

Report on Greece's Compliance with the Milestones for the disbursement of the January 2013 sub-tranche

(14 January 2013)

This compliance report has been compiled by European Commission staff [in liaison with ECB and IMF staff], based on a review of the implementation of the milestones for the disbursement of the January 2013 sub-tranche.

Eurogroup decision on disbursement

The Eurogroup of 13 December authorised the EFSF to release the 2nd instalment to Greece under the second economic adjustment programme for a total amount of EUR 49.1 billion. Member States also agreed upon the composition of this instalment that would be paid out in several tranches. EUR 34.3 bn was paid out to Greece in December 2012, with the further budgetary financing to be disbursed in three sub-tranches, amounting to EUR 2.0 bn in January, EUR 2.8 bn in February and EUR 2.8 bn in March. For the disbursement of these sub-tranches, the Troika and Greek authorities have identified milestones for the corresponding months (see Annex). The release of the sub-tranches will be conditional on Greece having achieved the agreed milestones.

For the January 2013 tranche of EUR 2.0 bn, two milestones were agreed:

- Adoption of the income tax reform
- Adjustment of end-user prices for low voltage customers, following the recommendation of the energy regulator (RAE) and of the RES levy.

Adoption of the income tax reform

The Tax Reform legislation was adopted by the Greek Parliament on 11 January, taking effect on 1 January 2013. The tax reform relates to personal and corporate taxation. It simplifies the tax system, eliminates selected exemptions and preferential regimes, thus broadening the tax base. The tax reform legislation was discussed with, and reviewed by, the Troika teams prior to its adoption by the Greek Parliament. In line with comments made by tax experts from technical assistance teams and the troika, some issues have been deferred and the Greek authorities have committed to adopt by May 2013 a further major simplification of the income tax code that closes tax loopholes and addresses lingering issues from the first phase of reform (depreciation rules, the elimination of receipt collection requirements, and the establishment of a sunset on the rental tax surcharge). Also by May 2013 a new code on tax procedures will be adopted.

Adjustment of end-user prices for low voltage customers and of the RES levy

The adjustment of end-user energy prices for low voltage customers (i.e. households and small commercial users) has also been undertaken as required under the Memorandum of Understanding. The required Ministerial Decision of 11 January was issued according to which electricity prices for low voltage users are adjusted, retroactively from 1st January 2013, in order to phase out by June 2013 all regulated electricity prices. The Regulatory Authority for Energy (RAE) gave its positive opinion to this adjustment. This is the first part of the needed adjustment as decided by the Minister of Energy and agreed by RAE. A further revision of the end-user prices for low voltage customers, following a recommendation by the RAE, should take place again at the end of March, effective 1st May 2013, with a view to fully liberalizing electricity prices on 1 July 2013.

The RES special levy is a charge paid by consumers through the electricity bill to sustain the renewable energy in Greece, through financing the feed-in tariffs for producers of renewables. On 10 January, the Energy Regulator published a decision which adjusted the RES special levy by fixing the energy consumer surcharges for the first half of 2013, as required by the MoU.

Recommendation

Based upon this report, the Euro Working Group is asked to endorse the disbursement of the January sub-tranches of € 2 billion. Following this endorsement, the EFSF Board of Directors will take the formal decision for the disbursement.

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

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

Source: Compliance report: Occasional Paper 123, 2012

http://ec.europa.eu/economy_finance/publications/occasional_paper/2012/pdf/ocp123_en.pdf