enterprises and commercially viable real estate and land. [Q2-2011]  
The inventory will continue to be updated until **end-2011** to ensure it is comprehensive.

A new General Secretariat of Real Estate Development is established with the aim of improving management of real estate assets, clear them of encumbrances and prepare them for privatisation. [July 2011]

Government adopts an act enabling the promotion of investment in the tourism sector (tourist resorts and secondary tourist housing). This act, together with the bill on land use will allow for accelerating the privatisation process of land plots managed by the Greek Tourist Real Estate Agency (ETA). [August 2011]

Government adopts the legal framework enabling fast assignment of land use and accelerates state land ownership registration. [Q3-2011]

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

Legislation to close, merge and downsize non-viable entities will be tabled by the government [**July 2011**] and adopted by Parliament. [**mid-August 2011**] Among other, the legislation will relate to large entities which will be closed with functions transferred accordingly, merged or substantially downsized: KED<sup>1</sup>, ETA<sup>2</sup>, ODDY,<sup>3</sup> National Youth Institute, EOMEX<sup>4</sup>, IGME,<sup>5</sup> (closure), OSK<sup>6</sup>, DEPANOM<sup>7</sup>, THEMIS<sup>8</sup>, ETHYAGE,<sup>9</sup> DIMITRA<sup>10</sup> (merger), ERT<sup>11</sup> (downsizing). [**Q3-2011**]

Government takes measures enabling a reduction in procurement and third party costs in state-owned enterprises, updating tariffs, and creating new business lines, and reduce personnel costs by completing and implementing an employment retrenchment plan. [**Q3-2011**] Excess staff that cannot be removed by the hiring rule of 1 recruitment for 5 exits (1 for 10 in 2011) will be dealt with through non-voluntary redundancies and furlough (labour reserve). This rule is without sectoral exceptions; it also applies to staff transferred from public enterprises to other government entities after screening of professional qualifications by ASEP under its regular evaluation criteria. Staff in the labour reserve will be paid at 60 percent of their wage (excluding overtime and other extra payments) for not more than 12 months, after which they will be dismissed. [**continuous starting Q3-2011**]

Tariffs in OASA and OSE and other state-owned enterprises will increase by at least 25 percent. [**Q1-2013**]

## **2.3 *Tax reform and revenue administration reforms***

In line with the recent anti-tax evasion action plan, the Government will step up audits of large-scale tax payers, high-wealth individuals and self-employed, and accelerate the resolution of tax arrears. Progress will be monitored by quantitative indicators. [**continuous**]

- 
- 1 Real estate manager.
  - 2 Tourism-related real estate manager.
  - 3 Mobile public property.
  - 4 Organisation for SME support.
  - 5 Institute of Geological and Mining Studies.
  - 6 School-building organisation.
  - 7 Hospital-building organisation.
  - 8 Court- and prison-building organisation.
  - 9 Agriculture Research Institute.
  - 10 Agriculture Research
  - 11 Public broadcasting corporation.



To simplify the tax system, improve tax administration, and achieve fairer taxation, Government

- broadens the personal income tax base by limiting the application of the basic allowance, introducing a ceiling to deductions; **[July 2011]**
- moves non-basic goods and services (restaurants and bars) from the VAT reduced rate to the standard rate; **[July 2011]**
- widens the property tax base and increases rates; **[July 2011]**
- reduces investment-related tax expenditure. [ministerial decision in **July 2011]**

To avoid that measures to increase revenue translate into additional spending by local government, Government introduces mechanisms to adjust revenue-sharing agreements. **[Q3-2011]**

To advance the reforms of revenue administration, Government will

- prepare a strategic plan for medium term reforms **[July 2011]**, setting the priorities and timeline for reform of the tax administration, including adopting risk management approaches, establishing a large taxpayer unit, reshaping tax audit, debt collection, and administrative dispute resolution and introducing taxpayer services.
- establish a central directorate general for debt collection, and a large-scale tax payers unit. **[Q3-2011]**
- overhaul the administration into a more modern functionally-based organization including the work of the 5 task forces which have designed short-term anti-tax evasion action plans, and identified barriers to effective administration that need to be removed. **[Q3-2011]**
- implement the recently announced anti-tax evasion action plan. **[continuous]**
- remove barriers to effective tax administration by implementing the key reforms of the new tax law, including reassessing tax auditors' qualifications and hiring new auditors by **Q3-2011**.
- make operational the newly established arbitration agency and set up an independent fast track administrative dispute resolution process to deal rapidly with large dispute cases (i.e. within 90 days). **[Q3-2011]**
- merge, transfer competences and close 200 local tax offices identified as inefficient by starting **Q3-2011**, completed **Q4-2011**.

To speed up judicial appeals, the government has created the possibility of dedicated court chambers for tax cases, which are expected to be operational by **end-September 2011**.

The government will adopt further measures to simplify the tax system, broaden bases and reduce tax rates in a fiscally-neutral manner. This relates to the personal income tax, corporate income tax and VAT. **[September 2011]**

## ***2.4 Public financial management reforms***

Government clears payment arrears accumulated until end-2010 and ensures that no payment arrears are accumulated from **Q3-2011** on. To strengthen expenditure control, Government

- adopts a decision specifying the qualification and responsibilities of accounting officers to be appointed in all line ministries with the responsibility to ensure sound financial controls; **[July 2011]**
- appoints financial accounting officers; **[July 2011]**
- accelerates the process of establishing commitment registries. It will make operational registries covering the whole general government (except the smallest entities); **[July 2011]**
- undertakes inspections in the several ministries and general government entities with the largest arrears, to ensure the application of registers. Inspections cover entities accounting for at least 75 percent of arrears; **[July 2011]**
- creates general directorates for financial services in each ministry. **[Q3-2011]**

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

### *Functional reviews*

Government assesses the results of the first phase of the independent functional review of central administration, including operational policy recommendations. These recommendations should determine how to achieve a more streamlined and effective public service, define clear responsibilities and command lines of ministerial departments, eliminating overlapping competences, and improving inter- and intra-mobility. **[Q2-2011]**

The functional review of existing social programmes is finalised. **[Q3-2011]**

Government assesses the results of the second and final phase of the independent functional review of central administration. Government adopts legislation and measures to implement the operational recommendations of the first phase of the functional review of public administration at central level and of the full review of existing social programmes. **[Q3-2011]**

Government assesses the results of the second and final phase of the independent functional review of central administration **[Q4-2011]**

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

Government finalises a medium-term staffing plan for the period up to 2015 in line with the rule of 1 recruitment for 5 exits (1 for 10 in 2011). The plan will include tighter rules for temporary staff, cancellation of vacant job post and reallocation of qualified staff to priority areas and takes into account the extension of working hours in the public sector. **[July 2011]**

A detailed action plan with a timeline to complete and implement the simplified remuneration system is presented, in line with private sector wages, achieving a reduction in the total wage bill. This plan is based on the results of the report published by the Ministry of Finance and the Single Payment Authority. The legislation for a simplified remuneration system will be introduced in Parliament by **July 2011** and phased in over 3 years. Wages of state-owned enterprises employees will be in line with the new wage grid for the public sector.

Publication of monthly data on staff movements (entries, exits, transfers among entities) of the several government departments commences. **[July 2011]**

#### *Public procurement*

Legislation is adopted to establish the Single Public Procurement Authority (SPPA) with the mandate, objectives, competences, powers and schedule for entry into force, in line with the Action Plan agreed with the European Commission in November 2010. **[July 2011]**

Government launches the development of an e-procurement IT platform and sets intermediate milestones in line with the action plan. This includes testing a pilot version (*agora.gov.gr*), availability of all functionalities for all contracts and phasing-in of the mandatory use of e-procurement system for supplies and services. **[July 2011]**, Works contracts will also be added to the e-procurement platform, **promptly**.

A thorough review of the system of redress against award procedures and the role to confer to the SPPA is carried out, in agreement with the European Commission. **[Q3 2011]**

Government undertakes a review identifying areas to increase the efficiency of the public procurement system outside the SPPA, as specified in the Action Plan. The review includes conclusions and actions in agreement with the European Commission. **[July 2011]**

Government issues decisions

- to provide for the institution and establishment of positions for the SPPA's personnel, as well as for the organization of human resources and services of the Authority in accordance with the provisions of the law on the SPPA
- to appoint the members of the SPPA. **[Q3-2011]**

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

The e-procurement framework is fully operational, and a common website is created for the publication of all procurement procedures and outcomes. **[Q2-2012]**

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

The National Actuarial Authority (NAA) continues the submission of long-term projections of pension expenditure up to 2060 under the adopted reform. The projections shall encompass the main supplementary (auxiliary) schemes (ETEAM, TEADY, MTPY), based on comprehensive data collected and elaborated by the NAA. **[Q2-2011]** The projection will be peer-reviewed and validated by the EU Economic Policy Committee and the European Commission, ECB, and IMF staff. For the remaining supplementary schemes, the same procedure is followed. **[Q3-2011]**

The list of heavy and arduous professions is revised and its coverage is reduced to no more than 10 percent of employment. The new list of difficult and hazardous occupations (Law 3863/2010) applies with effect from 1 August 2011 to all current and future workers.

Government proceeds with an in-depth revision of the functioning of secondary/supplementary public pension funds, including welfare funds and lump-sum schemes. The aim of the revision is to stabilise pension expenditure, guarantee the budgetary neutrality of these schemes, and ensure medium- and long-term sustainability of the system. The revision achieves:

- a further reduction in the number of existing funds;
- the elimination of imbalances in those funds with deficits;
- the stabilisation of the current spending at sustainable level, through appropriate adjustments to be made from 1 January 2012;
- the long-term sustainability of secondary schemes through a strict link between contributions and benefits. **[Q3-2011]**

The reform of the secondary/supplementary schemes is designed in consultation with European Commission, ECB and IMF staff, and its estimated impact on long-term sustainability is validated by the EU Economic Policy Committee. The parameters of

the new secondary notional defined-contribution system ensure long-term actuarial balance, as assessed by the NAA. [legislation: **Q3-2011**; implementation: **Q1-2012**] Government identifies the schemes for which lump sums paid on retirement are out of line with contributions paid, [**Q3-2011**] and adjusts the payments. [**Q4-2011**] The reform contributes to achieve the overarching target of reducing the overall (basic, contributory, supplementary and any other related scheme, including lump sums at retirement) increase of public sector pension spending, over the period 2009-60, to under 2.5 percentage points of GDP. If the projections by the NAA show that, even after the reforms of the supplementary schemes, the projected increase in the total public pension expenditure exceeds the limit of 2.5 percentage points of GDP over 2009-60, Government revises also the main parameters of the pension system provided by Law 3863/2010. [**Q4-2011**]

The Health Committees set up by Law 3863/2010 will start operating the planned revision of disability status and produce a first quarterly report of its activities by end of December 2011. The objective is to reduce the disability pensions to not more than 10 percent of the overall number of pensions. For this purpose, the definition of disability and respective rules will be revised by **end-August 2011**.

Government implements the reform of the secondary/supplementary pension schemes, by merging funds and starting the calculation of benefits on the basis of the new notional defined-contribution system. Government freezes nominal supplementary pensions and reduces the replacement rates for accrued rights in funds with deficits, based on the actuarial study prepared by the NAA. In case the actuarial study is not ready, replacement rates are reduced, starting from 1 January 2012, to avoid deficits. All funds set up a computerised system of individual pension accounts. [**Q1-2012**]

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.

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

Government continues to implement the comprehensive reform of the health care system started in 2010 with the objective of keeping public health expenditure at or below 6 percent of GDP, while maintaining universal access and improving the quality of care delivery. Policy measures include the integration of primary healthcare, strengthening central procurement and e-health capacity.

Government continues to undertake measures yielding savings on pharmaceuticals of at least EUR 2 billion relative to the 2010 level, of which at least EUR 1 billion in 2011. This will bring average public spending on outpatient pharmaceuticals to about 1 percent of GDP (in line with the EU average) by end 2012.

More specifically, the following measures are implemented:

### *Governance*

The provisions of Article 31 and 32 of Law 3863/2010 are implemented. In particular, the Health Benefit Coordination Council (SYSPY):

- continues the work on establishing new criteria and terms for the conclusions of contracts by social security funds with all healthcare providers, and all other actions envisaged in Article 32 with the aim of achieving the targeted reduction in spending;
- initiates joint purchase of medical services and goods to achieve substantial expenditure reduction of at least 25 percent compared to 2010 through price-volume agreements. **[July 2011]**

Government equalises the common benefit package for the insurers of EOPYY, with the aim of full equalisation of benefits and contributions across funds by December 2011, and align the contributions paid by OGA members to those of other members of EOPYY, as envisaged in the medium-term fiscal strategy. **[July 2011]**

All necessary steps are taken for EOPYY to initiate its operations as planned 6 months after the adoption of Law 3918/2011, including the appointment of the necessary and qualified staff. To this aim, government sets up a selection committee and devises objective criteria to ensure transparent procedures to govern the selection of the management of EOPYY. Members will be required to be qualified experts of recognised standing in health, management and health administration. **[July 2011]**

EOPYY starts operating. The new fund will lead to a substantial reduction of administrative staff of at least 50 percent and of contracted doctors of at least 25 percent as compared to the four originating funds combined. The aim is to achieve a ratio of patients per doctor in line with the European average. **[Q3-2011]**

Government revokes market regulation 40 (17.12.1990) to abolish the 0.4 percent contribution of wholesale sales prices in favour of the Panhellenic Pharmaceutical Association. **[Q3-2011]**

An action plan is adopted by early November 2011, based on the final report of the task force (see below), including a timetable for concrete actions. **[Q4-2011]**

### *Pricing of medicines and medical services*

#### Government

- collects the rebates from pharmacies with sales above a designated threshold against the payment due to pharmacies; it continues to do so on a monthly basis;
- publishes the complete price list for the medicines in the market, using a new pricing mechanism based on the three EU countries with the lowest prices. The list will be updated on a quarterly basis.

- lifts the caps to the price reductions used when the price list was first introduced. **[Q2-2011]**

Fees for medical services outsourced to private providers are reviewed with the aim of reducing related costs by at least 15 percent in 2011, and by an additional 15 percent in 2012. **[Q4-2011]**

Starting from 2012, pharmacies' profit margins are calculated as a flat amount or flat fee combined with a small profit margin with the aim of reducing the overall profit margin to no more than 15 percent, including on the most expensive drugs as defined in law 3816/2010. **[Q1-2012]**

### *Prescribing and monitoring*

#### Government

- publishes binding prescription guidelines for physicians defined by EOF on the basis of international prescription guidelines to ensure a cost-effective use of medicines; **[July 2011]**
- publishes and continuously updates the positive list of reimbursed medicines using the reference price system developed by EOF. **[Q2-2011]**

Government takes further measures to extend in a cost-effective way the e-prescribing of medicines, diagnostics and doctors' referrals to all social security funds, health centres and hospitals. In compliance with EU procurement rules, Government conducts the necessary tendering procedures to implement a comprehensive and uniform health care information system (e-health system). **[Q3-2011]**

EOPYY and the remaining social security funds establish a process to regularly assess the information obtained through the e-prescribing system and produce regular reports, at least on a quarterly basis, to be transmitted to the competent authorities in the Ministry of Labour, Ministry of Health, Ministry of Finance and ELSTAT. Monitoring and assessment is carried out through a dedicated common unit under SYSPY. Feedback is provided to each physician at least every quarter and a yearly report is published. Sanctions and penalties will be enforced as a follow-up to the assessment. **[Q4-2011]**

Government starts to produce a semi-annual report on the prescription and consumption of medicines and diagnostic tests. This report includes information on the rebate received from pharmacies and from pharmaceutical companies and on the volume and value of medicines. It provides a feedback report to all physicians on their prescription volume and value, at least on a quarterly basis. Monitoring and reporting of misconduct and conflict of interest in prescription behaviour are intensified. **[Q4-2011]**

E-prescribing covers all medical acts (medicines, referrals, diagnostics, surgery) in both NHS facilities and providers contracted by EOPYY and the social security funds. Detailed monthly auditing reports are produced by NHS facilities and by providers. **[Q1-2012]**

*Increasing use of generic medicines*

Additional measures are taken to promote the use of generic medicines through:

- compulsory e-prescription by active substance and of less expensive generics when available;
- associating a lower cost-sharing rate to generic medicines that have a significantly lower price than the reference price (lower than 60 percent of the reference price) on the basis of the experience of other EU countries;
- setting the maximum price of generics to 60 percent of the branded medicine with similar active substance. **[Q2-2011]**

Government takes further measures to ensure that at least 30 percent of the volume of medicines used by public hospitals is composed of generics with a price below that of similar branded products and off-patent medicines, in particular by making compulsory that all public hospitals procure pharmaceutical products by active substance. **[Q3-2011]**

Further measures ensure that at least 50 percent of the volume of medicines used by public hospitals is composed of generics with a price below that of similar branded products and off-patent medicines, in particular by making compulsory that all public hospitals procure pharmaceutical products by active substance. **[Q4-2011]**

*NHS (ESY) service provision*

A plan for the reorganisation and restructuring is prepared for the short and medium term with a view to reducing existing inefficiencies, utilising economies of scale and scope, and improving quality of care for patients. The aim is to reduce hospital costs by at least 10 percent in 2011 and by an additional 5 percent in 2012 in addition to the previous year. This is to be achieved through:

- adjusting public hospital provision within and between hospitals within the same district and health region;
- revising the activity of small hospitals towards specialisation in areas such as rehabilitation, cancer treatment or terminal care where relevant;
- increasing the mobility of healthcare staff (including doctors) within and across health facilities and health regions;
- preparing a joint management/operation system in districts with more than one hospital, excluding university hospitals. **[Q2-2011]**



Government sets up selection criteria to ensure transparent procedures to govern the selection of the management of hospitals. Members will be required to be persons of recognised standing in health, management and health administration. **[Q2-2011]**

A system for comparing hospital performance (benchmarking) is set up on the basis of a comprehensive set of indicators. **[Q1-2012]** Annual reports will be published as of **end-2012**.

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

The Ministries of Health and Labour, in cooperation with the Ministry of Finance, prepare the first draft report presenting the structure (age, specialty, grade, regional distribution), levels of remuneration (including fees provisions to consultants and doctors) and the volume and dynamics of employment in hospitals, health centres, and health funds. This report will be updated annually and be used as a human resources planning instrument. The 2011 report will present plans for the allocation and re-qualification of human resources for the period up to 2013 as well as providing guidance for the education system. It specifies a plan to reallocate qualified and support staff within the NHS and health funds. **[Q3-2011]**

Government extends the use of capitation payments of physicians, currently used by OAEE, to all contracts between social security funds and the doctors they contract. The new payment mechanism starts for each new contract renewed in 2011 and for all contracts from 2012. It defines a minimum number of patients per doctor, on the basis of the experience of other EU countries. The new system will lead to a reduction in the overall compensation cost (wages and fees) of physicians by at least 10 percent in 2011, and an additional 15 percent in 2012 as compared to the previous year. **[Q3-2011]**

*Accounting and control*

Internal controllers are assigned to all major hospitals. **[Q3-2011]**

By **Q2-2011**, Government starts publishing the monthly report with analysis and description of detailed data on healthcare expenditure by all social security funds with a lag of three weeks after the end of the respective month.

Social security funds start publishing an annual report on medicine prescription. Individual prescription reports serve as regular feedback to each physician (at least semi-annually). The annual report and the individual prescription reports examine prescription behaviour with particular reference to the most costly and most used medicines. **[Q1-2012]**

*Hospital computerisation and monitoring system*

The necessary tendering procedures are carried out to develop the full and integrated system of hospitals' IT systems. **[Q3-2011]**

The Ministry of Health completes the programme of hospital computerisation. Building on the web-based platform ESY.net, it finalises the process of centralisation of information. The Ministry of Health, through a dedicated service/unit, collects and scrutinises data and produces monthly and annual reports, which are published. **[Q2-2011]**

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

- finalising the introduction of double-entry accrual accounting systems and the regular annual publication of balance sheets in all hospitals;
- the calculation of stocks and flows of medical supplies in all the hospitals using the uniform coding system for medical supplies developed by the Health Procurement Commission (EPY) and the National Centre for Medical Technology (EKEVYL) for the purpose of procuring medical supplies;
- timely invoicing of treatment costs (no later than 2 months) to Greek social security funds, other EU countries and private health insurers for the treatment of non-nationals/non-residents. **[Q4-2011]**

The programme of hospital computerisation allows for a measurement of hospital and health centres activity. Government defines a core set of activity and expenditure indicators in line with Eurostat, OECD and WHO health databases. ELSTAT starts providing data in line with the System of Health National Accounts (joint questionnaire collection exercise). **[Q4-2011]**

The programme of hospital computerisation allows for the setting up of a basic system of patient electronic medical records. **[Q4-2011]**

In a group of hospitals, Government pilots the set of DRGs (diagnostic-related groups) developed, with a view to developing a modern hospital costing system for contracting (on the basis of prospective block contracts). To support the development of DRGs, the government develops clinical guidelines. **[Q4-2011]**

#### *Centralised procurement*

Government will move towards centralised procurement of pharmaceuticals and medical goods for the NHS through the Supplies Coordination Committee with the support of the Specifications Committee, using the uniform coding system for medical supplies and pharmaceuticals. **[Q1-2012]**

#### *Independent task force of health policy experts*

The independent task force of health policy experts produces, in cooperation with the European Commission, ECB and IMF, a first draft of its policy report, with specific recommendations on policies to be implemented. The report and policies proposals cover the following areas:

- health system governance to reduce the fragmentation of the system;
- financing: pooling, collection and distribution of funds;
- harmonisation of health packages across funds;
- service provision and incentives for providers including:
  - integration between private and public provision;
  - primary care vis-à-vis specialist and hospital care;
  - efficiency in the provision of hospital services;
  - pharmaceutical consumption;
  - human resources;
- public health priorities, health promotion and disease prevention;
- data collection, health technology assessment and assessment of performance;
- expenditure control mechanisms. **[Q2-2011]**

The report will provide preliminary quantitative targets in the fields above, in order to contribute to keep public health expenditure --constant at, or below, 6 percent of GDP. The task force of health policy experts produces the final comprehensive policy report, with specific recommendations on policies to be implemented. **[Q3-2011]**

On the basis of this report, the Government adopts an action plan by **October 2011**, including a timetable for concrete actions.

The taskforce produces an implementation report, revising the policies implemented so far. **[Q1-2012]**

### 3 FINANCIAL SECTOR REGULATION AND SUPERVISION

**Each quarter** Government transfers EUR 1 000 million to a dedicated government account opened by the General Accounting Office. Funds from this account are regularly released to the HFSF (Hellenic Financial Stability Fund) to ensure the latter keeps a cash balance of EUR 1 500 million and if programme reviews of bank capital suggest that the resources are necessary. The release of the funds is subject to agreement by the European Commission, ECB and IMF staffs.

The Bank of Greece transfers staff with prerequisite specialist skills (banking, financial analysis, accounting, data management and IT) into the bank supervision department. It will also consider requesting long-term technical assistance to be resourced from other European supervisory authorities **[July- 2011]**. The Hellenic Financial Stability Fund (HFSF) addresses its staffing shortfall **[end-July2011]**. The Bank of Greece and the HFSF complete a memorandum of understanding to further strengthen their cooperation, including sharing of appropriate supervisory information **[end-July 2011]**.

The Bank of Greece has developed a supervisory watch list for weak insurance companies and will complete comprehensive on-site inspections. **[Q2-2011]** It participates in the European Insurance and Occupational Pensions Authority's second Europe-wide stress testing exercise for the insurance sector [results are anticipated by **end-July 2011**]. The Bank of Greece will use its supervisory powers to deal with firms which do not pass the stress test. This would include requiring them to increase capital or take structural measures to address the situation within a specific timeframe.

Concerning the banks whose capital base now has already fallen short of regulatory requirements, the Bank of Greece will require the capital shortage to be addressed, or take other appropriate actions via capital injections or restructuring to deal with the situation by **September 2011**. Should the strategy to address capital shortages include the involvement of other local financial institutions, the Bank of Greece will submit a financial impact analysis and legal opinion regarding the proposed strategy to the Ministry of Finance and Commission, ECB and IMF. This will be done in a manner which will not compromise the viability of the other institutions involved.

**[continuous]**

Legislation to revise the HFSF operating framework, with the aim of making it more effective, is submitted to Parliament by **mid-August 2011**, and adopted by **mid-September2011**.

Following ongoing initiatives at the EU level, the government will improve the legislation on financial institutions to allow timely and effective intervention and

resolution consistent with EU Treaty and international sound practices. Legislation will be tabled by **mid-August 2011** and will be enacted by Parliament by **mid-September 2011**.

- The Bank of Greece will, on a **quarterly** basis, continue to undertake forward-looking profitability assessments in the context of its regular Pillar II reviews. That will allow the Bank of Greece, in consultation with the European Commission, ECB and IMF staffs, to project the potential use of the funding by the HFSF. The next assessment will be complete by **end-September 2011**.

Banks will be required by the Bank of Greece to maintain minimum Core Tier 1 capital at 10 percent. **[January 2012]** The Core Tier 1 capital requirements will exclude hybrid capital, but include preference shares issued by banks and subscribed by the Greek government. The Bank of Greece also requires additional capital buffers against potential further deterioration of the operational environment, based on each bank's specific risk profile and the European stress test results.

As part of the Pillar II exercise to increase capital buffers, a single reputable and qualified international advisory firm (paid for by banks) will be commissioned by the Bank of Greece to perform a diagnostic of banks' loan portfolios. The Bank of Greece, in consultation with the EC/ECB/IMF, will agree on the terms of reference for the diagnostic. This exercise will be completed by **December 2011**. Banks will be required to present plans to the Bank of Greece on how they intend to reach the new capital requirements through market solutions **[end-January 2012]**. The Bank of Greece will require banks to meet higher capital buffers, taking into account the outcome of the diagnostic exercise **[end-September 2012]**. Banks will be required to exhaust all efforts to meet new capital requirements within this timeframe. In the interim, banks not meeting the capital requirements will be subject to intensive supervision

The Bank of Greece will ensure that immediate and appropriate actions are taken to address capital shortages in all banks. These measures should ensure viability of banks involved. If the measures involve State aid, this will be subject to assessment under EU State aid rules. **[continuous]**

The capital increase of ATE is completed. **[Q3-2011]**

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

## 4 GROWTH-ENHANCING STRUCTURAL REFORMS

### 4.1 *To strengthen labour market institutions*

Government reforms legislation on fixed-term contracts (including by establishing specific fixed-term contracts for youth at sub-minima wages) and on working-time management, and simplifies the procedure for the creation of firm-level trade unions. **[Q2-2011]**

Government adapts legislation on tackling undeclared work to require the registration of new employees before they start working. **[July 2011]**

The reform to strengthen the Labour Inspectorate is completed, with the appropriately qualified staff. Quantitative targets on the number of controls to be executed are set for the Labour Inspectorate. A pilot study is to be implemented to verify the favourable financial net impact on the overall social security budget of a discount of up to 10 percent on social contributions for those enterprises introducing the labour card. The pilot study covers a limited scope of firms (maximum 100), over a short period of time (maximum four months). **[Q3-2011]**

Government promotes, monitors and assesses the implementation of the new special firm-level collective agreements. It ensures that there is no formal or effective impediment to these agreements and that they contribute to improve the adaptability of firms to market conditions, with a view to create and preserve jobs and improve the firms' competitiveness, by aligning wage developments with productivity developments at firm level, thereby promoting competitiveness and creating and preserving jobs. It provides a report on its assessment. Any other amendment to the law on sectoral collective bargaining is adopted before **end-July 2011**.

An assessment on the effectiveness of the Labour Inspectorate law will be made six months after its implementation. Should the law prove ineffective, an appropriate amendment will be adopted. In particular, any wider-scale application of a discount of up to 10 percent on social security contributions for those enterprises introducing the labour card will be conditional on the pilot study showing sufficient evidence of a favourable financial impact of the discount on the overall social security budget. **[Q4-2011]**

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

##### *Regulated professions*

In the implementation of Law 3919/2011, restrictions to be reinstated consider the need to promote competition and take into account international best practice. Government consults widely before the adoption of these restrictions. **[Q2-2011]**

A Ministerial Decision is issued setting the value of a transaction above which the notaries' *pro rata* fee for drafting contracts is the maximum permissible fee. For transactions below this maximum value, *pro rata* fees are set at successively decreasing rates in inverse proportion to the graduated increase, with the starting fee, ending fee and the number of tranches set so as to ensure a sharp reduction of the average fee by, at least, 50 percent. The Ministerial Decision also lowers fees for company creation, for copies and for additional pages. **[Q3-2011]**

For the legal profession, Government issues a Presidential Decree revising the percentages applicable to the reference amounts (Article 96(2) of the Code of Lawyers, as amended), which sets prepaid amounts for each procedural act or court appearances (i.e., it sets a system of prepaid fixed/contract sums for each procedural act or appearance by a lawyer which is not linked to a specific 'reference amount'). **[Q3-2011]**

Government screens the laws and other regulations of the professional chambers to identify rules on pricing, on access to, and exercise of, the profession that are against Law 3919/2011, EU law and competition rules. **[July 2011]**

Measures are identified to ensure that providers of services are not subject to requirements which oblige them to exercise a given specific activity exclusively, or which restrict the exercise jointly or in partnership of different activities, except in the circumstances and under the conditions set in the Services Directive. **[July 2011]**

Government identifies measures to remove complete prohibitions on commercial communications by the regulated professions and to ensure that professional rules on commercial communications are non-discriminatory, justified by an overriding reason relating to the public interest and proportionate. **[July 2011]**

An audit is launched to assess to what extent the contributions of lawyers and engineers to cover the operating costs of their professional associations are reasonable, proportionate and justified. **[July 2011]**

Government starts screening legislation on the main regulated professions in order to assess the justification and the proportionality of requirements in force reserving certain activities to providers with specific professional qualifications. **[July 2011]**

Government publishes a report on the implementation of Law 3919/2011, including

- the list of professions falling under the scope of the law;
- the list of professions exempted from the lifting of restrictions by Presidential Decree and the justifications for such exemptions;
- an assessment of whether further measures are needed on the rules on access to, and exercise of the profession and on pricing to align Greek legislation with EU law and competition rules;
- a timetable to screen existing legislation and to adopt the necessary changes to the existing specific regulations of the professions (i.e., Presidential Decrees, Ministerial Decisions and Circulars) to make them fully compatible with chapter A of Law 3919/2011, EU law and competition rules. **[July 2011]**

The said Presidential Decrees, Ministerial Decisions and Circulars are promptly adopted. **[Q3-2011]**

Government identifies measures to reinforce transparency in the functioning of professional bodies by requiring them to publish an annual report on their webpage regarding their financial performance and statistics on disciplinary actions in defence of consumers' interests. **[Q3-2011]**

Government monitors the implementation of Law 3919/2011 and publishes a study on how effective such a law is in increasing competition and reducing prices. **[Q3-2011]**. Adjustments to the law with the aim of increasing competition are adopted by **Q1 2012**.

Government presents the results of screening of the requirements reserving certain activities to providers with specific professional qualifications for the main regulated professions. **[Q3-2011]**

All Presidential Decrees needed for the implementation of the law on fast-track licensing procedure for technical professions are adopted. **[October 2011]**

Government prepares acts by **end-2011**, to be adopted by **Q1-2012**, to

- abolish provisions of the regulations of the professional chambers on access to, and exercise of, the profession and on pricing, that are against Law 3919/2011 and EU law including competition rules (see requirement for Q2 2011).



- ensure that providers of services are not subject to requirements which oblige them to exercise a given specific activity exclusively, or which restrict the exercise jointly or in partnership of different activities, except in the circumstances and under the conditions set in the Services Directive.
- remove complete prohibitions on commercial communications by the regulated professions and to ensure that professional rules on commercial communications are non-discriminatory, justified by an overriding reason relating to the public interest and proportionate.
- reinforce transparency in the functioning of professional bodies (see requirement for Q3-2011).
- set up contributions of lawyers and engineers to their professional associations that reflect the operating costs of the services provided by those associations.
- simplify the requirements reserving certain activities to the legal and engineering professions that are not justified or proportionate.
- tackle any other issues identified in the assessment of the implementation of Law 3919/2011 carried out by the government in Q3-2011. **[Q4-2011]**

Government requests the Hellenic Competition Commission to issue an opinion of the proposed acts. **[Q4-2011]**

#### *Recognition of professional qualifications*

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

- updates information on the number of pending applications for recognition of professional qualifications, and sends it to the Commission.
- presents draft legislation amending Law 3328/2005 on the Hellenic Academic Recognition and Information Center and other provisions in order to remove the prohibition to recognise the professional qualifications derived from franchised degrees. Holders of franchised degrees from other Member States should have the right to work in Greece under the same conditions as holders of Greek degrees. **[Q3-2011]**

Legislation amending Law 3328/2005 is adopted to ensure that holders of franchised diplomas from other Member States have the right to work in Greece, accordingly, under the same conditions as holders of Greek degrees. **[Q4-2011]**

#### *Services Directive*

Government completes the adoption of changes to existing sectoral legislation in key services sectors such as retail (e.g. open air markets and outdoor trade), wholesale (e.g. central markets), agriculture (e.g. veterinary services), employment (employment

agencies), and technical services. Government specifies, for any remaining services sector, a timetable for adopting sectoral regulations by **end-2011** that ensures full compliance with the requirements of the Services Directive. New regulations should:

- facilitate establishment by
  - abolishing or amending requirements which are prohibited by the Services Directive;
  - abolishing or amending unjustified and disproportionate requirements, including those relating to quantitative and territorial restrictions, legal form requirements, shareholding requirements, fixed minimum and/or maximum tariffs and restrictions to multidisciplinary activities.
  
- facilitate the provision of cross-border services, so that providers of cross-border services are required to comply with specific requirements of the Greek legislation only in exceptional cases (when admitted by Articles 16 or 17 of the Services Directive).
- provide legal certainty for providers of cross-border services by setting out in the respective (sectoral) legislation which requirements can and which requirements cannot be applied to cross-border services. **[Q3-2011]**

Government ensures

- that the point of single contact (PSC) distinguishes between procedures applicable to service providers established in Greece and those applicable to cross-border providers (in particular for the regulated professions). **[July 2011]**
- adequate connection between the PSC and other relevant authorities (including professional associations). **[July 2011]**

The online completion of procedures covers, at least, the procedures in the distribution services, tourism, education and construction sectors as well as in food and beverage services, services of the regulated professions, real estate services, and business services. **[July 2011]**

The PSC is fully operational and the completion of procedures by electronic means is possible in *all* sectors covered by the Services Directive. **[Q3-2011]**

Any remaining sectoral regulation is adopted ensuring full compliance with the Services Directive. **[Q4-2011]**

*Sectoral growth drivers*

Government publishes reports which analyse

- the potential contribution of the tourism sector to growth and jobs. It should identify legislative, administrative and other obstacles hindering competition and market entry to the realisation of sector potential. **[July 2011]**
- the potential contribution of the retail sector to price flexibility, growth and jobs. It should identify legislative, administrative and other obstacles hindering competition and market entry to the realisation of sector potential. **[July 2011]**

Legislation and other structural actions are prepared **[Q3-2011]** and adopted **[Q4-2011]** to implement the findings of the reports which analyse the potential contribution of the tourism and retail sectors to growth and jobs, and price flexibility, in the Greek economy.

Government initiates additional studies on manufacturing, energy, and wholesale sectors with a view to removing remaining obstacles to growth in these sectors. **[Q3-2011]** On the basis of these studies, Government prepares concrete actions and a timetable for implementation **[Q4 2011]**.

#### *Business environment*

Government presents a plan **[Q2-2011]** for a "Business-Friendly Greece" to tackle 30 remaining restrictions to business activities, investment and innovation. The plan identifies hurdles to innovation and entrepreneurship - ranging from company creation to company liquidation - and presents the corresponding corrective actions. The plan includes measures, among others, to

- simplify and reduce costs linked to company publication requirements;
- complete the setting-up of the General Commercial Registry (GEMI) by promptly taking measures such as the training of OSS and GEMI users, the completion of the GEMI database, the further development of web services and use of electronic signatures, the interconnection of GEMI to the Chamber's information systems and to the PSC, in order to ensure access to online completion of procedures both for company formation and for any administrative procedures necessary for the exercise of their activities;
- simplify location, environmental, building and operating permits;
- eliminate distortions in fuel distribution;
- develop a "single electronic window" centralizing standardized trade-related information and simplifying the number of documents needed to export;
- address restrictions in the transport sector, including the transport of empty containers and of non-hazardous waste;
- reduce the complexity of the Code of Books and Records and provide clarity on all categories of non-deducted expenses.

Government starts implementing the "Business-Friendly Greece" action plan. **[Q2-2011]**.

Government starts screening Ministerial Decision A2-3391/2009 on market regulations as well as any other related regulations. The screening is carried out, in cooperation with the Hellenic Competition Commission, with a view to identifying administrative burdens and unnecessary barriers to competition to be eliminated, and developing alternative, less restrictive, policies to achieve government objectives. **[Q2-2011]**

A comprehensive list of non-reciprocating charges in favour of third parties is presented, identifying beneficiaries and quantifies contributions paid by consumers in favour of those beneficiaries. **[Q3-2011]**.

Legislation is adopted to simplify and shorten procedures to complete studies on environmental impact and to get the approval of environmental terms with a view to reducing the number of projects subject to environmental licensing and the duration of approval procedures to EU average levels. The acceleration of the environmental licensing is assured by committing the authorising authority to proceed with the approval procedure after a specified time period. **[July 2011]**

Government reviews and codifies the legislative framework of exports (i.e., Law 936/79 and Law Order 3999/59), simplifies the process to clear customs for exports and imports and gives larger companies or industrial areas the possibility to be certified to clear cargo for the customs themselves. **[Q3-2011]**

The obligation of registration with the exporters' registry of the Chamber of Commerce is abolished; such a registration is simplified and becomes voluntary. **[Q3-2011]**

To help attract investment in key sectors, including tourism, energy and real estate, government speeds up the review of private project applications in the pipeline and advances at least one large public sector project. **[Q3-2011]**

The Decrees necessary for the implementation of the law on fast-track licensing procedure for manufacturing activities and business parks are implemented. **[October 2011]**

Government introduces 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. **[Q3-2011]**

An impact assessment is presented to evaluate Law 3853/2010 on simplification of procedures for the establishment of companies in terms of the savings in time and cost to set up a business. **[Q3-2011]**

Government submits to the European Commission the draft regulation on the market surveillance service, as provided for in Article 53(2) of the Competition law. **[Q3-2011]**

Government provides sufficient resources for accelerating the completion of the land registry, with a view to

- tendering cadastral projects for additional 4 million rights by December 2011;
- digitalising the operations of all mortgage and notaries' offices and conveying all newly registered deeds to the cadastre by 2015;
- exclusively-operating cadastral offices for large urban centres by 2015;
- establishing a complete cadastral register and exclusively operating cadastral offices nationwide by 2020. **[Q4-2011]**

A Ministerial Decision on market regulations is issued following the screening launched in Q2-2011. **[Q1-2012]**

### *Transport*

Government ensures a quarterly update of the existing business plans of OSE/TRAINOSE and OASA, with detailed monitoring and enforcement mechanisms and including realistic key performance indicators and benchmarks per line of activity. By **Q2-2011**, OASA Group's merging process is terminated and monitored to ensure the group breaks even.

Legislation liberalizing tourist coaches is passed by end-July. Secondary legislation establishing the costs and the time required for issuing new licenses will be adopted by end-September. Such costs will not exceed the administrative costs and the required timing will not exceed 20 business days in total.

TRAINOSE breaks even **[Q3-2011]** and is prepared for privatisation **[Q4-2011]**.

Government submits a policy paper, indicating how all regional airports will be merged into groups ensuring that regional airports become economically viable in compliance with state-aid rules, including realistic projections identified by the appointed financial advisors. **[Q3-2011]** After ensuring that regional airports are economically viable, Government launches an effective transaction strategy leading to their privatisation. **[Q4-2011]**

A report is submitted on the functioning of the regular passenger transport services (KTEL), presenting options for liberalisation. **[Q3-2011]**

The necessary secondary legislation as foreseen in Law 3887/2010 (Article 14(11)) is adopted, specifying the cost for issuing new road transport operator licences. This cost is transparent, objectively calculated in relation to the number of vehicles of the road transport operator and does not exceed the relevant administrative cost. **[Q4-2011]**

### *Energy*

Government finalises the remedies to ensure the access of third-parties to lignite-fired electricity generation. **[Q2-2011]**

Legislation is adopted to award the hydro reserves management to an independent body. **[July 2011]**

To ensure that network activities are unbundled from supply activities,

- the law on the unbundling modalities of the Transmission System Operator (TSO) and the Distribution System Operator (DSO) is adopted, in compliance with the third energy liberalisation package; **[July -2011]**
- the TSO is established as a legal entity **[July -2011]**. All necessary transfers of staff and assets are completed; **[Q3 2011]**
- the DSO is established as a legal entity **[July -2011]**. All necessary transfers of staff are completed. **[Q1-2012]**

All regulatory powers assigned to EU energy regulators in the third energy liberalisation package (licensing, network access, network charges, market monitoring, etc.) are transferred to the Regulatory Authority for Energy (RAE). **[July -2011]**

Measures are adopted to ensure the independence of RAE, i.e. impartial and transparent nomination of board, management authority with regard to budget and personnel, etc. in line with the third energy liberalisation package. **[July -2011]**

Government starts implementing the measures ensuring the access by third parties to lignite-fired electricity generation. **[Q3-2011]**

Detailed plans are presented for ensuring a maximum market opening as regards the non-interconnected system, covering among others, access of suppliers to the non-interconnected system markets in particular in Rhodes and Crete. Government submits a request for derogation under certain conditions of Art 44 Directive 2009/72 for small isolated systems. **[Q3-2011]**

Hydro reserves are effectively and fairly managed by an independent body. **[Q3-2011]**

The unbundling of the TSO (for electricity and gas) and DSO (for electricity) is effectively completed. **[Q1-2012]**

Government removes regulated tariffs for customers except households and small enterprises (as defined in the second and third energy liberalisation packages). **[Q4-2011]**

Further measures are adopted to ensure that the energy component of regulated tariffs for households and small enterprises reflects, at the latest by June 2013, wholesale market prices, except for vulnerable consumers. **[Q4-2011]**

Government completes the implementation of the measures to ensure access by competitors of PPC to lignite-fired electricity generation. Third parties can effectively use lignite-fired generation in the Greek market. **[Q2-2012]**

#### *R&D and innovation*

Government pursues an up-to-date and in-depth evaluation of all R&D and ongoing innovation actions, including in various operational programmes, and presents a strategic action plan for policies aimed at enhancing the quality and the synergies between public and private R&D and innovation, as well as tertiary education. This action plan identifies a clear timetable for relevant measures to be taken, taking the budgetary impact into account and harmonising these actions with other relevant initiatives in these areas, in particular the investment law. **[Q4-2011]**

#### *Better regulation*

Government adopts legislation to improve regulatory governance covering in particular:

- the principles of better regulation;
- the obligations of the regulator for the fulfilment of those principles;
- the tools of better regulation, including the codification, recast, consolidation, repeal of obsolete legislation, simplification of legislation, screening of the entire body of existing regulation, *ex-ante* and *ex-post* impact assessments and public consultation processes;
- the transposition and implementation of EU law and exclusion of *gold plating*;
- the setting-up of better regulation structures in each ministry as well as the creation of a Central Better Regulation unit;
- the requirement that draft laws and the most important draft legislative acts (Presidential Decrees and Ministerial Decisions) are accompanied by an implementation timetable;
- electronic access to a directory of existing legislation and an annual progress report on Better Regulation. **[July 2011]**

On impact assessments, legislation provides that

- implementing legislation with potentially large significant impact is also subject to the requirement to produce an impact assessment;

- impact assessments address the competitiveness and other economic effects of legislation by making use of the Commission Impact Assessment guidelines and the OECD Competition Assessment toolkit;
- the Central Better Regulation Unit can seek the opinion of other ministerial departments and independent authorities for regulations that fall under their respective competences so as to improve the quality of impact assessment;
- an independent authority and the Central Better Regulation Unit carry out quality checks of impact assessments.
- the Central Better Unit consults the Hellenic Competition Commission when formulating and drafting the guidelines to be implemented by the ministries' better regulation units;
- impact assessments are published.

Government identifies priority areas to codify and simplify existing legislation within the better regulation agenda. **[July 2011]**

On administrative burden reduction, Government submits a list of 13 selected priority areas to the European Commission that will be subject to measurement. It also sets deadlines for the completion of measurements in each area, for the identification of proposals to reduce burdens and for the amendment of the regulations. This policy initiative should reduce administrative burdens by 25 percent (compared with the baseline year 2008) in the 13 priority areas. **[July 2011]**

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

Legislation is adopted, and immediately implemented, to shorten deadlines and simplify procedures on contract award and land expropriations, including the deadlines needed for the relevant legal proceedings. **[Q3-2011]**

Government meets targets for payment claims in the absorption of EU structural and cohesion funds set down in the table below. Compliance with the targets shall be measured by certified data. In addition, Government achieves a semi-annual target of submitting 5 major project applications to the European Commission. It provides data on expenditure for non-targeted *de minimis* state aid measures declared to the European Commission in 2010. **[Q2-2011]**

Government adopts and implements the appropriate acts to ensure the smooth and timely implementation of structural-fund programmes in the framework of the recent local administration reform. **[Q2-2011]**



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

	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
European Regional Fund and Cohesion Fund	<i>target: 2 330.0 outcome: 2 372.4</i>	2 600	2 850	3 000
European Social Fund	<i>target: 420.0 outcome: 447.6</i>	750	880	890
Target of first half of the year	-	1 105	1 231	1 284
Target of second half of the year	-	2 245	2 499	2 606
<b>Total annual target</b>	<i>target: 2 750 outcome 2 820</i>	<b>3 350</b>	<b>3 730</b>	<b>3 890</b>

Government launches an internal pilot web-based monitoring tool of procedures for approval of project proposals and for implementation of public projects. **[Q3-2011]**

Government meets targets for payment claims in the absorption of EU structural and cohesion funds set down in Table 1. Compliance with the targets shall be measured by certified data. In addition, Government submits 10 additional major project applications to the Commission, in view of achieving an annual target of submitting 15 major projects. In meeting absorption rate targets, recourse to non-targeted *de minimis* state aid measures should be gradually reduced. Government provides data on expenditure for non-targeted *de minimis* state aid measures co-financed by the structural funds in 2011. **[Q4-2011]**

The web-based open-access monitoring tool of procedures for approval of project proposals and for implementation of public projects is fully operational. **[Q4-2011]**

The managerial capacity of all managing authorities and intermediate bodies of operational programmes under the framework of the National Strategy Reference Framework 2007-13 is certified according to the standard ISO 9001:2008 (quality management). **[Q4-2011]**

A report is presented on the activities of the task force assessing progress in ensuring the rapid implementation absorption of structural funds, and proposing improvements when necessary. **[Q4-2011]**

Government provides an impact assessment of measures since 2010 to accelerate the absorption of structural and cohesion funds adopted since May 2010, and indicates any further measures. **[Q4-2011]**

#### ***4.4 To upgrade the education system***

The independent taskforce on education publishes a detailed blueprint for improvement of the efficiency and effectiveness in the use of resources in the public education system. This blueprint includes concrete policy recommendations that the Ministry of Education takes into account for implementation. **[Q2-2011]**

Governments prepares, and starts implementing, an action plan for the improvement of the effectiveness and efficiency of the education system taking into account the measures recommended by the independent taskforce. **[Q3-2011]**

Based on the recommendations of the blueprint and the action plan, the existing legal/institutional framework for primary, secondary and tertiary education will be amended with a view to increasing the efficiency and effectiveness of the education system. The government starts publishing a bi-annual progress report on the implementation of the law on quality assurance in Higher Education. **[Q4-2011]**

#### ***4.5 To reform the judicial system***

To improve the functioning of the judicial system, which is essential for the proper and fair functioning of the economy, and without prejudice to the constitutional principles and the independence of justice, Government:

- (i) ensures effective and timely enforcement of contracts, competition rules and judicial decisions;
- (ii) increases efficiency by broadening the skills' base of senior judges to whom court management tasks have been assigned;
- (iii) speeds up the system by eliminating backlog of courts cases and by facilitating out-of-court settlement mechanisms.

Specifically, Government:

- establishes a work plan for the clearance of the backlog of tax cases in all administrative tribunals and administrative courts of appeal by the end of July 2013, which provides for semi-annual intermediate targets for reducing the backlog by at least 15% by end-2011, 50% by end-July 2012 and 80% by end-2012; **[Q2-2011]**
- conducts, jointly with an external body of experts, a study of the backlog of cases in all remaining courts, including the Supreme Court and the Supreme Administrative Court, with data available by end-March 2012 and analysis by end-June 2012. **[Q2-2011]**

- introduces flanking measures for the bill on the rationalisation and improvement of the administration of civil justice promoting the wide-spread use of e-filing, e-signature and e-tracking of the status of individual cases; **[Q3-2011]**
  - puts in place implementing rules for Law 3898/2010 on mediation in civil and commercial matters; **[Q3-2011]**
  - improves alternative dispute resolution for out-of-court settlement and actively promotes pre-trial conciliation, mediation, and arbitration; **[Q3-2011]**
  - identifies dormant cases; **[Q3-2011]**
  - reduces the processing time of cases through the adoption of specific additional efficiency measures, including simplifying case registration, rationalizing docket management with a view to allowing the resolution of docketed cases, and by providing computer support to judges in order to allow the issuance of written decisions within two weeks from the judge taking the decision. **[Q3-2011]**
- 
- Government adopts measures to ensure that enforcement cases concerning agreements arising from alternative dispute resolution are treated in the courts in the same way as enforcement cases concerning judicial decisions; **[Q4-2011]**
  - To improve efficiency of courts, Government amends Law 1756/1988 on the organisation of the courts and the situation of court officials, and relevant implementing rules, always respecting the independence of justice, to allow and facilitate the introduction of human resource management measures in courts, such as mobility of court officials, incentives for the efficient administration of courts and continuous management training programmes for court officials with management tasks; **[Q1-2012]**
  - takes the necessary measures to be able to publish quarterly reports on recovery rates, duration and costs of corporate insolvency and tax cases; **[Q4-2011]**
  - conducts an assessment of whether the reform of the Code of Administrative Procedure and the enactment of Law 3898/2010 on mediation in civil and commercial matters have delivered the results which the legislation had set out to do; **[Q4-2011]**
  - increases court registration fees in civil and administrative matters; **[Q4-2011]**
  - establishes a task force that will design a performance framework for courts with a view to considering links to resource allocation in future revisions of this Memorandum. The task force will develop by September 2012 i) a dependable data management system, a workload measurement system, and a management structure, that is conducive to a more effective, responsible, and accountable judicial management; ii) a fully operational and publicly available database with case data for each court (as well as consolidated data for all courts), giving basic performance data, including number of judges and staff, number of cases (including by case type) and backlogs; iii) a work plan on benchmarking cases for workload measurement, including focusing on delays in case processing, and the types of cases where such delays are most acute. **[Q4-2011]**
- 
- Government imposes additional dissuasive measures against non-cooperative debtors in enforcement cases; **[Q1-2012]**

- Government broadens the skills' base of court officials to whom court management tasks have been assigned through a continuous management training programme; **[Q1-2012]**
- Government opens access to the regulated profession of mediator to non-lawyers in line with the MoU conditionality on regulated professions. **[Q1-2012]**
  
- Government establishes a Task Force, which is broadly representative of the legal community, including independent representatives of the legal professions, to review the Code of Civil Procedure to bring it in line with international best practices on, *inter alia*, (i) case management, including the possibility of removing dormant cases from court registers, (ii) the execution of decisions and orders to pay, in particular small claims cases with a view to reducing the role of the judge in these procedures, and (iii) enforcing statutory deadlines for court processes, in particular for injunction procedures and debt enforcement and insolvency cases; **[Q2-2012]**
  
- Government evaluates the backlog reduction plan of tax cases in all administrative tribunals established in Q2-2011 and takes remedial action in case of deviations to achieve full clearance of the backlog by end-July 2013; **[Q3-2012]**
- By end-August 2012, Government presents, based on the study conducted jointly with an external body of experts, an action plan with specific targets for a reduction of the backlog of the cases of the remaining courts of at least 50 per cent by end-July 2013 and starts implementing the action plan. **[Q3-2012]**
  
- The taskforce on the review of the Code of Civil Procedure makes specific recommendations on (i) case management, (ii) the reduction of the role of the judge in the execution of decisions and orders to pay and (iii) on enforcing statutory deadlines for court processes. **[Q4-2012]**

## **5 TECHNICAL ASSISTANCE AND REFORM MONITORING**

Government sets up a committee to oversee structural reforms, identify where more capacity and technical assistance are required. The committee will appoint project managers for each initiative to be carried out in the various areas (labour market reform, product and service market reform, investment promotion, and judicial reform), establishing clear lines of responsibility and accountability. The committee will also be responsible to develop, utilise, and publish monitoring indicators for each of the key structural reform initiatives, on a quarterly basis. **[July 2011]**

As a complement to the technical assistance provided by the European Commission and the IMF, Government will request resident long-term technical assistance to be provided by the EU Member States in priority areas, such as health and social security reforms (e.g. e-procurement, e-prescription and IT systems), state enterprises restructuring (e.g. performance reviews), growth-enhancing structural reforms (e.g. labour training), fiscal management (e.g. administrative reorganisation and expenditure monitoring) and taxation (e.g. anti-corruption reforms and audit techniques). **[Q3-2011]**

### **Annex 1: Additional fiscal measures for 2011 and Medium-Term Fiscal Strategy 2012-15**

The additional measures for 2011 and the medium-term fiscal strategy (MTFS) through 2015 will include the following:

- **Cuts in wage bill by at least EUR 770 million in 2011, and additional EUR 600 million in 2012, EUR 448 million in 2013, EUR 306 million in 2014 and EUR 71 million in 2015**, through the implementation of attrition beyond the rule of 1 recruitment for 5 exits (1 for 10 in 2011); an increase in weekly working hours for public sector employees from 37.5 to 40 hours and reduction in overtime payments; reduction in the number of remunerated committees and councils; reduction in other additional compensation, allowances and bonus schemes; reduction in contractors (50 percent in 2011 and additional 10 percent in 2012 and onwards); temporary freeze of automatic progression; the implementation of a new remuneration grid; the introduction of part-time public sector employment and unpaid leave; a reduction in the number of admissions to military and policy academies, the transfer of excess staff to a labour reserve paid on average at 60 percent of their wage (excluding overtime and other extra payments) up to 12 months, and a cut in the productivity allowance by 50 percent.
- **Cuts in the state's operation expenditure by at least EUR 190 million in 2011, and additional EUR 92 million in 2012, EUR 161 million in 2013, EUR 323 million in 2014 and EUR 370 million in 2015**, through the implementation of e-procurement for all public procurement; rationalization of energy expenses by public services; reduction in rental expenses following more efficient use of public property; reduction of all telecommunication expenses, abolition of free distribution of newspapers; cuts in operational expenditure in the ordinary budget, across the board; implementation of benchmarks in public spending following a one-year full operation of MIS for the general government expenditure.
- **Cuts in extra-budgetary funds' expenses and transfer to other entities by at least EUR 540 million in 2011, and additional EUR 150 million in 2012, EUR 200 million in 2013, EUR 200 million in 2014 and EUR 150 million in 2015**, through the assessment of the mandate, viability and expenses of all entities subsidized by the public sector and their mergers and closure; merger/closure and reduction in subsidies to educational institutions (schools, higher education institutions); reduction in State grants to entities outside general government, and an action plan on closing, merging and downsizing entities.
- **Savings in state-owned enterprises by at least EUR 414 million in 2012, and additional EUR 329 million in 2013, EUR 297 million in 2014 and EUR 274 million in 2015**, through increase in revenue of OSE, OASA and other enterprises, the implementation of restructuring plans and privatisation in Hellenic Defence Systems, Hellenic Aeronautical Industry, Hellenic Horse Racing Corporation; sale

of enterprises' assets associated with non-core activities; reduction in personnel expenses; reduction in operational expenses and mergers and closure of enterprises.

- **Cuts in operational defense-related expenditure by at least EUR 133 million in 2013 and additional EUR 133 million in 2014 and EUR 134 million in 2015**, on top of the reduction in military equipment procurement (deliveries) of EUR 830 million from 2010 to 2015.
- **Cuts in healthcare and pharmaceutical expenditure by at least EUR 310 million in 2011, and additional EUR 697 million in 2012, EUR 349 million in 2013, EUR 303 million in 2014 and EUR 463 million in 2015**, through the implementation of a new 'health map' and associated reduction in hospitals expenses; a re-evaluation of mandate and expenses of non-hospital supervised entities; the implementation of central procurement system; reduction of average cost per case through case mixing; reduction in the services provided to the non-insured (gate-keeping function); introduction of charges for services provided to foreign citizens; the operation of the National Organization for Primary Healthcare (EOPI); the scanning by IKA of handwritten prescriptions; the expansion of the list of pharmaceuticals that do not require prescriptions; new prices of medicines; the establishment of insurance price by social security sector and the full implementation of e-prescription.
- **Cuts in social benefits by at least EUR 1 188 million in 2011, and additional EUR 1 230 million in 2012, EUR 1 025 million in 2013, EUR 1 010 million in 2014 and EUR 700 million in 2015**, through an adjustment in supplementary pension schemes and subsequent freeze through 2015; a freeze in the base pensions; the reform of the disability pension system; a census of pensioners and cross-checking of personal data with full implementation of social security number and upper cap on pensions; a rationalization of criteria for pensioners (EKAS); a rationalisation of benefits and beneficiaries of OEE-OEK and OAED; cuts in the lump-sums paid on retirement; the cross-checking of personal data from introduction of ceilings for employers who can join OAED schemes; a reduction in the core pension of OGA and in the lower pension thresholds of other social security funds and tightening of criteria based on the permanent residence; reduction in expenses on social benefits though cross-checking of data; uniform regulation of health benefits for all social security funds; uniform contracts with private hospitals and medical centres; the review of social benefits in cash and in kind leading to the abolition of the least effective; an increase in the special pensioner contribution (Law 3863/2010) for pensioners whose monthly pension exceeds EUR 1 700; an increase in the special social contribution paid by pensioners below 60 years old with monthly pensions above EUR 1 700; the introduction of special tiered contribution for supplementary pensions above EUR 300 per month and reduction in transfers to NAT (sailors' pension scheme) and the OTE pension scheme with concomitant reduction in pension expenditure or increase in contributions from beneficiaries.

- **Cuts in state transfers to local governments by at least EUR 150 million in 2011, and additional EUR 355 million in 2012, EUR 345 million in 2013, EUR 350 million in 2014 and EUR 305 in 2015.** These reductions will be achieved primarily through cuts in expenses of local government equal to at least EUR 150 in 2011, and additional EUR 250 million in 2012, EUR 175 million in 2013, EUR 170 million in 2014 and EUR 160 in 2015. Additionally, local governments' own revenue will rise by at least EUR 105 million in 2012 and additional EUR 170 million in 2013, EUR 130 million in 2014 and EUR 145 million in 2015, through an increase in revenues from tolls, fees, rights and other revenue streams following the merging of local administrations, and an increase in local tax compliance following the introduction of a local tax clearance certificate requirement.
  
- **Cuts in expenditure by the public investment budget (domestically-financed public investment, and investment-related grants) and administrative costs by EUR 950 million in 2011,** of which EUR 350 million will be permanent, and additional EUR 154 million (administrative costs) in 2012.
  
- **Increases in taxes by at least EUR 2017 million in 2011, and additional EUR 3 678 million in 2012, EUR 156 million in 2013 and EUR 685 million in 2014,** through an increase in VAT rate on restaurants and bars from 13 to 23 percent from September 2011 on; increase in property taxes; reduction of income tax-free threshold to EUR 8 000 and establishment of a progressive solidarity contribution; increases in presumptive taxation and levies on self-employed; reduction of tax exemptions/expenditures; changes in tax regime for tobacco products with an accelerated payment of excise duty and in tax structure; an excise on soft drinks; excises on natural gas and liquefied gas; abolition of the tax advantage for heating oil (for enterprises from October 2011 on, and progressively for households from October 2011 to October 2013); an increase in the vehicles tax; an emergency contributions on vehicle, motorbikes and pools; increase fines of unauthorised buildings and settlement of planning infringements; the taxation on private boats and yachts; a special levy on high-value real estate; and special levy on smoking spaces.
  
- **Improvements in tax compliance by at least EUR 878 million in 2013, and additional EUR 975 million in 2014 and EUR 1147 million in 2015.**
  
- **Increases in social contributions by at least EUR 629 million in 2011, and additional EUR 259 million in 2012, EUR 714 million in 2013, EUR 1 139 million in 2014 and EUR 504 in 2015,** through the full implementation of a single unified payroll and insurance contribution payment method; an increase in contribution rates for OGA and ETAA beneficiaries; the establishment of OAEE beneficiary solidarity fund; the adjustment of unemployment contribution for private sector employees; the introduction of unemployment contribution for self-employed; and a contribution for unemployed paid the employees of the public sector, including state-owned enterprises, local government and other public entities.



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

## **Annex 2: Terms of reference for the privatisation fund**

The privatisation fund (national wealth fund) will have the following features:

### *Governance.*

The fund will be established under Greek law for a period of 6 years, professionally run, and governed by a Board of Directors. Directors will be appointed by parliament, upon the proposal of the Minister of Finance for a renewable fixed term. The Board will be comprised of individuals known for their international expertise in the field and will be vested with broad powers to perform all acts of divestment and administration within the Fund's purpose and interest. The European Commission and the Eurogroup will have the right to appoint two observers in the Board of Directors. The fund may also establish an Advisory Board to allow it to benefit from international experience and technical expertise. Directors and staff of the fund will be indemnified for actions undertaken in the context of their official duties. Parliament will approve the acts of the Board of Directors and release them from liability, at least semi-annually.

### *Transparency.*

The Board will, on a quarterly basis, publish a report on its activities, along with an audited report of its finances. The activity report will be submitted to parliament and will cover where each asset held stands in the transaction process.

### *Asset Transfer and Management.*

Full legal and economic ownership of the assets to be privatized (including all rights attached to them such as voting rights) will be transferred to the fund in an irreversible manner. Neither the state nor the transferring entity will have any residual rights of ownership or otherwise over these assets without prejudice to the regulatory power of the state.

### *Mandate.*

The fund will have a mandate to privatize these assets at prevailing market conditions as soon as technically feasible and in an open and transparent manner. The fund will not be able to transfer assets back to the general government unless the transaction has been completed (i.e. a concession or lease). The Ministry of Finance will retain the responsibility for any operating subsidies for the assets in question. If it is determined by the Board (on the advice of the fund's panel of experts) that an asset cannot be sold, it will be unbundled and sold by the fund (with liquidation retained as an option). The fund will be provided with quarterly targets for proceeds to be transferred back to the government.

*Operations.*

The fund will finance its operations by an initial EUR 30 million capital injection by the state and subsequently from an appropriate portion of privatization proceeds (as determined by the Board in consultation with the advisory board). The fund will be entitled to hire advisors for each transaction to enable it to conduct its activities with sufficient flexibility. Advisors already hired for transactions by the Special Secretariat for Asset Restructuring and Privatizations (at the Ministry of Finance) will be retained and their mandates transferred. All advisors for transactions in 2011-12 will be appointed by end-June 2011.

*Limits on borrowing.*

The fund will be able to raise money, on market terms, including by discounting or selling revenue streams of specified assets (such as interests in concessions). The fund may not grant liens over any of its assets if this might prevent or delay the relevant assets from being privatized. Net proceeds generated as a result of money raising operations will be paid over to the State, as will net proceeds of other privatizations. Any borrowing would be coordinated with the Ministry of Finance and the PDMA.

**Annex 3: Planned privatisation proceeds**

<u>By end of:</u>	<u>Privatization Receipts</u>
	(€ Millions)
2011 Q2	390
Q3	1700
Q4	5000
2012 Q1	7000
Q2	9000
Q3	11000
Q4	15000
2013 Q1	17000
Q2	18000
Q3	20000
Q4	22000
2014	35000
2015	50000

#### Annex 4. Provision of data

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

#### To be provided by the Ministry of Finance

<p>Preliminary monthly data on the state budget execution (including breakdown by main categories of revenue and expenditure and by line ministry). <i>(Data compiled by the Ministry of Finance)</i></p>	<p>Monthly, 15 days after the end of each month; these data should also be included in subsequent transmissions in case of revision.</p>
<p>Updated monthly plans for the state budget execution for the remainder of the year, including breakdown by main categories of revenue and expenditure and by line ministry. <i>(Data compiled by the Ministry of Finance)</i></p>	<p>Monthly, 30 days after the end of each month.</p>
<p>Preliminary monthly cash data on general government entities other than the state. <i>(Data compiled by the Ministry of Finance)</i></p>	<p>Monthly, 30 days after the end of each month, these data should also be included in subsequent transmissions in case of revision.</p>
<p>Monthly data on the public wage bill (of general government, including a breakdown in nominal wage and allowances paid to government employees per line ministry and public entity), number of employees (including a breakdown per ministry and public entities outside the central government) and average wage (including the relative shares of the base wage, allowances and bonuses). <i>(Data compiled by the Ministries of Interior and Finance)</i></p>	<p>Monthly, 30 days after the end of each month (starting in June 2010).</p>

<p>Monthly data on staff: number of employees, entries, exits, transfers among government entities; and from and into the labour reserve, per entity.</p> <p><i>(Data compiled by the Ministries of Interior and Finance)</i></p>	<p>Monthly, 30 days after the end of each month.</p>
<p>Weekly information on the Government's cash position with indication of sources and uses as well of number of days covered.</p> <p><i>(Data compiled by the Ministry of Finance)</i></p>	<p>Weekly on Friday, reporting on the previous Thursday.</p>
<p>Data on below-the-line financing for the general government.</p> <p><i>(Data compiled by the Ministry of Finance)</i></p>	<p>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.</p>
<p>Data on expenditure pending payment (including arrears) of the general government, including the State, local government, social security, hospitals and legal entities.</p> <p><i>(Data compiled by the Ministry of Finance on the basis of basic data from the several line ministries)</i></p>	<p>Quarterly, within 55 days after the end of each quarter.</p>
<p>Data on use of international assistance loans split among following categories: Financial stability fund, escrow account, debt redemption, interest payments, other fiscal needs, building of cash buffer; per quarter and cumulative</p>	<p>Quarterly, by the end of each quarter</p>

<p>Data on public debt and new guarantees issued by the general government to public enterprises and the private sector.</p> <p>Data on maturing debt (planned redemptions per month, split between short-term (Treasury bills and other short-term debt) and long-term (bonds and other long-term) debt).</p> <p>Data on planned monthly interest outflows.</p> <p><i>(Data compiled by the Ministry of Finance)</i></p>	<p>Monthly, within one month.</p>
<p>Data on assets privatised and proceeds collected.</p> <p><i>(Data compiled by the Ministry of Finance)</i></p>	<p>Quarterly</p>
<p>Data on debt redeemed with privatisation proceeds.</p> <p><i>(Data compiled by the Debt Management Office)</i></p>	<p>Monthly, by the end of each month</p>
<p>Data on public enterprises: revenue, costs, payroll, number of employees and liabilities (including maturities of public enterprises' debts)</p> <p><i>(Data compiled by the Ministry of Finance)</i></p>	<p>Monthly, within three weeks of the end of each month for the ten largest enterprises. Quarterly within three weeks of the end of each quarter for the other enterprises. Quarterly for the maturities of public enterprises' liabilities.</p>
<p>Monthly statement of the transactions through off-budget accounts.</p> <p><i>(Data compiled by the Ministries of Finance and Education)</i></p>	<p>Monthly, at the end of each month.</p>

<p>Monthly statement of the operations on the special accounts.</p> <p><i>(Data compiled by the Ministry of Finance)</i></p>	<p>Monthly, at the end of each month.</p>
<p>Report on progress with fulfilment of policy conditionality.</p> <p><i>(Report prepared by the Ministry of Finance)</i></p>	<p>Quarterly before the respective review starts.</p>
<p>Monthly data on healthcare expenditure by the social security funds with a lag of three weeks after the end of the respective quarter.</p> <p><i>(Data compiled by the Ministries of Labour and Health)</i></p>	<p>Monthly, within three weeks of the end of each month. Starting with data for January 2011 for IKA, OAEE, OGA and OPAD, and from April 2011 on for the other funds</p>

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**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>12</sup>	Monthly, 15 days after the end of each month.
Report on banking sector liquidity situation.	Weekly, next working day.
Report on the evolution of financial stability indicators.	Quarterly, 30 days after the publication data of each quarter.
Report on results from the regular quarterly solvency assessment exercise.	Quarterly, 15 days after the end of each quarter depending on data availability.
Weighted average of Loan-to-value (LTV) ratio for new loans with real estate collateral	Yearly.

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<sup>12</sup> All forms of debt instruments and capital, as well as net deposits provided to subsidiaries abroad.



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**To be provided by the Hellenic Financial Stability Fund**

Detailed report on the balance sheet of the Financial Stability Fund with indication and explanation of changes in the accounts.	Weekly, next working day.
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**ANNEX I. GREECE—LETTER OF INTENT**

Athens, July 8, 2011

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

Dear Ms. Lagarde:

It has come to our attention that two Greek general government entities have accumulated external payment arrears, including over the period of the Stand-By Arrangement (since May 5, 2010). We have provided this information to Fund staff as soon as we received it. The possible total amount is €6 million. There is a further pre-2010 stock of about €3 million. We have reviewed all available information concerning external payments in general government entities and have no indication of any arrears elsewhere.

We request a waiver of non-observance for the continuous program quantitative performance criterion on no new accumulation of external arrears. On July 8, they have taken corrective steps, and one of the two general government entities repaid in full their arrears (in an amount of €4.7 million). In the other case there is a procedural issue that we expect to overcome soon. We consider this deviation to be minor, and are committed to fully meet program targets going forward.

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

/s/

/s/

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Evangelos Venizelos

Deputy Prime Minister

Minister of Finance

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George Provopoulos

Governor of the Bank of Greece