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The Second Economic Adjustment Programme for Greece – First Review

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EXECUTIVE SUMMARY

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

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

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

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

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

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

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

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

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

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

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

The fiscal targets for 2013-16 had to be revised to take into account the deeper and longer-than-expected recession. The size of required annual fiscal adjustment to achieve the nominal targets turned out to be much higher than assumed at the inception of the second programme, due to the worse-than-forecast macroeconomic environment, the ex post statistical revisions to GDP and debt-to-GDP ratios and the delays in programme implementation outlined above. Maintaining the original two-year adjustment period would have implied an unrealistically high annual consolidation effort and compounded the recession in the short-term. Against this background, the fiscal adjustment path has been extended by two years involving a reduction of the primary surplus target for 2014 from 4.5% of GDP to 1.5% of GDP and an even annual adjustment of 1.5% of GDP until a primary surplus of 4.5% of GDP is achieved in 2016.

The revised adjustment path and updated macroeconomic outlook have implications for the amount and phasing of measures. Required consolidation measures during 2013-14 amount to around EUR 13.5 billion (7.3% of GDP). Beyond, the projections underlying the programme point to a need for a further fiscal adjustment of up to EUR 4.0 billion in 2015-16. During this period a few existing measures are expected to expire and the EU structural funds are going to decline in the transition to the new programming period. However, the projections for the outer years are inherently uncertain and depend to a large extent on the strength of the recovery as well as yields from the programme measures implemented in preceding years, with some upside risks existing to the fiscal outcomes in outer years.

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

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

A long-overdue tax policy reform aimed at enlarging the tax base and simplifying the tax system is being finalised. The reform is designed to be revenue-positive and produce net revenues of close to EUR 1 billion over two years. The tax reform aims at broadening the tax base by reducing tax allowances and tax credits and by strengthening the taxation regime of self-employed and rental income. The efficiency of the system will be improved by a thorough simplification of the personal income tax system and by a re-modulation of the corporate income tax. The reform is designed to maintain the progressivity of the system and to avoid increases in the effective taxation of low and middle income households. The reform is accompanied by the simplification of the tax accounting system, centred on the repealing of the Code of Books and Records. The MTFS includes also other important measures aimed at harmonizing the taxation of fuel and the regulations of social security contributions across all categories of workers.

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

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

Privatisation proceeds have been disappointing so far, but the privatisation process has regained some momentum since September 2012. Cumulative receipts by December 2012 are expected to be only some EUR 1.7 billion, although several assets are expected to be ready for sale in the first half of 2013. The government has recently taken the welcome step of abolishing its golden share (25%) in the State-Owned Enterprises to be privatised in the coming years. Cumulative privatisation receipts by the end of 2013 are expected to be around EUR 3.4 billion, rising to EUR 10.4 billion by the end of 2016. Doubts on the effectiveness of the governance of the privatisation process however continue to persist, which calls for setting better incentives in delivering higher proceeds, while contributing to better industry practices, more investment and net job creation.

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

The outlook for the sustainability of Greek government debt has worsened compared to March 2012 when the second programme was concluded, mainly on account of a deteriorated macro-economic situation and delays in programme implementation. The necessary revision in the fiscal targets and the implied postponement of a primary surplus target of 4.5% of GDP from 2014 to 2016 call for a broader concept of debt sustainability encompassing lower debt levels in the medium term, smoothing of the current financing hump after 2020 and easing of its financing. Greece is considering certain debt reduction measures in the near future, which may involve public debt tender purchases of the various categories of sovereign obligations. Against this background and after having been reassured of the authorities' resolve to carry the fiscal and structural reform momentum forward and with a positive outcome of the possible debt buy-back operation, the financial support initiatives considered by the euro area Member States to strengthen debt sustainability would accrue to Greece in a phased manner and conditional upon a strong implementation by the country of the agreed reform measures in the programme period as well as in the post-programme surveillance period. The details of this conditionality will be agreed by the Eurogroup, based on input from the Troika.

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

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

The Commission services recommend disbursement of EFSF funds, broadly corresponding to the planned second, third and fourth tranches of the second programme, conditional on continued implementation of the commitments undertaken by the Greek authorities as specified in the revised MEFP and MoU. Estimated financing needs for the reminder of the year and the coming quarter to be covered by the EU equal €42.1 billion, which will go towards funding the second step of the bank recapitalisation (€23.8 bn) and the cash needs of the government (18.3 bn), including for the payment of arrears to the private sector which will help revitalise the economy. The disbursement will be made in several tranches, with the first one amounting to €34.4bn (€23.8 +€10.6) paid in December 2012. The disbursement of the remaining amount will be made in three sub-tranches during the first quarter of 2013, linked to the implementation of the-milestones included in the MoU to be agreed by the Troika.

1. INTRODUCTION

1. **This report provides an assessment of the progress made by Greece in respect of its Second Economic Adjustment Programme.** It examines current macroeconomic, financial and fiscal developments, assesses compliance with the previously agreed programme and makes a detailed assessment of the policy programme up to 2016 agreed between the Greek Authorities and the European Commission, ECB, and IMF staff teams. The agreed economic adjustment programme is set out in the two annexed documents, a Memorandum of Understanding and a Memorandum of Economic and Financial Policies. The assessments and agreements are based upon the findings of a four-part joint Commission/ECB/IMF mission to Athens between 3 July and 17 October 2012 and the continued interaction with the authorities building also on a reinforced presence of the Commission staff in Athens.

2. **Whilst considerable further efforts are still needed, Greece has already made substantial progress in its economic and fiscal adjustment under the economic adjustment programme** (see Box 1). The general government deficit has been reduced from 15.6% in 2009 to 9.4% in 2011, however the underlying fiscal effort is much larger when account is taken of the severe recession. Major reductions have been made in several public expenditure categories where the major increases had been recorded in previous years, notably public sector wages, health care and pensions. Labour market reforms combined with the pressure exerted by the domestic recession have resulted in a substantial improvement in competitiveness in unit labour cost terms. Unfortunately, productivity growth has been wanting and product and services market reforms have proceeded with a significantly lower speed. Only limited progress has been made in this area since the approval of the second programme on account of the heightened political uncertainty surrounding the two elections.

3. **The Adjustment Programme is supported through financing by euro-area Member States and the IMF**. The financing by the euro-area Member States takes place through the EFSF, whilst the IMF financing comes through the Extended-Fund Facility (EFF). The international assistance loans disbursed so far to Greece amount to EUR 148.6 billion. Of this amount, EUR 73.0 billion were disbursed within the first programme (EUR 52.9 billion have been paid by the euro area Member States and EUR 20.1 billion by the IMF). Within the second programme, the EFSF and the IMF have already disbursed € 75.6 billion as a part of the first disbursement of the second programme (including € 25 billion for bank recapitalisation). The detailed financing to Greece up to date is shown in table 1.

4. **The outline of the report is as follows**. The second section provides a detailed examination of macroeconomic and financial developments in the Greek economy, including a detailed macroeconomic scenario up to 2016. Section three then provides the analysis of programme compliance and outlines the policy commitments to 2016 that have been agreed between the Greek Authorities and the Commission, ECB, and IMF staff teams. A comprehensive compliance table is attached in Annex, along with the details of the macroeconomic forecast, and the key programme documents (see Box 2).

Box 1. The economic adjustment programme for Greece: some success stories

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

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

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

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

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

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

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

Table 1. Disbursements under the Greek adjustment programmes (EUR billion)

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

Notes:

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

[2] Sweetener PSI, EFSF notes

[3] Accrued interest PSI, EFSF notes

[4] Bank recapitalisation, EFSF notes

Source: European Commission and EFSF

Box 2. The documents for a comprehensive adjustment strategy

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

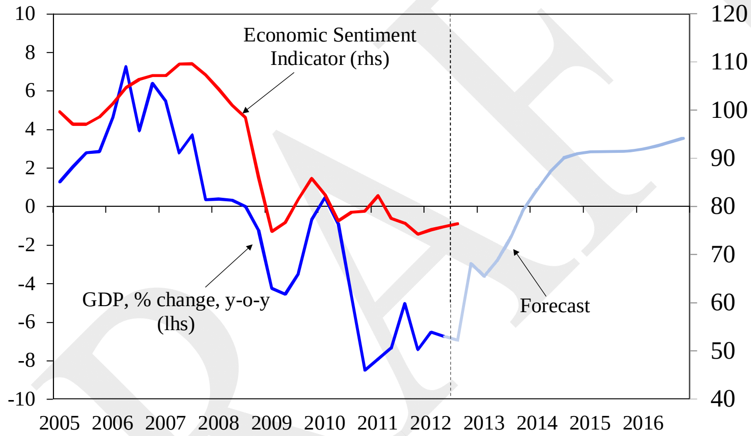
The Council decision, adopted by the Council of the European Union upon a recommendation of the European Commission, established the steps and deadlines to be respected to correct the situation of excessive deficit. The MoU and MEFP are drafted jointly by the Troika institutions (EC/ECB/IMF) and the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

2. MACROECONOMIC AND FINANCIAL DEVELOPMENTS

2.1 MACROECONOMIC DEVELOPMENTS

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

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



Source: EL.STAT and Commission services.

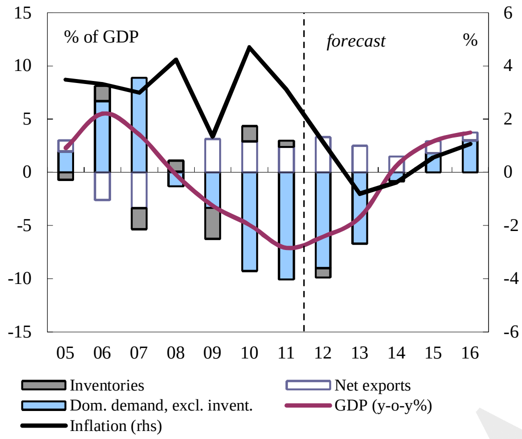
6. **The current forecast projects a further decline in output by 6.0% in 2012.** Relative to the forecast at the inception of the second programme, this represents a significantly larger and more persistent contraction in economic activity. This revision is in line with the September provisional data release on second quarter GDP, reporting a year-on-year fall by 6.3% relative to a fall of 6.5% in the first quarter[1]. Several underlying factors explain these developments. First, confidence has been undermined by strong uncertainty on the political ownership of the programme during the double parliamentary elections in spring, which resulted in delays in the programme implementation and exacerbated speculation about Greece's future in the Eurozone. Second, a weakening world economy has weighed on the export of goods and services. Third, the combined effect of the delays in the implementation of the programme and the related disbursement, as well as tightened credit conditions after a considerable outflow of money from the banking sector, aggravated the contraction in real investment that has declined cumulatively by around 40 % since 2009.

7. **The current forecast also assumes a delay in the recovery, compared to the March review.** Positive quarterly growth is expected to materialise only after mid-2013. This results in an overall further contraction of 4.2% in 2013 and moderate annual growth of 0.6% in 2014**.** This assumes that markets

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

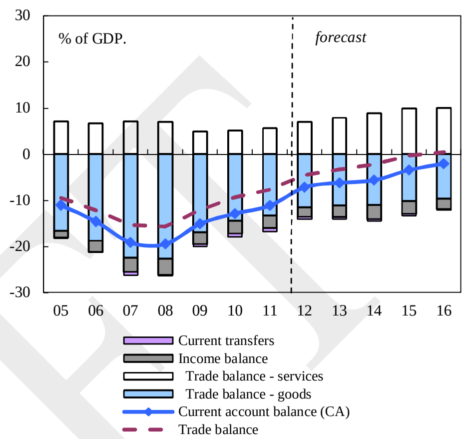
will regain confidence as the adjustment programme is successfully implemented, and government arrears are gradually cleared following the second disbursement, thereby helping to reverse the liquidity squeeze. The forecast is also based on the assumption that falling wages and prices on account of structural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

Graph 2. Real GDP growth and contributions, inflation



Sources : European Commission

Graph 3. Trade and current account balance



Sources : European Commission

Table 2. Macroeconomic scenario, main features (2010-2016)

	2011	2012	2013	2014	2015	2016
Real GDP (growth rate)	-7.1	-6.0	-4.2	0.6	2.9	3.7
Final domestic demand contribution*	-10.1	-9.0	-6.7	-0.8	1.8	3.0
Net trade contribution	2.4	3.3	2.5	1.5	1.1	0.8
Employment (growth rate)	-5.6	-7.9	-2.1	1.4	2.0	3.0
Unemployment rate (percent of labour force)	16.5	22.4	22.8	21.0	19.4	16.7
Compensation of employees, private sector per head	-3.9	-8.9	-9.5	1.9	2.2	2.5
Unit labour cost (growth rate)	-2.4	-8.7	-5.0	-0.4	-1.0	1.0
HICP inflation	3.1	1.1	-0.8	-0.4	0.6	1.1
HICP inflation at constant taxes	1.2	0.2	-1.3	-0.6	0.5	1.1
Current account balance (percent of GDP)	-11.7	-8.3	-6.3	-5.2	-3.4	-2.1
Net borrowing vis-à-vis RoW (percent of GDP)	-9.8	-6.1	-3.9	-2.7	-1.0	0.3
Net external liabilities (percent of GDP)	-120.9	-94.4	-102.5	-105.6	-105.1	-102.5
General Government deficit (percent of GDP)	-9.4	-6.9	-5.4	-4.5	-3.4	-2.0
General Government primary surplus (percent of GDP)	-2.3	-1.5	0.0	1.5	3.0	4.5
General Government debt (percent of GDP)	170.6	176.8	189.4	190.1	184.7	175.7

** Excluding change in inventories and net acquisition of valuables*

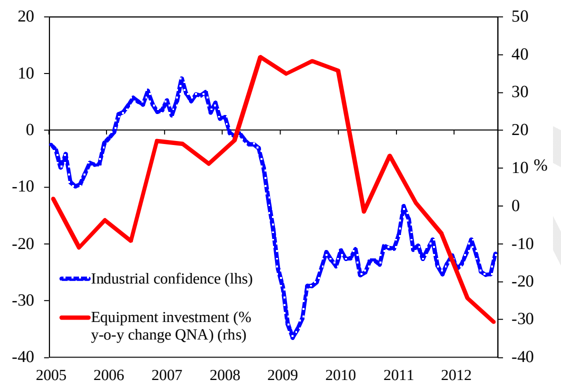
Source: European Commission

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

by 10% in 2012 and 6% in 2013. Government consumption is also set to decline significantly (by 6.2% in 2012 and 7.2% in 2013) reflecting the projected reduction in the public sector wage bill. Pervasive and sometimes very high economic uncertainty and tight financing conditions are curtailing investment and consumption of durable goods (see Box 3). In the medium term, investment and exports are forecast to be important drivers of the recovery.

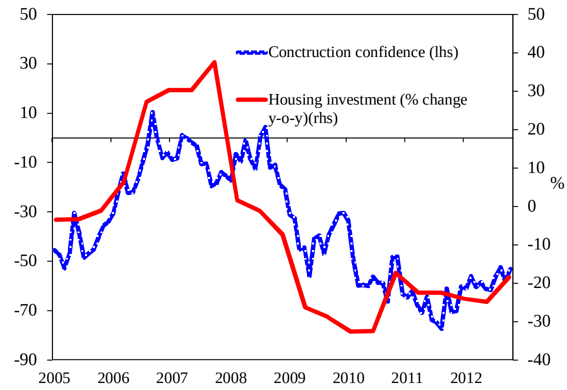
9. **Investment remains subdued, but is expected to accelerate, supported by improved opportunities and regained competitiveness.** In the first half of 2012 investment continued to fall in all asset categories on an overall pace of 20.3%. The biggest contraction took place in equipment (35.1%) and housing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

Graph 4. Equipment investment



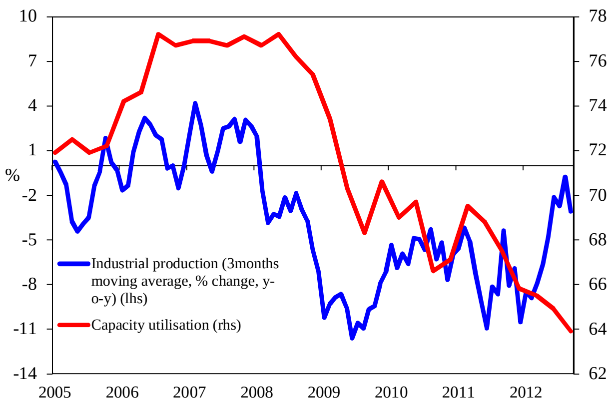
Sources : EL.STAT and European Commission

Graph 5. Housing investment



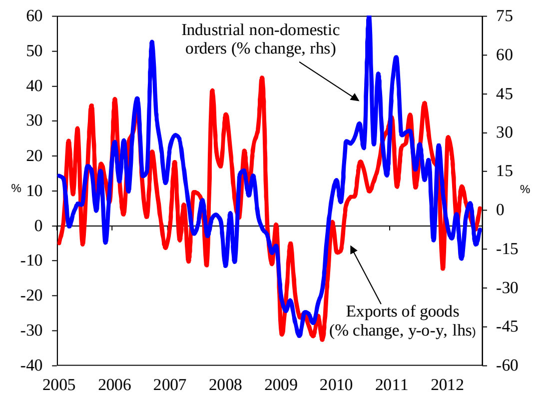
Sources : Bank of Greece and Eurostat.

Graph 6. Industrial production and capacity utilisation



Sources: EL.STAT and Bank of Greece.

Graph 7. Exports and non-domestic industrial orders



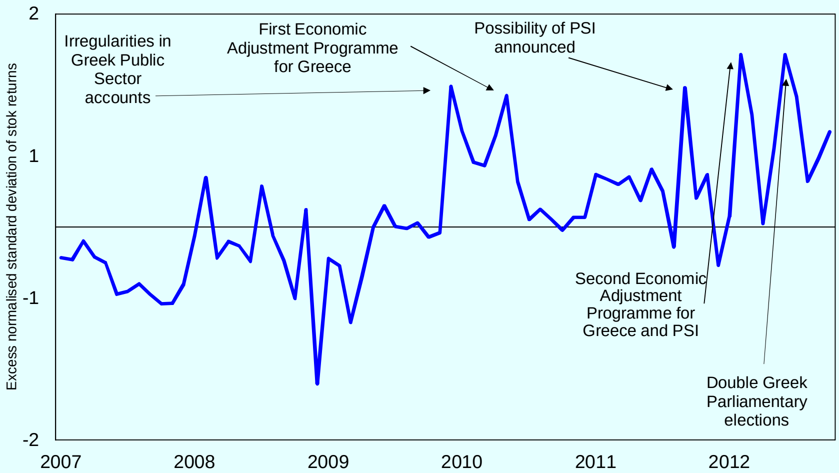
Sources: EL.STAT and European Commission

Box 3. Uncertainty shocks and effects on Greek economic activity

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

Since the onset of the crisis, the Greek economy has been hit by a series of uncertainty shocks. To identify uncertainty shocks specific to Greece, we turn to stock market volatility. An overall Greek uncertainty indicator is constructed by computing a rolling-window 30-day standard deviation of the Athex stock index returns. To isolate Greek-specific shocks, we regress the monthly average of this Greek uncertainty index on its US counterpart and we label the residual as a Greece-specific uncertainty index. The pattern of monthly observations of these indicators (figure 1) reveals that the Greek economy has seen a general increase in economic uncertainty since 2009. This climate of uncertainty is heightened into sharp Greek-specific uncertainty shocks around the dates of major political turbulences.

Graph 3.1. Uncertainty Index for Greece



Source: Athens Stock Exchange and European Commission calculations

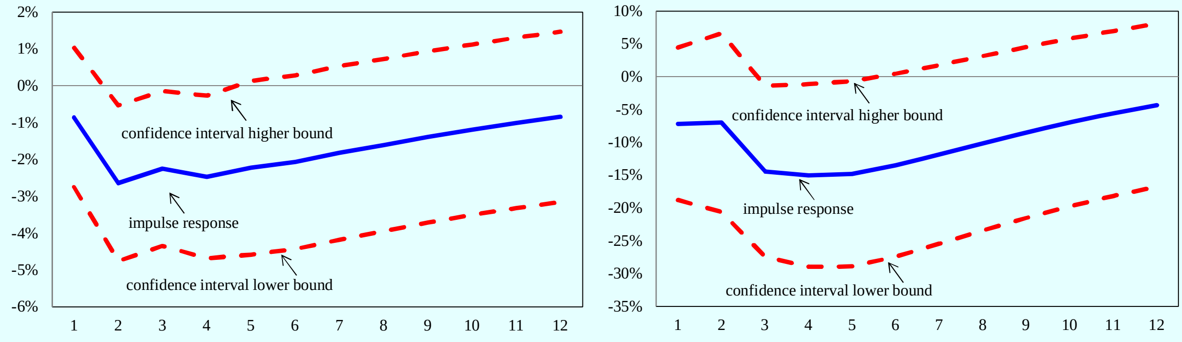
Note: The uncertainty index is computed as daily 30-day rolling -window standard deviation of Greek stock market returns (normalized by average value 2000-2010)

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

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

Graph 3.2. The impact of uncertainty

Industrial production (% change) | **Car registrations (% change)**



Source: OECD Main Economic Indicators and European Commission calculations

Source: OECD Main Economic Indicators and European Commission calculations

References

Nicholas Bloom, 2009. "The Impact of Uncertainty Shocks," Econometrica, vol. 77(3), pages 623-685, 05.

Scott R. Baker & Nicholas Bloom & Steven J. Davis, 2012. "Policy uncertainty: a new indicator," CentrePiece - The Magazine for Economic Performance 362, Centre for Economic Performance, LSE.

IMF World Economic Outlook, Box 1.3. "How does Uncertainty affect Economic Performance?", October 2012

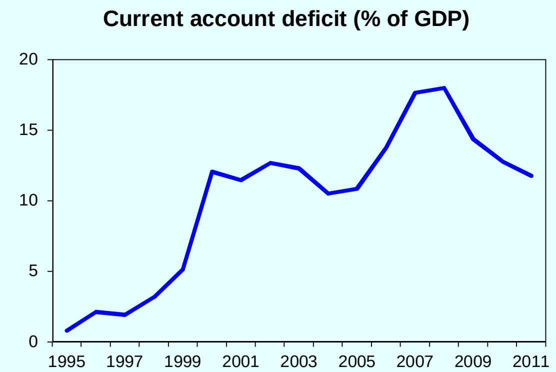
10. **A revival of exports will support further improvements in the trade balance, so far largely driven by a collapse in imports.** This contribution will increasingly be driven by a more significant revival of total exports (with growth rates of 2.7% in 2013 and 4.8% in 2014), rather than by falling imports. In 2011 and 2012, net exports were the sole positive contributors to GDP growth. The sharp reduction in imports reflected domestic demand developments. Overall exports have underperformed compared to expectations (growing by 0.3% in 2011 and expected to grow by 0.8% in 2012) due to weak external demand as well as restricted access to credit. Nevertheless some categories of export goods recorded significant growth rates in 2011, in the range of 10 – 30 %, including metallurgy, refined oil and agricultural products, but these gains were largely offset by weaker exports of services, especially shipping services. In January – August 2012 exports of goods have continued to pick up, reflecting improvements in underlying competitiveness due to falling wages, moderation in inflation developments and advancing structural reforms (see Box 4). However, export of services is likely to remain in negative territory regardless of the better performance of tourist services in the summer months of 2012, reversing a dramatic but ultimately temporary drop in late Spring. Going forward, the forecast is based on the assumption that net exports will continue to contribute positively to growth. In the long run, these developments will contribute to a further opening up of the Greek economy.

11. **The adjustment of the current account deficit is accelerating.** According to Bank of Greece figures (using balance of payments definitions), in the first eight months of 2012 the current account deficit decreased by EUR 9 billion, some 4.5% of GDP compared to the previous year. This represents a clear acceleration relative to the 8.0% year-on-year correction recorded for the same period in 2011. These developments mainly reflect a considerable fall in the non-oil trade deficit, further improvements in the services balance and a substantial reduction in net payments under the income account due to PSI. If the oil bill and net general-government interest payments are excluded, the current account is expected to show a surplus in 2012. In national accounts terms, the deficit is estimated to amount to 8.3% of GDP in 2012 – down significantly from 11.7% in 2011 and 12.8% in 2010. By 2014, the current account deficit is projected to decrease down to slightly above 5.0%, being supported by current inward transfers linked to accelerated absorption of EU structural funds.

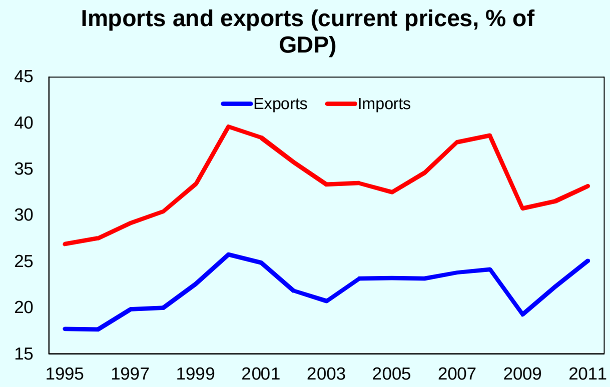
Box 4. The external adjustment continues at significant pace

The debt-fuelled boom of the 2000s led to an unsustainable Greek external position (Graph 1). The current account deficit rose from 0.8% of GDP in 1995 to peak at 18% in 2008. In the same period, the share of imports in GDP increased from 26.9% to 38.6%, while the share of exports in GDP languished at 20-25%. The Greek export base declined as a share of world markets and remained the smallest in the Euro area relative to the size of its economy in 2007.

Graph 4.1. External adjustments

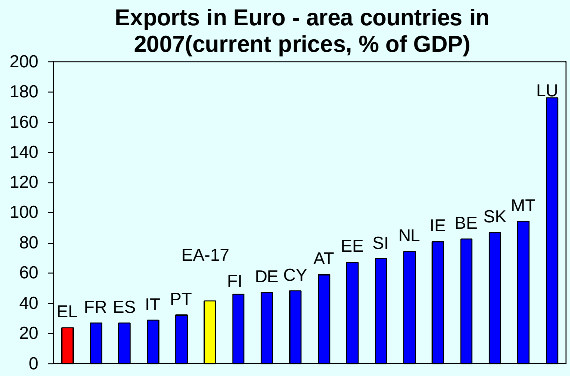


Source: European Commission



Source: European Commission

Source: European Commission



Source: European Commission

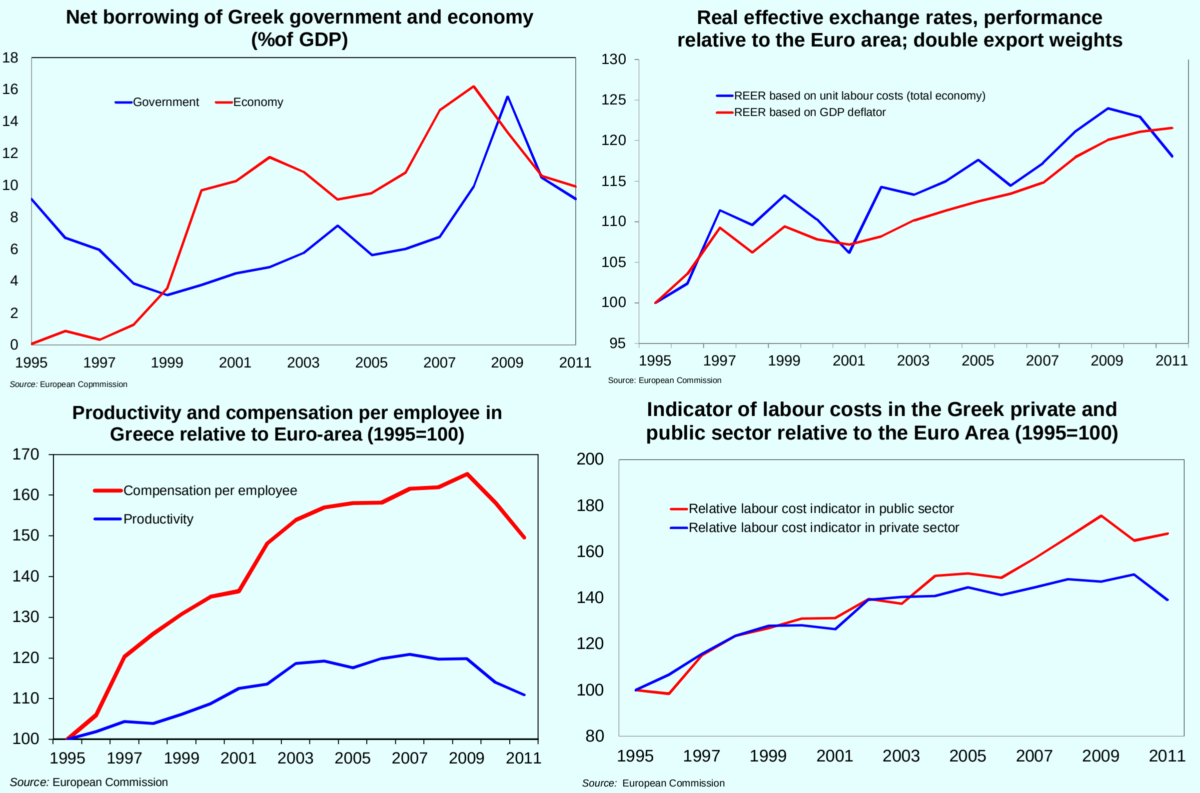
A boom in imports, unmatched by exports, was the primary driver behind the widening of the current account deficit over 2005-2008. The import boom mirrored strong general domestic demand throughout this period financed by easy credit despite growing public and external debt. In turn, this reflected the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

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

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

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

Graph 4.2. Competitiveness indicators



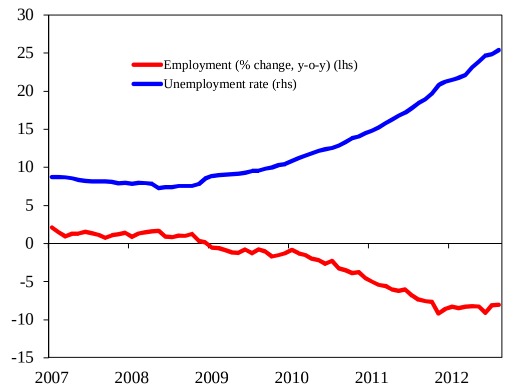
The Economic Adjustment programme aims to create the necessary conditions for strengthening the export base. The impact of previous reforms to improve the business environment under the adjustment programme has already manifested itself in placing Greece among the top ten countries scoring the biggest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

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

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

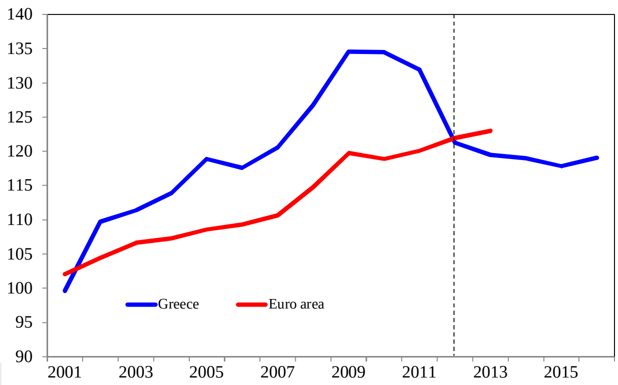
12. **Unemployment is set to remain high in the face of the prolonged recession.** According to the Labour Force Survey, the unemployment rate rose to 23.6% in the second quarter of 2012 (compared to 16.3% in the corresponding quarter of 2011) and employment fell by 8.7% year-on-year. This implies that only 53% of the working-age population were in the labour force. Employment is expected to bottom out in 2013 and to recover only slowly thereafter . In the medium term, this decline is likely to gain momentum, as structural labour market reforms aimed at promoting business and job creation, decentralisation of wage negotiations and flexible forms of employment deliver their full effect, and the general economic recovery gains speed. The forecast projects that unemployment, following the national accounts definition falls to around 19% in 2015 and to 17% in 2016.

Graph 8. Employment and unemployment rate



Source : EL.STAT (Labour force survey; these data may slightly differ from national accounts data which appear in other tables of this report).

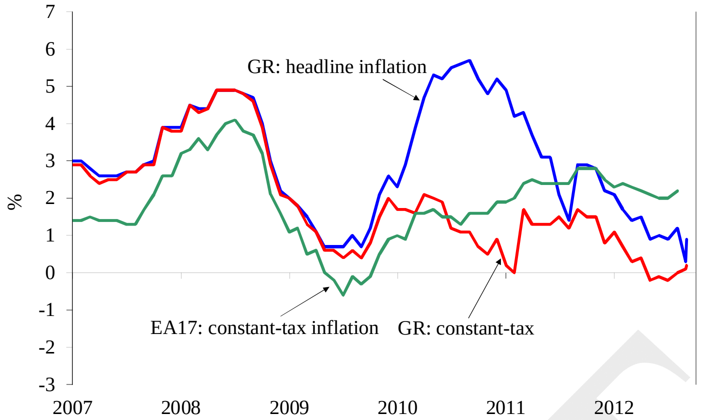
Graph 9. Nominal unit labour cost (2000=100)



Source : Commission services.

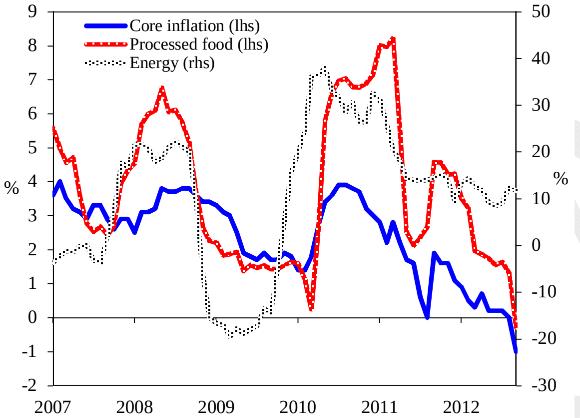
13. **Inflation dynamics are expected to reflect continued wage reductions.** Extensive labour market reforms eventually allowed the severity of the current economic contraction to translate into a significant downward adjustment in wages. Compensation per employee fell by 2.6% in 2010 and 3.4% in 2011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

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

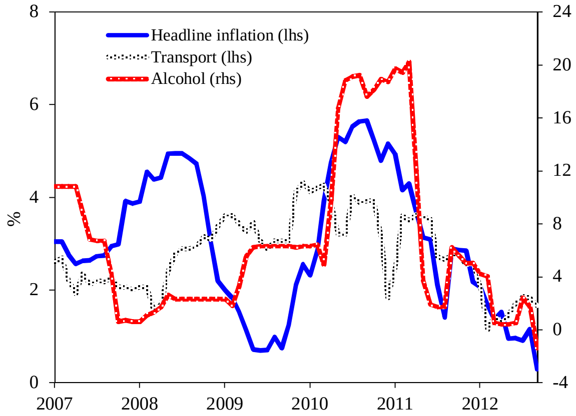


Source: EL.STAT.

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



Source: EL.STAT.



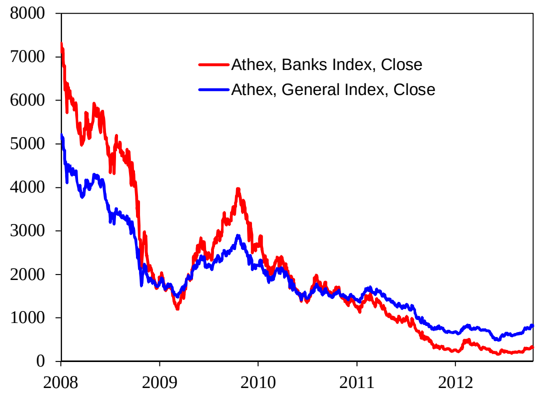
Source: EL.STAT.

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

2.2 FINANCIAL MARKET DEVELOPMENTS

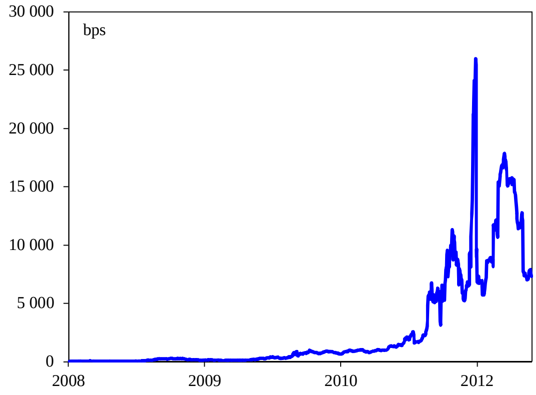
15. **After a successful Private Sector Involvement (PSI) operation in the first quarter of 2012, and glimpses of a return of confidence, the political uncertainty throughout the second quarter weighed heavily on financial market developments.** The two elections increased fears of adverse economic developments, which significantly influenced financial markets. Between April and end-October 2012, yields on 10 year government bonds went up from around 20% to 32%. During the same period, the Athens stock exchange index dropped by more than 30%. Between April and end-October 2012, 5-year CDS prices on Greek sovereign debt increased from 6 877 bps to 7 889 bps.

Graph 12. Athens Stock Exchange Indices



Source : ECOWIN

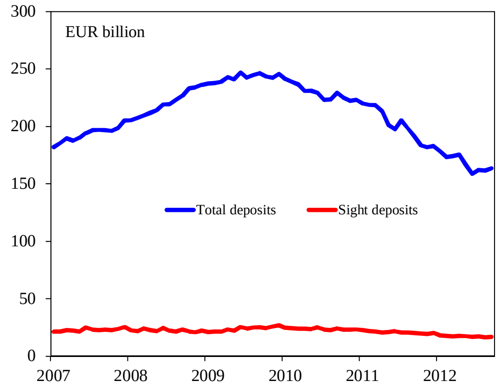
Graph 13. Greek CDS



Source: Bloomberg

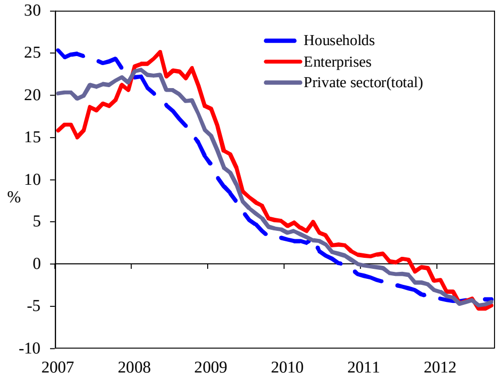
16. **The deleveraging in the banking sector continues, the liquidity position of banks remains tight.** Until end-August 2012, the total balance sheet of the Greek banking sector contracted by 5% year-on-year. Domestic deposits continued falling from their peak in 2009, plummeting during the dual-electoral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

Graph 14. Bank deposits



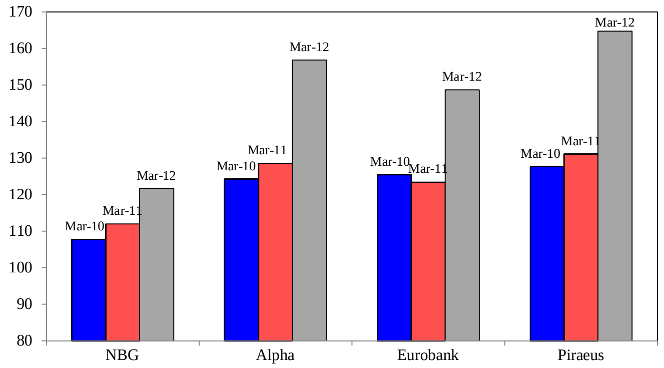
Source: Bank of Greece

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



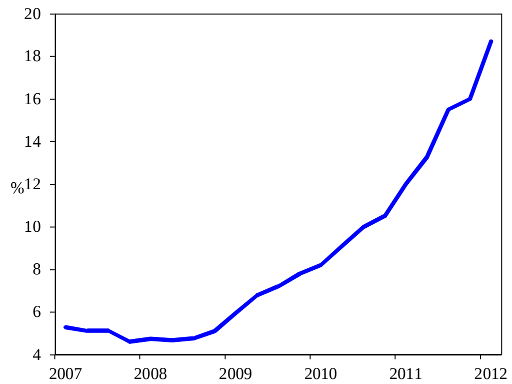
Source: Bank of Greece

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



Source : Banks' financial statements

Graph 17. Non-performing loans ratio



Source: Bank of Greece

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

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

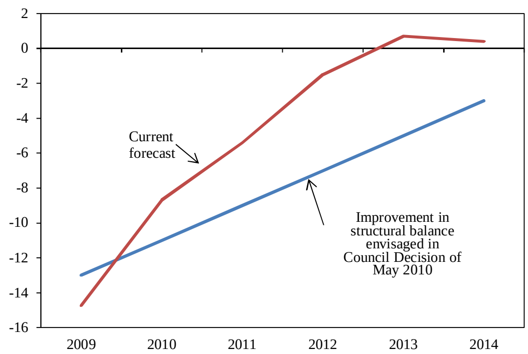
3. PROGRAMME IMPLEMENTATION

3.1. FISCAL POLICY PERFORMANCE

3.1.1 Fiscal performance under the programme

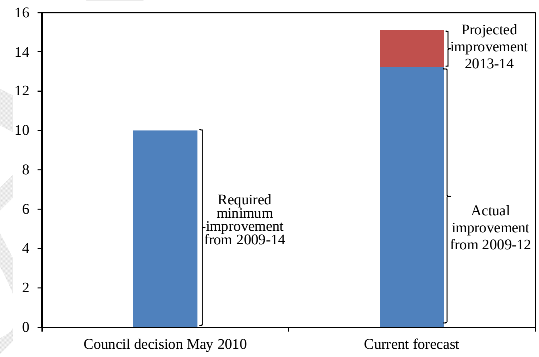
19. **Greece has come a long way in correcting the fiscal imbalances since the outset of the crisis in 2009.** The general government fiscal deficit has been reduced from 15.6% in 2009 to 9.4% of GDP in 2011. However, the underlying fiscal effort is much larger when taking into account the impact of the deep economic recession that has taken a serious toll on the Greek public finances over the past three years. In fact, the fiscal effort undertaken by Greece since the start of the adjustment programme is actually much bigger than anticipated in the initial Council decision in May 2010. At that time, the required improvement in the structural budget balance was 10% of GDP over the period 2009-14. However, as can be seen from the figure, Greece has already improved its structural budget balance by more than 13% of GDP.[2] With the implementation of the additional large package of measures foreseen for 2013-14 (described in later in the report), Greece would fulfil the requirement by an even larger margin.

Graph 18. Structural budget balance – 2009-14 (% of GDP)



Source: Commission services.

Graph 19. Improvement in structural balance – 2009-14 (% of GDP)



Source : Commission services.

3.1.2. Fiscal performance in 2012

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

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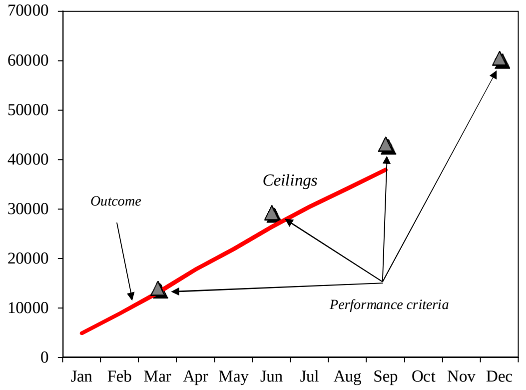
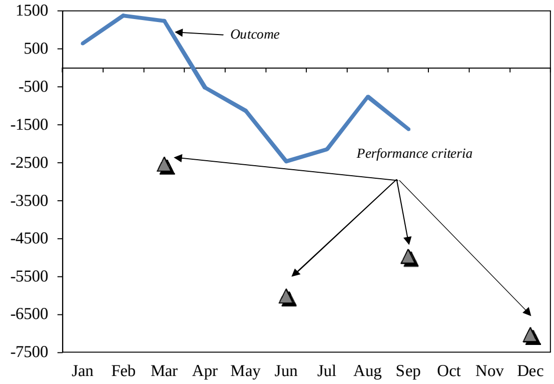
[2] The structural budget balance relies on output gap estimates which are difficult to ascertain during periods of major structural changes. While there may be uncertainty about the level of the structural balance, the change over time is less sensitive to the assumption on potential output. Throughout this chapter, the common EU methodology is used (see European Economy Economic Papers 247, March 2006).

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



Source: GAO and Commission services.

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



Source : GAO and Commission services..

Table 3. Fiscal quantitative performance criteria (EUR billion)

	end Mar 2012		end Jun 2012		end Sep 2012	
	Data	Criterion	Data	Criterion	Data	Criterion
Performance criteria						
General government primary cash balance	1.2	-2.5	-2.5	-6.0	-1.8	-5.0
State primary spending	13.1	13.9	26.4	29.2	37.9	43.1
Ceiling of the accumulation of new domestic arrears by Hospitals and Line Ministries	0.5	0.0	0.7	0.0	0.9	0.0
Central government debt	289.9	340.0	308.0	340.0		340.0
New guarantees granted by the central government	0.0	0.0	-0.2	0.0		0.0
Indicative target						
Ceiling on the accumulation of new domestic arrears by the General Government	0.8	0.0	1.9	0.0		0.0

Source: Commission services.

21. **The performance criterion and indicative target on non-accumulation of arrears of line ministries and hospital and general government by end-June and end-September were missed.** On the basis of available data the stock of arrears to suppliers at end-September amounted to almost EUR 8.3 billion, around EUR 1.6 billion more than at the beginning of the year.[3]. The accumulation of arrears mainly took place in the health and defence sectors. It can be largely explained by weak budget planning and insufficient spending control in the main health fund.

22. **The overall ESA-deficit in 2012 is expected to be better than the 7.3% of GDP outcome included in the second programme.** The primary deficit target, on which there is particular focus in the programme, has been revised from 1.0% to 1.5% of GDP in light of the deeper-than-expected recession. In order to meet the revised target, the government retroactively lowered wages for special professions (judges, police, defence and university professors) from August 2012. Furthermore, measures were taken to reduce the overspending in the health sector and minimize the negative carry-overs for 2013. Moreover, the Public Investment Budget was reduced by a considerable margin. The underlying fiscal effort in 2012 remains roughly as large as projected in the second programme. Despite a higher primary deficit, smaller-than-expected

[3] At end-2011, the stock of arrears increased by about €1 bn. following discovery of additional accounts payables of the 4 individual public health funds that were merged into one single public health fund (EOPYY) at the beginning of the year.

interest payments by almost 1.0% of GDP mean the government deficit will only amount to 6.9% of GDP, or 0.4% of GDP better than the target.

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

The downturn in Greece has been much deeper than anticipated when the first adjustment programme was adopted in May 2010. This has led to lower revenue collection and falling tax bases. Hence, while the headline fiscal balance is expected to improved from 15.5% of GDP in 2009 to 6.9% of GDP in 2012, the underlying fiscal effort required to achieve this result has in fact been considerably greater. The scale of this improvement has important implications for the medium-term fiscal outlook once economic recovery occurs.

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

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

While there are different estimates of the output gap, there is general consensus that the output gap is currently significantly negative in Greece. This implies, whatever the method, that the cyclical adjusted balance must in fact be considerably better than the current headline deficit of 6.9% of GDP. Once economic recovery occurs and the output gap begins to narrow, an additional improvement of the headline fiscal balance towards 3% of GDP can be expected, owing to stronger revenue growth given the expansion in tax bases. This should assist Greece in complying with the Council's Excessive Deficit Procedure recommendation and help support the debt-reduction objective.

3.1.3. Fiscal outlook in 2013 and subsequent years

23. **The fiscal adjustment path has been revised to take into account the deeper-than-expected economic recession.** Maintaining the original adjustment scenario of the second programme would have implied a need to find measures for the period 2013-14 amounting to EUR 20.7 billion compared with EUR 11.5 billion envisaged in March. The increase in the adjustment needs to achieve the nominal primary balance targets primarily results from the deterioration in the macroeconomic forecast. Nevertheless, incomplete programme implementation, in particular in the area of measures targeting tax evasion, as well as reviews of social programmes and administration structures, also play significant role.

24. **The two-year extension of the adjustment period will mitigate the impact on the economy, while securing a sustainable fiscal position.** Under the revised adjustment path the primary balance targets have been set at 0.0%, 1.5%, 3% and 4.5% of GDP for the four-year period 2013-16, respectively. The measures needed to reach the revised primary balance targets amount to EUR 9.2 billion and EUR 13.5 billion in 2013 and 2014, respectively, in cumulative terms. The revised path for the primary balance means that the general government budget balance will fall below 3% of GDP in 2016, two years later than originally envisaged.

Table 4. Primary Balance and GG Balance 2013-2016

	2012	2013	2014	2015	2016
March review targets					
General government balance	-7.3	-4.7	-2.2		
Primary balance	-1.0	1.8	4.5		
Revised targets					
General government balance	-6.9	-5.4	-4.5	-3.4	-2.0
Primary balance	-1.5	0.0	1.5	3.0	4.5

Source: Commission services.

25. **The extension of the adjustment period should not be seen as a way to reduce the effort, which would weaken the credibility of the programme.** The fiscal effort undertaken to achieve the target in 2013-14 remains very large and heavily frontloaded. Even though the primary balance is only expected to improve by 1.5% of GDP, this is in itself a large change in the face of a further deepening of the economic recession.

26. **The projections underlying the programme point to a need for further fiscal adjustment beyond 2014.** During this period a few existing measures are expected to expire and EU structural funds are going to decline in the transitioning to the new programming period. In the baseline scenario, additional adjustment needs could be up to EUR 4 billion in 2015-16. However, the projections are inherently uncertain and depend to large extent on the strength of the recovery as well as yields from the programme measures implemented in proceeding years.

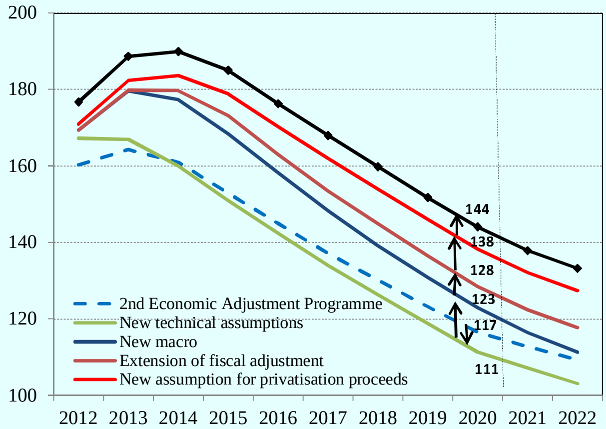
Box 6: Debt sustainability assessment

[this box is preliminary and incomplete, inter alia as the final sustainability assessment can only be finalised after the outcome of the DBB is known, and as stress tests are only meaningful at that stage]

This box assesses the sustainability of the Greek sovereign debt in view of the latest macroeconomic developments and considering the measures agreed by the Eurogroup on 26 November. The Greek government debt-to-GDP ratio is projected over the next decade, on the basis of a number of assumptions on real and nominal growth, primary surplus and other financial transactions not captured in the ESA deficit, such as privatisation receipts and the recapitalisation of banks, as well as on interest rates on official and market financing.

The outlook for debt sustainability has deteriorated significantly compared to the projections at the time of the adoption of the second programme in March. While new information on technical factors (mainly the cost of the new EFSF loans) has slightly lowered the debt trajectory (Chart 1), this has been more than compensated by the deterioration in the macroeconomic projection that has raised the debt-to-GDP ratio in 2020 by 11½ percentage points. Moreover, the extension of the fiscal adjustment period implied a further deterioration of the debt-to-GDP ratio in 2020 by another 5½ percentage points. Updated expectations regarding privatisation proceeds increased the debt-to-GDP ratio in 2020 by a further 10 percentage points. Finally, the recent revision of the level of nominal GDP in 2011 resulted in an additional increase in the debt-to-GDP ratio in 2020 by 6 percentage points

Graph 6.1. Debt to GDP ratio



Source: European Commission calculations

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

The euro area Member States have responded with a series of initiatives to ensure sufficient financing for the programme and strengthen the sustainability of Greek government debt, decided at the Eurogroup meeting on 26 November:

- **Foregoing the decline in the stock of T-Bill:** The programme had foreseen a reduction of the T-Bill stock but Greece has also shown over the last year that it could support a higher than foreseen T-Bill stock. The new package therefore foresees foregoing this reduction of the T-Bill stock and postponing it until after the programme. This will reduce the financing needs of Greece by €9 bn in the period 2012-2014.
- **Postponing part the build-up of the Treasury cash buffer:** The programme had foreseen a build-up of the Treasury cash buffer by €5 bn; it was included in the March programme in order to provide some breathing room to the Greek Treasury. It is considered that the postponement of the Treasury cash buffer until after the expiration of the programme could be envisaged provided that a sufficient buffer is kept. The build-up of the cash buffer is now foreseen to amount to € 1.5 bn (5bn-3.5 bn) during the 2012-2014. It would continue to be increased by an additional amount of €2.0 bn in the 2015-2016 period.
- **Bailing in subordinated debt holders:** Under the second programme, the four largest Greek banks are scheduled to receive a further EUR 23 billion in Q1/2013. These largest Greek banks are expected to conduct further liability management exercises (LMEs) on their hybrid capital instruments. Data provided by the Bank of Greece suggest that this exercise could yield EUR 600 million in terms of extra CT1 capital, reducing financing needs under the programme.
- **Debt-buy-back (DBB) of new and old GGBs:** A debt buy-back operation by the Greece would allow capturing a substantial discount on Greek government bonds (GGB), thereby reducing public debt substantially. The total of nGGBs amount to €62bn (which include the €15bn held by Greek banks and €8bn held by Greek pension funds). The overall impact of a DBB would strongly depend on the size of the operation, the participation rate and the actual markdown to be realised in such an operation. The DBB will also address holdouts of old GGBs (close to €4bn), Greek and foreign, which chose not to participate in the PSI operation of March 2012. The Eurogroup decided that the purchase price will not be above the realised prices of 23 November 2012.
- **Reduction of GLF interest margin:** The first Greek programme was financed by bilateral loans from Member States pooled in the so-called Greek Loan Facility (GLF). The GLF interest rate is now based on the Euribor 3-months rate plus a margin of 150 basis points. Euro area Member States agreed to lower the margin by 100 basis points from 150 basis points to 50 basis points. Euro area Member States under a full financial assistance programme are not required to participate.
- **Cancellation of the EFSF guarantee commitment fee:** Since the second programme, Greece is being financed by the EFSF, which charges a lending rate equivalent to its borrowing costs plus a guarantee commitment fee and a service fee in order to constitute a reserve and to cover its operational costs. The EFSF will no longer charge a guarantee commitment fee on Greece which will save a total of €2.7 bn over the entire period of EFSF lending to Greece.
- **Deferral of EFSF interest rate payments:** Greece faces important interest rate charges due to its borrowing from the EFSF. Deferring the payment of these interest rate charges will allow Greece to reduce substantially its

financing needs during the period of deferral which would amount to 10 years. This operation will not create additional costs for the EFSF since Greece will have to pay interest charges on the deferred interest.

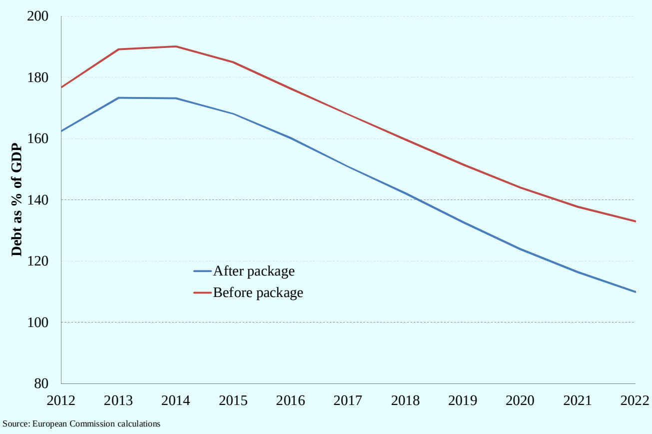
- **Maturity extension of GLF and EFSF loans:** Though the maturities of both loans by the GLF and the EFSF are long-term, this still creates an amortisation hump for Greece in the 20s. Starting from 2022, Greece faces large repayment obligations which could hamper its return to the market. Extending the GLF and EFSF maturities further allows to smoothen the debt repayment profile. It does not per se have an impact on the reduction of debt by 2020 or 2022. The Eurogroup decided on 26 November 2012 to extend the maturities of the GLF and the EFSF by a further 15 years.
- **SMP profits:** The holdings of GGBs by the Eurosystem under its SMP programme generate profits for the Eurosystem NCBs. These profits arise from the payment of coupons on these bonds as well as the amortisation of the discount to par at which these bonds were acquired by the Eurosystem. It is estimated that the future profits from such SMP holdings by NCBs would eventually amount to about € 10 billion. These profits, like other Eurosystem profits which are not allocated to reserves or provisions of the ECB balance sheet, ultimately accrue to NCBs and, then in line with the accounting and profit distribution rules of the NCBs to Member States. Indeed, profits are distributed among national central banks in proportion to each country's share in the ECB capital. The package foresees that Member States pass on to Greece an amount equivalent to such profits accruing to each NCB. Hence the commitment to transfer profits lies on each Member State.
- **Other contingency measures:** Euro area Member States will consider further measures and assistance, if necessary, for achieving a further credible and sustainable reduction of Greek debt-to-GDP ratio, when Greece reaches an annual primary surplus, as envisaged in the current MoU. These measures will be, conditional on full implementation of all conditions contained in the programme, in order to ensure that by the end of the IMF programme in 2016, Greece can reach a debt-to-GDP ratio in that year of 175% and in 2020 of 124% of GDP, and in 2022 a debt-to-GDP ratio substantially lower than 110%.

The Eurogroup stressed that the above-mentioned benefits of initiatives by euro area Member States would accrue to Greece in a phased manner and conditional upon a strong implementation by the country of the agreed reform measures in the programme period as well as in the post-programme surveillance period. The details of such conditionality still have to be developed by the troika.

These initiatives will change the profile of the debt trajectory significantly, such that, together with some additional contingency measures still to be decided, the debt ratio would reach of 124 % of GDP in 2020 and substantially below 110% in 2022.

Graph 6.2. Debt to GDP evolution before and after the debt-reducing initiatives agreed by the Eurogroup on 26 November 2012

[tentative, to be refined when further technical work is completed**]**



Source: European Commission calculations

3.2. Fiscal strategy 2013-2016

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

Table 5. Medium-term deficit ceilings

	2013	2014	2015	2016
Deficit ceilings (EUR million)	10 034	8 372	6 482	3 927
Indicative as percentage of GDP	5.4	4.5	3.4	2.0

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

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

- **Permanent reductions in the public sector wage bill**. After the substantial increase observed in the 2000-2009 period and following the significant cuts on wages operated in the past (see Box 7), the government is now planning a further series of permanent reductions in wages of about EUR 1.3 billion (0.7% of GDP) over 2013-14. This category of savings represents 10% of the overall fiscal package for 2013-2014 (see graph. 23). The rationalization of the wage bill of employees under special wage regimes (judges, diplomats, doctors, professors, armed forces and police, airport personnel, and general secretaries, will be carried out through progressive cuts in the monthly wages with effect from August 1, 2012 (see text table). These cuts will be then complemented in 2014 by the elimination of automatic wage promotions for the armed forces expected to yield yearly at least EUR 88 million. Another important measure is the elimination of seasonal bonuses of employees at the state and local governments and in legal entities of public and private law , accompanied for the 2013-2016 period by the suspension of the payment of the performance bonus in all the public sector.

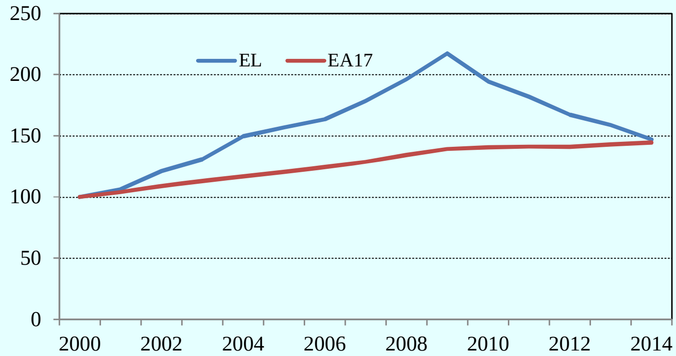
Progressive cuts on Special Wage Regimes

Monthly wage (EUR)	Percentage of the cut
< 1,000	2
1,000 -1,500	10
1,500 - 2,500	20
2,500 - 4,000	30
> 4,000	35

Box 7. Pre- and post-Adjustment Programme Trends in the Public Sector Wage Bill

The reduction in the size of the public sector wages and employment under the Adjustment programme aims to correct the exceptionally strong pre-2009 growth in the public sector wage bill. The public sector wage bill in Greece grew significantly faster compared to the other categories of expenditures between 2000 and 2009 and it was considerably higher than the average in other euro area Member States (see graph 1)

Graph 7.1. Nominal Wage Bill Greece vs EA17 (2000=100)



Source: European Commission

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

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

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

- **Increased sustainability of the pension system, by reducing the cost of pensions and bringing forward the effects of the pension reform.** The pension measures are expected to generate savings of about EUR 5.3 billion over 2013-14, about 2.8% of GDP. They represent about 2/5 of the overall package for 2013-2014 (see graph. 23). These measures complete the series of reforms started in 2010 with the pension reform and needed to offset the very rapid increases in pensions observed in the 2000-2009 period. The general pensionable age will rise from 65 to 67 with proportionate changes in the age limits for almost all categories of retirees, thus bringing forward an element of the 2010 pension reform that was originally expected to start in 2015. All the seasonal bonuses on main and supplementary pensions will be eliminated, while the monthly amount of main and supplementary pensions per beneficiary will be reduced progressively (see text table). There will also be a reduction in new lump-sum benefits for public employees and for all SSFs. Pensions for special wage regimes will also fall following cuts in wages and the elimination of automatic wage promotions. Other measures include an increase of healthcare contributions for farmers, reductions of pensions for elected staff, the introduction of means-testing of pensions for specific categories of beneficiaries, the elimination of special pension benefits of trade unionists and cross-checks to remove ineligible pension benefits.

Progressive cuts on pensions

Monthly pension (EUR)	Percentage of the cut
< 1,000	0
1,000 -1,500	5
1,500 - 2,000	10
2,000 - 3,000	15
> 3,000	20

- **Cost reductions and efficiency improvements in healthcare including pharmaceutical expenditure.** Cost savings in pharmaceuticals spending make up some 2/3 of the overall reductions in healthcare amounting to about EUR 1.0 billion (0.6% of GDP) over 2013-14. Savings stem from further development of incentives and obligations to use generic medicines, a revised co-payment structure for medicines exempting only a restricted number of products related to specific therapeutic treatments, the regular revision of drugs' prices based on the three EU countries with the lowest prices, and the application of automatic claw-back mechanism to pharmaceutical producers. The latter will guarantee that the outpatient pharmaceutical expenditure does not exceed the targets of EUR 2 440 million in 2013 and EUR 2 000 million in 2014, to be in line with the overall target of about 1.0% of GDP by 2014. Reductions in hospitals' expenditures, increase in co-payments in hospitals and a fee on prescriptions from 2014 onwards and the streamlining of the hospital network will also contribute to the expenditure reductions.

- **Cost reductions and efficiency improvements in education** by at least EUR 86 million in 2013, and additional EUR 37million from 2014 onwards (0.1% of GDP in 2013-14) will be achieved through improvement in efficiency which will translate into lower grants to entities outside the General Government for education, merger of universities and reduction in expenses for central and regional Units.

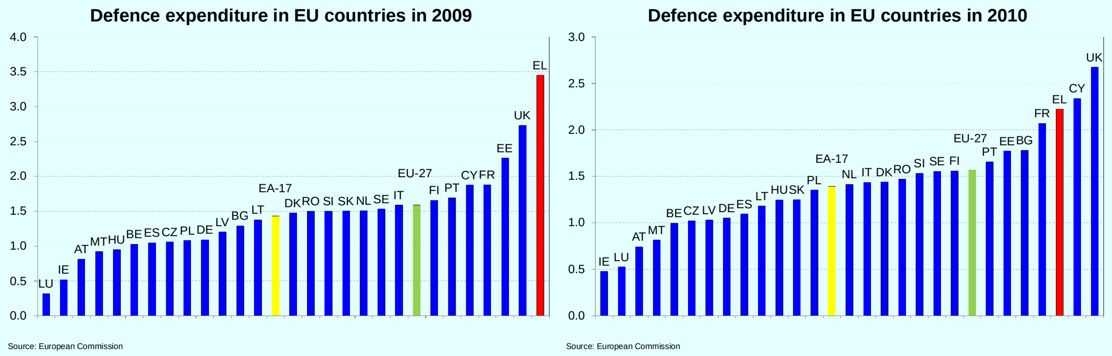
- **Measures have been taken to reduce the operational expenditure of the government.** Measures of about 239 million in 2013 and additional EUR 225 million in 2014 amounting to about 0.5 billion (0.3% of GDP) include the gradual implementation of e-procurement for all public administration, 25 percent reduction in discretionary non-wage spending, reduction in subsidies to internal ferry boats and in grants to Extra-budgetary Funds outside the General Government, elimination of grants to farmers' trade unions linked to assistance in applying for EU financial aid and lowering of the Green Fund spending ceiling.

- **Reducing and re-profiling operational defence-related expenditure.** The cuts in 2013-2014 in military procurement equals to about EUR 340 million come in addition to reductions in military equipment procurement already implemented in the past. Other measures include a reduction in operational expenditures through closure of military camps and a reduction of the intake into military academies. Savings for about EUR 400 (0.2% of GDP) are expected over 2013-2014.

Box 8. The contribution of defence expenditure in fiscal consolidation

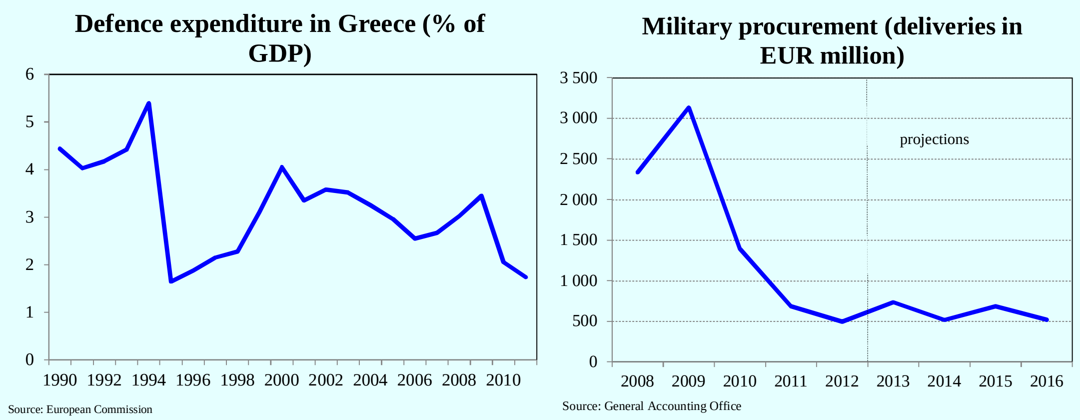
The geo-strategic peculiarities of Greece traditionally led to very high expenditure in defence. According to Eurostat data, military spending had even reached 5.4% of GDP in 1994, before easing down in the next years till the end of the '90s. In 2000 it increased again to 4.0%, while in 2009, just before the First Economic Adjustment Programme, it reached 3.9%. From 2000 till 2009 Greece steadily had the highest defence expenditure in terms of GDP between the 27 member states (see Graph 8.1).

Graph 8.1. Defence expenditure in EU countries (% of GDP)



As part of the implementation of the economic adjustment programme, significant cuts were made in military spending (without affecting the defence capability), as in all other categories of expenditure. Defence expenditure already in 2010 was reduced by 1.2% of GDP, to a level of 2.2% of GDP, thereby placing in 2012 Greece third among the 27 member states in terms of overall defence expenditure. Further cuts of 0.5% of GDP in military spending were adopted in 2011 and more is being implemented in the context of the MTFS 2013-16. In more than one occasion the media focused their attention on the military procurement in Greece pointing out the rather high level of these expenditure for a programme country facing social and economic hardship. This view is no longer supported by factual evidence since 2010. Accrual data and projections on deliveries for military procurement sharply and steadily declined from 2009 onwards (Graph 8.2) because of reductions adopted in the past and throughout 2013-16 due to further reductions described above. Military operational expenditures and wages and pensions for armed forces are also expected to decline by respectively 62% and 41% between 2009-2016, because of decisions adopted with the previous MTFS, the additional cuts included in the inception of the second programme and the further reductions included in the 2013-16 MTFS. This does not mean that further rationalisation of expenditures could not still be achieved but it requires an increase of the use of e-procurement and the abolition of the mandatory military service.

Graph 8.2. Defence expenditure in Greece



- **Promoting savings in and stronger monitoring of state-owned enterprises (SOEs),** through increase in revenue, reduction in transfers to SOEs outside the General Government, operational and personnel expenses (through the harmonization of the wage grid of all state-owned enterprises of public law with the one in place in the rest of the public sector), for a total amount of more than EUR 350 million over 2013-14 (0.2% of GDP). In order to ensure the achievement of those savings, a new monitoring and enforcement framework has been introduced by 2013 that will fix specific targets for the financial results of each SOE and impose sanctions to enforce and prevent any deviations from the target.

- **The rationalisation of social benefits (other than pensions) is expected to deliver savings for about EUR 300 million (0.2% of GDP) over 2013-14.** The measures adopted (see table below) are aimed at improving the targeting and actual impact of social benefits on lower-income households, in line with the recommendations delivered by the technical assistance partners (OECD). The measures strengthen the requirements to receive social assistance while improving their targeting to the most vulnerable sectors of society. The package includes also the introduction of two new social programmes aimed at cushioning the impact of high unemployment rates and contraction in disposable income on the population.

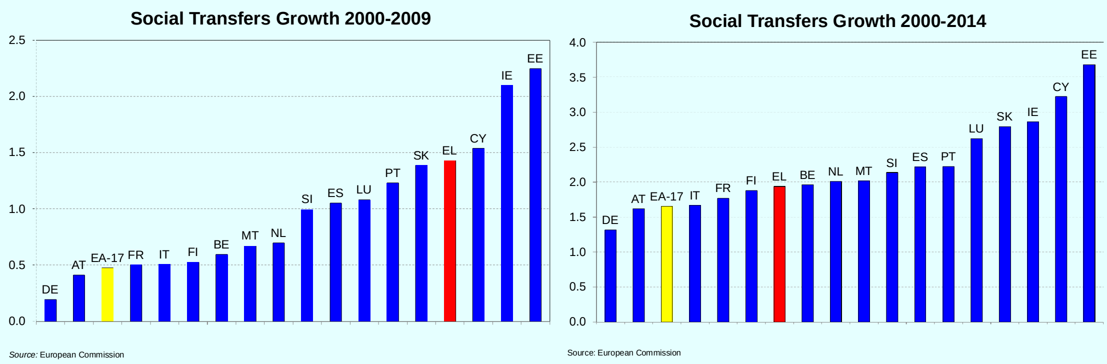
Table 6. Rationalization of social benefits
(in percent of GDP)

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

Box 9. Pre- and post-programme trends: growth rates in social transfers

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

Graph 9.1. Social transfers



- **Reductions in state transfers to local governments,** through cuts in transfers for ordinary expenses and investment of local governments for a total of EUR 220 million over 2013-14. In order to enforce the achievement of these savings, an internal stability pact based on balanced budgets is strengthened by putting in place a system of monitoring municipalities' expenses, setting economic disincentives in case of deviations from the intra-year targets, and removing the possibility for deficit financing. Savings expected are of at least EUR 100 million in 2013 and additional EUR 120 million from 2014 onwards (0.1% of GDP over the period 2013-14).

- **Reductions in capital expenditure** (domestically-financed public investment, and investment-related grants) for a total of EUR 300 million over 2013-2014 (0.2% of GDP). To reduce the negative impact on the GDP of those cuts, the government has committed to cut projects with lower value added and especially those less capital-intensive.

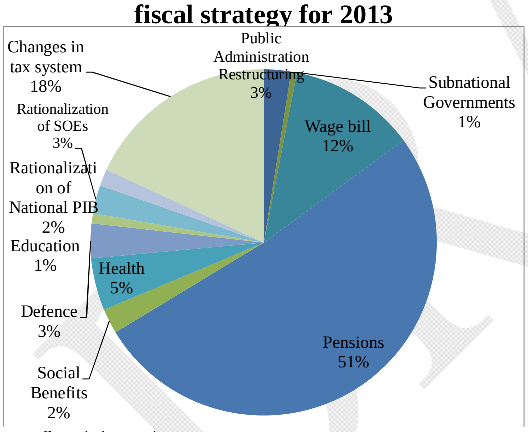
- **Increases in taxes, aimed at addressing existing distortions, and a comprehensive reform of direct taxation and the tax administration** with the aim of collecting EUR 1 668 million in 2013 and EUR 1 820 million from 2014 onwards (1.9% of GDP**)**. This set of measures represents about ¼ of the overall package. This includes increases in the fee for lawsuits, an increase of tax on ship-owners' assets, reduction of VAT refunds for farmers, reduction of diesel excise duty subsidy provided to farmers, equalization of the excise tax on LPG and motor diesel oil by raising the LPG tax, equalization of social security contributions by raising the ceiling for employees first employed before 1993 to that of employees first employed after 1993, a reform of tobacco excise taxation, imposing 30 percent taxation on OPAP's gross gaming revenue, 10 percent on off-line lottery winnings and increase of the tax rate on savings interest from 10 up to 15 percent. A major income tax reform is being introduced which should produce savings of almost EUR 1.6 billion in 2014 (see below section 3.3.2). The reform of the tax administration should also support stronger tax collection (see section 3.3.3).

Table 7. Fiscal measures in the MTFS 2013-14

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

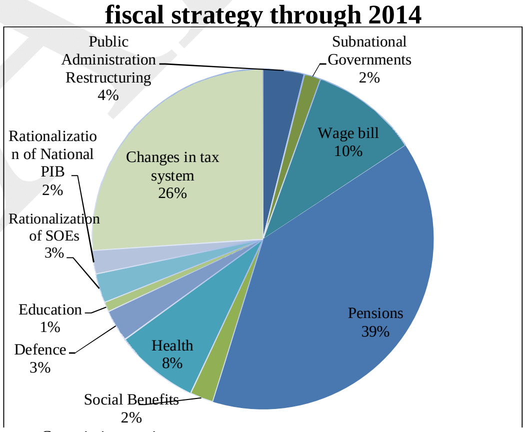
Source: Commission services.

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



Source: Commission services

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



Source: Commission services

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

Box 10. How credible is the new MTFS for 2013-16?

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

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

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

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

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

Time profile of MTFS adjustment measures and its composition

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

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

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

31. **Despite the relative robustness of the fiscal package, the risks to the programme remain high.** Whilst the macroeconomic scenario is considered prudent with a balance of upward and downward risks, considerable uncertainties remain concerning the exact timing of the expected rebound in domestic business confidence and concerning the external environment. Programme implementation risks relate in particular to the implementation of a major package of measures during a severe recession while the society is already strained by the effort so far, and ensure that budgetary commitments are fully delivered.

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

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

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

33. **To further limit risks, fiscal institutional framework needs to be strengthened to enhance the credibility of the programme and meet fiscal targets.** One way is through the early implementation of the EU's Fiscal Compact (see box 11). On 17 November 2012, the Council of Ministers adopted an act (which has been converted to Law on 18 November**)** aiming at strengthening the Budget execution and enhancing the sound fiscal management**.** This act introduces: (i) Memoranda of Cooperation between the Ministry of Finance and the other Ministries or between the Ministries and managers of the supervised entities of the broad general government sector, to be signed by 31 December of each year; (ii) an internal stability pact for local government based on a balanced budget constraint and including corrective and sanctioning mechanisms as automatic cuts in expenditures to be applied as a rule when targets are expected to be missed; (iii) a strengthened system to monitor monthly budget execution for state-owned enterprises (SOEs) with sanctions for those SOEs who do not respect the agreed targets; and (iv) a reinforced centralisation of budget planning and implementation strengthening the coordination powers of the Government Accounting Office (GAO) towards the General Directorates Financial Services of the line ministries. The Act also provides for monthly submission of the budget execution programme and actual execution to the supervising Director General of Financial Services and the GAO (depending on the size of their budget). The Act also allows the Ministry of Finance to take corrective measures throughout the year against all the entities (other than SOEs and LGs) failing to comply with their budgetary obligations, including the possibility to bring them under the direct supervision of the Ministry of Finance.

Box 11. The EU's Fiscal Compact

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

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

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

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

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

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

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

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

34. **Within a comprehensive approach to safeguard the delivery of fiscal commitments, key areas to be enhanced are also corrective and sanctioning mechanisms, transparency, accountability, oversight and lastly debt servicing.** In this respect, additional institutional improvements are necessary. These include inter alia: strengthening HRADF's governance and independence through quarterly automatic correction mechanisms in the privatisation process, should there be slippages in the targets and reactivating the operation of the existing Parliamentary Budget Office by strengthening its reputation, independence and technical competence towards a fully-fledged fiscal council (e.g. provision/endorsement of forecasts for the budget preparation, monitoring of compliance with budgetary targets and fiscal rules, provision of independent assessments of fiscal developments and challenges, etc), building on best international practices. On safeguarding debt service, the Government will ensure an effective implementation of the debt servicing account to monitor cash flows, avoid diversion of official financing and secure a timely debt servicing. Law 4063/2012 established a segregated account in the Bank of Greece. By law, disbursements to this account cannot be used for any other purposes than debt servicing. Via this account the amortization and interest payment costs of all HR's loans, debt management transactions and derivatives, as well as any parallel cost (fees and other expenses) related to debt servicing and in general to Public Debt Management are paid. The proceeds of this account are the disbursement of EFSF's loans, subject to an EFSF acceptance notice, as well as the Hellenic Republic's contributions to debt servicing, including all revenues from the privatisation of State assets and at least 30% of windfall revenues. All payments from this account will be subject to prior detailed reporting to the EFSF/ESM and *ex-post* confirmation by the account holder.

3.3. STRUCTURAL REFORMS WITH BUDGETARY RELEVANCE

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

35. **Although privatisation proceeds have been disappointing so far, the privatisation proces has regained some momentum since September 2012**. During its first months of existence, the Privatisation Fund (created in August 2011) did a lot of preparatory work for the assets to be privatised. This entailed the appointment of technical, legal and financial advisors, as well as intense interaction with the management of companies and the line ministries. Significant progress was made on intermediate steps, namely restructuring of firms, State aid notifications and clearance, rights clearance and regulatory changes, including unbundling of utilities. Unfortunately, it quickly emerged that the privatisation process was not sufficiently shielded from political hindrances and that political will to push the process ahead was lacking. A significant number of government actions required to enable the privatisation process was delayed. A four-month freeze in the activities of the Board of Directors of the Privatisation Fund (HRADF) linked to the April-July 2012 political uncertainty caused by the two legislative elections essentially grounded the process to a halt. Moreover, this political uncertainty combined with a deteriorating macroeconomic environment reduced investor appetite for Greek assets and resulted in generally adverse market conditions over the summer of 2012. Despite these difficulties, technical work has continued, and the momentum has been regained with the appointment of a new management in early September, the launching of calls for interest and tenders, as well as the rapid approval of government actions required for privatisation. Thirty-eight out of eighty-six actions required by the government were approved in less than two months; the remaining forty-eight are expected to be approved in due course and should not create bottlenecks in the privatisation process. To this end, the government has agreed and delivered a comprehensive set of actions in November 2012. The completion of these actions should pave the way for the attainment of the programme's privatisation targets in 2013, as it comes too late in the year to improve the dismal performance in 2012.

36. **Expected proceeds have been significantly scaled down.** The cumulated amount of proceeds expected by end-2013 has been revised down from the original EUR 8.5 billion to around EUR 4 billion. In March 2012, they were expected to reach more than EUR 24 billion by 2016, while now the amount has been revised down to less than EUR 11 billion. Clearly, this downward revision has meant that the privatisation plan is falling short of achieving its potential in terms of improving economic efficiency and boosting investment and growth. At the same time, the shortfall in proceeds implies increased financing needs for the economic adjustment programme (as explained in section 3.5.).

Table 8. Expected Privatisation Receipts

By the end of:	Cumulative receipts since June 2011 (EUR billion)
2012	1.7
2013	4.1
2014	6.0
2015	8.0
2016	10.4

37. **The greater realism reflected on the downward revision on privatisation receipts does not necessarily imply a slowdown in the Privatisation Plan.** Immediate cash is expected by December 2012, although for little less than EUR 100 million, reflecting the sale of the IBC (International Broadcast Centre, EUR 69 million plus EUR 12 million in 2013) and of four Airbus planes (EUR 32 million). Other sales of substantial assets soon in the pipeline include State Lotteries by December 2012; OPAP (gaming) by March 2013; DEPA/DESFA (gas) by March 2013; Hellinikon (former Athens international airport) by December 2013.

38. **Given the high share of real estate assets in total expected privatisation proceeds, action in this area remains crucial, but legal complexities make proceeds in the short-term limited.** From a universe of around 100 000 real estate assets, more than 3 000 have been screened, of which the Government is committed to fully identify and describe at least 1 000 and transfer the full and direct ownership of the commercially viable ones to the HRADF by end-2013 (targeting 250 transfers per quarter). Efforts need, however, to be stepped up in developing a coherent and comprehensive strategy for privatising real estate assets. This should at a minimum comprise a full identification of the assets that correspond to the expected proceeds as well as a well-defined approach to preparing real estate property for privatisation (clearing ownership issues, dealing with zoning and land use issues) in an efficient and expedient manner.

39. **Additional vigorous measures are needed to secure an improved governance and transparency framework.** The HRADF is committed to publish semi-annual updates of their Asset Development Plan, including a portfolio overview, with a description of the assets it manages for privatisation, a timeline of planned tenders and targeted total receipts for the current and next year. These measures are essential to secure the needed public support for the process, to ensure increased microeconomic efficiency and by extension the growth-potential of the economy as a whole, while attracting foreign direct investment. Sequencing and timing of reforms will be of utmost importance to ensure the process advances in a smooth and transparent way. Political independence of the privatisation process will support the timely and effective implementation of the privatisation plan.

Table 9. Privatisation Plan

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

Timing of Privatisation (Launch of Tender)	Project	Transferred to HRADF	Advisors contracted	Intermediate Steps
I. State-owned enterprise/share sale				
---	OTE	√	n.a..	Done.
---	4 Airbus	1/	√	Delivery of aircrafts pending.
2012 Q1	Public Gas (DEPA)	√	√	Non-binding bids (November 2012). Modification of statutory provision at time of privatisation.
Q1	Public Gas (DESFA)	√	√	State aid clearance (January 2013). Law for certification of transmission operator (November 2012) and security of gas supply (not a necessary condition for DESFA's privatisation).
Q4	Football Prognostics Organization (OPAP)	4/	√	VLT regulation issuance and notification to EU (November 2012). Law on new tax provisions for state aid clearance (December 2012).
2013 Q1	Horserace Betting Organization (ODIE)	√	√	Pending state aid clearance-, adopt legislation for the granting of the new license and the subsequent liquidation of the company (January 2013).
Q1	Hellenic Post (ELTA)	2/ 3/	√	Ministerial decisions for (i) the determination of the content of universal service and (ii) the compensation mechanism for USP drafted and prenotified to DGComp.
Q1	Hellenic Vehicle Industry (ELVO)	2/ 3/	√	Transaction structure to be determined and agreed (February 2013).
Q2	Thessaloniki Water (EYATH)	√	√	Establish regulatory framework (December 2012). Establish pricing policy and amend the license (May 2013).
Q2	Hellenic Petroleum (HELPE)	√	√	Following divestment of DEPA.
Q2	Athens Water (EYDAP)	√	√	Establish regulatory framework (December 2012). Establish pricing policy and amend license (September 2013). Settlement of receivables from the State (September 2013).
Q2	Mining and Metallurgical Company (LARCC	√	√	Law for establishing a new company (November 2012).
Q2	Athens Airport (AIA)	3/ 4/	√	Re-approach Hochtief Airports (November 2012).
Q2	Hellenic Defense Systems (EAS)	1/	Pending	Clearance by Ministry of Defense (November 2012). Identify assets for privatisation (December 2012).
Q2	Railways (Trainose)	1/	Pending	Remaining problems in Trainose will be resolved (February 2013). Trainose will then be transferred to the HRADF (March 2013).
Q3	Public Power Corporation (PPC)	2/ 3/	√	MoEnergy to issue Energy Policy Objectives (December 2012), and approval of restructuring plan (December 2012).
Pending court decision	Casino Mont Parnes	1/	√	Pending legal action for the recovery of the state aid taken by the Ministry of Culture (November 2012). Harmonisation of entrance ticket prices (November 2012).
II. Concessions				
---	OPAP 1	√	n.a..	Done.
---	OPAP 2	√	n.a..	Done.
	Mobile Telephony	√	n.a..	Done.
n.a..	Hellenic Motorways	√	√	Negotiations for the restart of projects currently in progress; ratification of reset agreement by Parliament (December 2012).
2012 Q4	State Lottery	√	√	Binding offers (November 2012). Submission to Court of Auditors (December 2012).
2013 Q1	Egnatia Odos	2/	√	Launching of tender process dependent on: a) agreement/finalisation with Ministry of Development on key commercial, legal and technical characteristics of the concession and consequently conclusion of business plan, b) decision on tolling policy and toll collection system to be applied, c) treatment of Piraeus loan granted to Egnatia Odos SA and d) successful reset of the 4 Motorway concession projects
Q1	Small ports and marinas	√	√	Resolve issues related to urban zoning (December 2012).
Q1	Regional airports	√	√	National Airports Policy defined. Establish regulatory framework (January 2013).
Q2	Thessaloniki Port (OLTH)	√	√	Issue national port strategy (November 2012) and establish regulatory framework (April 2013). State aid clearance (March 2013).
Q2	Piraeus Port (OLP)	√	√	Issue national port strategy (November 2012) and establish regulatory framework (April 2013). State aid clearance (March 2013).
Q2	Large regional ports	2/	√	Issue national port strategy (November 2012) and establish regulatory framework (April 2013). State aid clearance (March 2013).
Q3	South Kavala Gas Storage	√	√	Decision on the best exploitation option (December 2012).
Q4	Digital Dividend	n.a..	n.a..	National policy defined (last October 2012). Issue MD (November 2012) so that proceeds are transferred to the HRADF. Pass law to finalise licensing of TV stations and digital broadcasting (December 2012).
n.a.	Mining rights			-
III. Real Estate				
2011 Q4	Hellenikon 1	√	√	Transfer of Hellinikon SA ownership to HRADF (November 2012). Launch Phase B of tender process (November 2012).
2012 Q1	IBC	√	√	Issue PD for ESCHADA (November 2012) and have approval from Court of Audit (December 2012).
Q1	Cassiopi	√	√	Declassification of Naval outpost (November 2012). ESCHADA already submitted (last October 2012).
Q1	Lot 1 (Afantou)	√	√	ESCHADA already submitted (last October 2012).
Q4	Sale/repo 28 buildings	√	√	Issue MD with list of buildings to be transferred to HRADF (November 2012). Amended law on public leases (last October 2012).
2013 Q1	Astir Vouliagmenis	1/	√	Negotiations ongoing with NBG. ESCHADA to be submitted (January 2013). Process led by NBG.
Q1	Real Estate lot 2	1/	√	40 properties to be identified (December 2012) and transferred to HRADF (March 2013).
Q4	Real Estate lot 3	1/	√	At least 1,000 real estate properties to be transferred to HRADF (December 2013).

Source: HRADF update on projects under development.

1/ Transfer of assets/rights at the point of privatisation.
2/ HRADF has been granted the right to exercise the voting rights attached to the shares owned by the Hellenic Republic. Transfer of shares has not taken place.
3/ Contract signed by Ministry of Finance is required for HRADF to exercise the voting right.
4/ Only partial transfer of shares.
5/ ESCHADA = zoning and land planning permit.

3.3.2. Tax policy reform

40. **A comprehensive income tax reform aims to broaden the tax base and thus share more equally the tax burden.** The reform is expected to enter into force from January 2013 with the full budgetary impact expected to be realised in 2014. The reform was originally to be adopted earlier in autumn 2011 and is now expected to be revenue-positive (rather than revenue-neutral). The tax revenue implications of the reforms have been taken into account in the MTFS. The tax reform focuses on a new tax system for the self-employed, which does not any longer allow a tax allowance and the reshaping of the corporate income tax from dividends to profits taxation. The tax reform also aims at eliminating special tax regimes and tax expenditures in order to share the burden of taxation more widely. Some risks exist in the finalisation of the reform, as opposition from the liberal professions and self-employed can be expected.

41. **The main elements of the tax reform,** as currently designed, are as follows:

- A simplification of the personal income tax with three rate bands instead of the current eight rates with an enhanced tax credit. Through these reforms, some one million wage and salary earners and pensioners will be taken out of the personal income tax.
- The elimination of selective tax credits (on mortgage interest payments, life insurance payments, and student expenses etc.)
- The conversion of personal tax allowances for children into means-tested benefits.
- The introduction of a new integrated tax regime for the self-employed and professionals with an initial tax rate of 26% rising to 35% after 50 000 and with no personal tax allowance.
- A restructured tax regime for corporate profits with a corporate tax rate of 26% and a tax on distributed dividends of 10%, resulting in a gross tax rate on distributed profits of 33.4% (instead of former tax rates of 20% and 25% respectively resulting in a gross tax rate of 40%).
- The elimination of special tax regimes based on imputed income, such as those currently in place for farmers and seamen.

42. **The tax reform should allow the emergence of a wider tax base.** The elimination of the tax allowance for the self-employed is expected to generate substantial additional revenues, given that well over half the self-employed declare incomes less than the standard allowance of the personal income tax of EUR 5 000 per year. Furthermore, by increasing the taxation of profits and reducing that of dividends, the reforms aim at reducing the tax avoidance induced by the transferring of profits to other EU countries. However the increase in the effective tax rate from 21% to 26% may adversely affect non-equity financing of investment. The success of the reform will also require further improvements being made to tax administration and the successful implementation of the revised and greatly simplified set of business tax accounting rules, that will replace the excessively-complicated Code of Books and Records.

43. **The tax reform is also expected to produce net revenues of close to EUR 1 billion with the full budgetary impact felt in 2014.** Most of the gains will come from the elimination of existing allowances and credits, including the personal allowance for the self-employed, and from the reshaping of the corporate income tax. On the basis of appropriate auxiliary measures, such as the retention of presumptive income for the self-employed, an overall revenue gain of EUR 1 billion (some 0.5% of GDP) could be envisaged.

44. **The authorities also have committed to refrain in the future from tax amnesties.** Greece has had a tradition of very frequent tax amnesties, partially in the form of very generous instalment plans for tax debts. Their frequent repetition has undermined incentives for tax compliance and the credibility of the government's willingness and capacity to enforce the tax law. This has resulted in an erosion of tax morale and an increase in tax evasion. The Government has committed to forego any new tax or social contribution amnesties and to limit instalment plans to small debtors that suffer clearly identified acute financial hardship. In this respect, the Greek government repealed a recent law which would have extended the payment terms for tax debt and overdue social security contributions.

3.3.3. Revenue administration reforms

45. **The performance of the tax administration reform has been a notable disappointment of the programme.** The reforms in tax administration have moved slowly, in spite of technical support from both IMF and EC. Most of the structural benchmarks on tax audits have not been met and little progress has been realised in the re-training of staff and in the modernization of the administrative structures. There are also substantial delays in the operationalization of the performance-based system for office managers and tax auditors.

46. **The new government appears keen to address the shortcomings and plans to bring the situation back on track through a comprehensive reform programme.** To avoid risks of political interference the government is planning to grant bigger autonomy to the tax administration, while policy matters remain in the hands of the government. On the management side, a new Secretary General, with enhanced managerial powers, is envisaged to be appointed by December, after the definition of his or her functions through new legislation already adopted in November. The new regulations will give to the Secretary General more powers in disposing of the financial and human resources available to the tax administration, and guarantees will be put in place to ensure its independence from political pressure. Management rules with performance assessment targets techniques for auditors and managers, displacement of non performing individuals, and regular rotation of managers will be made fully operational. High priority tasks are rendering fully operational the specialized units for auditing large taxpayers, high wealth individuals, or large debtors, and the merge of small local offices into larger and more efficient units. The authorities are committed to ensure adequate staffing of those units with experienced auditors. The government also committed to strengthen the control methods by relying on a risk-based selection of audits, and by putting more focus on substantial rather than formal issues.

47. **A series of other reforms have been taken to empower the tax administration reform and strengthening the fight against corruption.**. The replacement of the Code of Books and Records adopted in November 2012 and the enactment of a modern tax procedure code expected in mid-2013 are crucial to facilitate the implementation of the tax administration reforms and improve the scope of the tax policy reform. Several other measures are being implemented to improve tax collections**:** these include a strengthened focus on collectable tax revenue and new regulations to write-off non-collectable debts, while payments in cash are to be banned in tax offices. On corruption, the government is planning to start the implementation of the anti-corruption plan and reinforce the protection of whistle-blowers, while centralising decisions on internal disciplinary actions.

48. **During the next review, additional reforms need to focus on improving efficiency and simplifying processes.** To ensure a timely treatment by the courts of tax cases, their vast number must be reduced, which requires reforms to make the judiciary process more efficient. Improving the efficiency of the tax department's pre-court settlement scheme would avoid unnecessary tax disputes. Ensuring independence of reviewers from those who have made the tax assessment or audit is crucial to safeguard the process and reduce the risks of abuses and corruption.

3.3.4. Public Financial Management Reform

49. **Important progress has been achieved in implementing budgetary control**. Accounting officers have been appointed in most of the entities within the general government. The institution of commitment registers has also advanced, improving the monitoring of spending commitments. Despite initial delays, 72% of General Government entities reported data through commitment registries in June 2012, meeting the corresponding structural benchmark targets. The coverage is now projected at 90% in December 2012 as the main health insurance fund purchasing healthcare services (EOPYY) will start reporting data through the e-portal. On the contrary, the end-June structural benchmark target on the discrepancies on arrears' data (i.e., between arrears data from commitment registers and those from questionaires submitted to suppliers) has been missed.

50. **However serious problems remain in the area of commitment registries.** While showing improvements compared to 2011, the 2012 audits on the commitment registries operated by the Ministry of Finance revealed some weaknesses in the actual financial monitoring framework, such as the understaffing of the General Directorates of Financial Services (GDFS) within many public entities and the incomplete functional evaluation and reorganisation of these Services. Serious problems have been identified in the EOPPY, the unified health insurance fund. Moreover the monitoring of commitments in the investment budget remains extremely limited, especially in the local governments, and based on a different IT interface than the one used for the monitoring of the ordinary budget. Timely provision of fiscal data has been improved due to the online submission of such data by line ministries, local governments and legal entities. However, the system needs further development so as to also include timely, comprehensive and accurate information on social security funds and on the public investment budget.

51. **Reforms to strengthen public expenditure management are expected to accelerate.** The government is planning to strengthen the organizational structure and staffing of the financial control services within the central government and expand fiscal reporting to all the phases of the budgetary cycle. Budgetary reporting in the other entities within the general government will also be strengthened and controlled through inspections by the Minister of Finance. Finally, the General Accounting Office has established a coordination committee to monitor and strengthen the implementation of commitment controls to prevent further accumulation of arrears. Lastly the General Accounting Office has established a coordination committee to monitor and strengthen the implementation of commitment controls to prevent further accumulation of arrears.

52. **The government has curtailed discretionary spending in light of the tight liquidity situation and weak revenue collection, but has also accumulated further arrears.** State primary cash expenditures, in particular public investment budget, are under-executed by a significant margin. Wages and pensions have been lower than budgeted thanks to a larger impact of the new wage grid and higher number of retirees. However, there have been slippages in the main public health fund, where the deficit is projected to be far from the original budget, mainly due to lower revenues than originally expected and overspending on medical services vis-à-vis the projected original budget. The Government urgently adopted contingency measures to increase revenue and reduce the overspending and minimize the negative carry-overs for 2013. However, as a result, the accounts payable to pharmacies and private health providers have increased by almost ½% of GDP in 2012. The high level of arrears, including in tax refunds, has a very negative impact on the economy as a whole. In this regard, the settlement of arrears would give a clearly positive impulse to the economy.

53. **A plan for the clearance of arrears and of tax refunds is being prepared and expected to be published by the government.** The conditions which a government unit must meet to allow funds for arrears clearance to be disbursed will include: (i) verification of arrears claims by an audit unit external to the relevant government unit; (ii) establishment by the unit of a fully

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

Table 10. Arrears to suppliers
(EUR million)

	31-Dec-11	31-Mar-12	30-Jun-12	30-Sep-12
Total State	567.0	796.0	916.0	934.0
Local Government	882.0	895.0	771.0	756.0
Hospitals	1 281.0	1 556.0	1 630.0	1 783.0
Social Security Funds	3 730.0	3 808.0	3 979.0	4 492.0
Other government entities	268.0	329.0	329.0	329.0
Total General Government	**6 728.0**	**7 384.0**	**7 625.0**	**8 294.0**
Tax arrears				738.1

Source: General Accounting Office.

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

3.3.5. Making the public administration more efficient and effective

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

government with a tool allowing mobility in the interest of the service, while the existing legal scheme will be utilised for mobility and exits.

56. **What was known before as the labour reserve has now been redesigned and relabled as 'mobility scheme'.** By end-2102, 15 000 employees should have been placed in the labour reserve, but in fact only less than 100 (predominantly non-permanent SOE staff) were transferred. This evidenced that such an instrument was not fully operational. In an effort to re-launch the restructuring of the central public administration and the downsizing, the new mobility scheme facilitates the transfer of a significant number of civil servants, as new legislation has been proposed enabling mobility in the interest of the service. The aim of the new mobility scheme is to reassign civil servants to more useful jobs, therefore reinforcing the move towards a more productive public sector. The mobility scheme, where transferred personnel can remain for up to one year with a reduced rate of pay (substituting for severance payments), while they seek new employment and they are re-trained, will help the transition across job positions, if necessary towards the private sector. This means that, as downsizing in the public administration will need to continue, the employees in the scheme that are unable to find a new job in either the public or the private sector, will be dismissed after one year. After a first transfer of 2 000 employees in 2012, the further expected transfers to the mobility scheme for 2013 will be implemented gradually, in four tranches, totalling 27 000 staff by end-2013.

57. **Adherence to the agreed measures on public procurement is needed to generate fiscal savings and help the implementation of community funded projects**. Policies include first, the steady increase of the amount of supplies and services tendered through Central Purchasing Bodies and framework contracts; second, the completion of the e-procurement infrastructure and its gradual take up by the various contracting authorities at the central and regional level and third, the codification and simplification of the whole body of public procurement legislation (with completion expected by the end of 2013). Most of these policies and reforms have been under discussion since the start of the adjustment programme. They now need to be pushed by the new political leadership and implemented in a credible way.

58. **The Single Public Procurement Authority (SPPA) has started operations**. The new Authority, an independent watchdog, will increase transparency and ensure legal compliance of the administration's procurement practices. It has taken its first decisions to block various negotiated procedures without publication. However, despite progress made, its regulatory framework needs to be completed and its staffing levels increased with resources within the Greek public sector, to fulfil its mandate. Looking forward, the Authority must take a strategic leadership role in legislative reform and in overall policy guidance on public procurement.

3.3.6. Completing the pension reform to secure sustainability

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

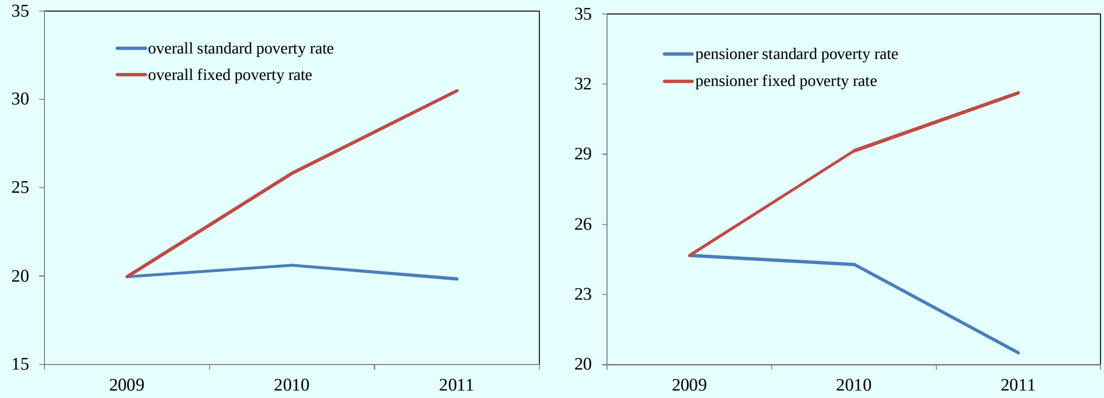
Box 12. Economic Adjustment Programme and Social Equity

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

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

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

Graph 12.1. Poverty Indicators



EUROMOD (version F4.32). EUROMOD (version F4.32).

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

References

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

3.3.7. Modernising the healthcare system

60. **Reform continues and an important policy impetus took place in March 2012 with the adoption of the new healthcare law (Law 4052/2012) and a large number of related Ministerial Decrees.** These legislated policies were directed at i) reducing and thereafter controlling expenditure in the pharmaceutical sector; ii) instituting a single universal social health insurance organisation – EOPYY (National Organisation for the Provision of Health Services) and iii) reforming the hospital sector. Following a period of slow progress during the election campaign, delays in policy implementation related to strong resistance by vested interests and lack of political will, authorities have recently re-affirmed their commitment to implement legislated reforms. As a result, a new set of reforms were included in the legislative package adopted in November 2012. Commitment must now turn into practice and the Government must now ensure the implementation of the policies just legislated.

61. **Improvement has been observed in some areas and measures implemented so far have started to bear fruit.** The e-prescription system has been strengthened and electronic prescriptions constitute now more than 90% of all prescriptions. The system can provide real-time information for continuous monitoring and assessment of prescription behaviour and pharmaceutical spending by EOPYY and the Ministry of Health. Pharmaceutical spending in 2012 spending will likely not exceed EUR 3.1 billion, corresponding to about EUR 1billion in savings as compared to 2012 (about EUR 4.1 billion). Regarding the hospital sector, 2012 will see a reduction in operation costs of more than 8%.

62. **However, there have been costly delays in policy implementation** In particular, in the pharmaceutical sector, some crucial measures adopted in March were only partially implemented. One such example is the lack of full and proper implementation of doctor's compulsory prescription by active substance or INN (international non-proprietary name) prescription. Indeed, doctors have continued to prescribe by brand name, and therefore more expensive medicines, while patients are now only reimbursed the cheapest medicine in each active substance group (so-called "internal reference pricing"). Implementing such a reimbursement system without proper INN prescription, without enforcing mandatory generic substitution with cheapest medicines in pharmacies (as also legislated) and without full control of doctor prescriptions would lead to shifting the burden of adjustment onto citizens/patients (with risk of access to health care). While a reference price system for reimbursement is crucial to send a right signal to patients, it must be complemented with other measures, as already envisaged (INN, prescription guidelines, monitoring) that protect patients. Moreover, the current situation continues to leave room for wrong incentives to doctors, overprescription and outright fraudulent prescription behaviour. Another example regards the deadlock in the collection of the claw back from pharmaceutical companies**,** to be activated when public expenditure on outpatient pharmaceuticals is above the target. While the Law was adopted in March 2012, the clawback was calculated and requested with a delay of several months. Companies introduced legal action against some aspects of the clawback collection, resulting in zero clawback collection so far and the risk of budgetary slippages by the end of the year.

As a result, the Government has had to recently adopt a number of legislative steps to overcome such situations. Regarding, INN prescription an additional MD stating clearly the exemptions to INN has been published and a circular will be sent to all pharmacies to ensure that mandatory generic substitution takes place. In relation to the clawback, the authorities have just legislated a contingency measure (entry-fee to products on the postitive list). In addition, the High Court has recently judged the clawback system as appropriate, and authorities have reactivated the procedure.

63. **Regarding health insurance, the consolidation of all existing health insurance in EOPYY will be achieved at the end of the year, after some delays cumulated since the beginning of the year.** While most health insurance schemes including the four largest health insurance schemes was merged into EOPYY already in April 2012, some health insurance schemes had refused to join the single fund, delaying the overall consolidation process. To fix this problem, the authorities have recently legislated that all remaining health insurance schemes should join EOPYY by December. Health contributions have not been equalised across all population groups, hindering equity in financing and access to care, which was to be achieved through the pooling of funding and health risks, more uniform contributions and services package. Most recently, OGA's contributions to EOPYY have been doubled, but they remain far below the averge contributions paid by other population groups..

64. **To sum up, after a long period of slow progress and delay, the new set of legislated measures should give a new impetus to the reform of the health care system: efforts should continue and reforms have to go deeper.** The authorities must make the most of their renewed commitment to address vested interests in the sector in order to achieve agreed targets and limit unnecessary increase in the burden to patients. The measures adopted in March and those adopted most recently (mid-November) will have to be fully implemented, including INN prescription and generic substitution, monitor of prescription behaviour (on pharmaceuticals but also on diagnostic), regularly update and publish the price list and positive list of medicines and introduce competition in the generic market. The entire package of health services provided by EOPYY has been recently reconsidered and substantial savings are expected to be achieved in the field of access to private clinics and diagnostic, where expenditure has gone out of control in recent months. More use should be made of centralised tenders for hospital medicines and medical devices. Hospital reorganisation should now receive priority and the hospital network should be streamlined, excessive capacity (the number of beds) reduced, staff mobility increased and emergency and on-call structures reconsidered so as to increase efficiency and quality of care and reduce overtime work. Full implementation of those measures can produce significant and needed savings in 2013 and 2014.

3.3.8. Upgrading the education systems

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

3.4. STABILISING THE FINANCIAL SYSTEM

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

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

67. **An exercise was carried out by the Bank of Greece to verify the final capital needs for banks, in view of the latest financial data.** In view of the negative economic developments of the first half of 2012, the BoG launched an exercise to verify whether the credit-loss projections estimated in 2011 are still valid. Even though a large part of the capital buffers established through the capital needs assessment exercise have been partially consumed, they have not been exhausted. Therefore, the current envelope of EUR 50 billion available for the recapitalisation and resolution of the Greek banking sector appears still sufficient, with a capital needs assessment reasonably conservative.

68. **Governance of the HFSF has been strengthened.** The overhaul of the HFSF governance structure is close to being completed. A two tier management system, with a General Council and an Executive Board has been established. The recapitalisation and resolution functions in the HFSF's internal organisation have been established. Relationship frameworks have been prepared that clarify the rights of HFSF vis-à-vis resolved and recapitalised banks and ensures that banks are run on a commercial basis. The frameworks differentiate between banks that remain under private control and those that have become fully controlled by the HFSF. Internal firewalls within the HFSF will aim at maintaining an independent oversight of individual banks, which will also support competition between them. The HFSF has also completed the due-diligence of banks that received capital advance. Auditors focused on the review of governance including loans to related parties, asset quality, and risk concentration. Any findings of interest to the supervisor will be communicated to the BoG.

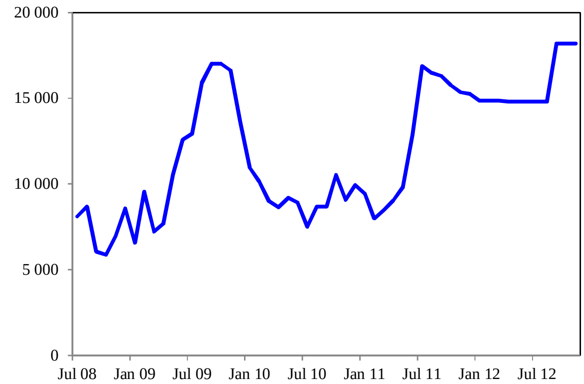
69. **ATEbank, the largest state owned bank, was resolved in July 2012 via the Purchase and Assumption transaction.** The 'good' part of ATEbank assets and liabilities was acquired by Piraeus Bank, which plans to gradually integrate the two operations with the aim of reaping benefits from numerous synergies. The HFSF provided the funding gap and the necessary capital to Piraeus Bank. The remaining assets are under liquidation.

70. **The consolidation of the sector is on-going.** Emporiki Bank, the subsidiary of Credit Agricole has been acquired by Alpha Bank. Ahead of that transaction, Credit Agricole has fully recapitalised Emporiki in line with the BoG's requirements and committed to providing additional buffers for unexpected losses. Geniki, the subsidiary of Societe General has also been fully recapitalised and sold to Piraeus Bank. Both transactions are expected to yield synergies in terms of costs, funding and revenues.

3.5. FISCAL FINANCING AND TREASURY MANAGEMENT

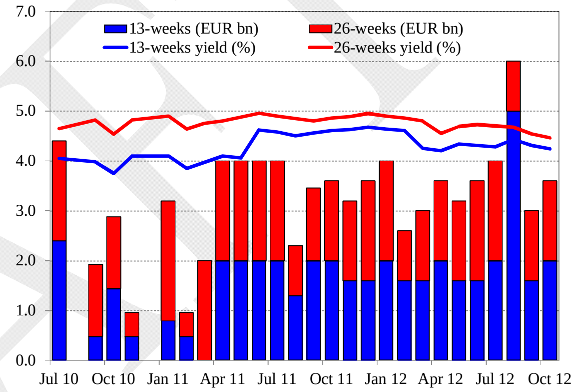
71. **The outstanding stock of T-bills remains large.** After increasing substantially in the summer 2011, the stock of T-bills remained relatively high reflecting the delayed disbursements under the first programme. The stock remained essentially constant after the first disbursement under the second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

Graph 24. Outstanding stock of T-bills (including commercial paper), EUR million



Source : General Accounting Office (GAO)

Graph 25. T-bills auctions since July 2010
(amounts EUR billion and yields)



Source : General Accounting Office (GAO)

72. **A financing gap over the programme has emerged due to lower privatisation proceeds, slower growth and concomitant lower revenues, and a longer horizon for correcting the excessive deficit.** Additional programme financing of some EUR 14 billion is required for the period through 2014 compared to the March 2012 assessment.

73. **The Eurogroup on 26 November 2012 approved a number of initiatives to address the financing gap including to forego the reduction of the T-bill stock and to postpone partly the build-up of the cash buffer** (see for more details in box 6).

74. **At this juncture, access to capital markets remains uncertain[4].** Market access depends on many factors. Even though the perception of the overall policies and credibility of the government could improve significantly after two years of successful programme implementation, it is prudent to assume that markets may remain sceptical about Greece for a longer period, given the vulnerability resulting from the high debt ratio and political risks. In all likelihood further programme support will be needed after 2014. Additional financing needs for 2015-16 would amount to EUR 18 billion if market financing is not available in that period.

75. **A mechanism to better tracing and monitoring the official borrowing and internally-generated funds destined to service debt has been introduced to improve Greece's credit standing.** This mechanism includes a segregated account and the payment to this account of the necessary resources to service debt. Official disbursements to Greece still are conditional on

[4] The second financing programme foresaw market financing resuming in 2015 with EUR 7.6 billion raised that year, and EUR 3 billion in 2016.

compliance with the programme. Moreover, the government has adopted legislation giving priority to the debt service vis-à-vis other cash outflows. While the segregated account has been used by the Greek Treasury for servicing its debt, its full operational use and advance funding has not yet materialised due to the delayed disbursement under the programme and the ensuing lack of liquidity in the treasury. To ensure this and to meet the pre-funding quarterly target for debt service, it was agreed by the Eurogroup of November 2012, that Greece would transfer all privatisation revenues and primary surpluses to this account.On 24 February 2012, Greece launched an exchange offer for bonds with an aggregate outstanding face amount of approximately EUR 206 billion. The initial deadline of the offer was 8 March but the invitation period was extended twice to eventually end on 20 April 2012 (for more details see box 4, p.47 in Occasional Paper 94, March 2012, "The second economic adjustment programme for Greece. March 2012"). The exchange offer allowed private sector holders to exchange eligible bonds for i) new bonds to be issued by Greece with a face value of 31.5% of the face amount of their exchanged bonds; ii) EFSF notes with a maturity date of two years or less and having a face value of 15% of the face amount of their exchange bonds, and iii) detachable GDP-linked securities issued by Greece iv) on the PSI settlement date, Greece also delivers short-term EFSF notes in discharge of all unpaid interest accrued on the exchanged bonds.

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

3.6. STRENGTHEN LABOUR MARKET INSTITUTIONS AND PROMOTING EMPLOYMENT

77. **Significant action has already been taken to reform the Greek labour market in the past two years but more efforts are needed in light of high levels of unemployment and still high non-wage labour cost.** The sharp recession has taken a heavy toll on employment and the unprecedented downward wage flexibility that has been observed throughout 2012 has not been sufficient to overcome the very high unemployment. Wages have been falling as the result of the recession and of previous wage-setting reforms, restrictions in the scope of sector collective agreements and allowing notably more opportunities for firm-level agreements, a limitation of the 'after-effects' on pay after the expiration of collective agreements, and reductions in minimum wages. Overall, wage cuts in the order of 20% have been observed on a growing number of collective agreements – something unseen at such a large scale in the EU or other developed economies. These trends may well continue until mid or late 2013.

78. **The newly agreed measures aim at further improving the functioning of the labour market over the medium term.** They comprise (i) a reform of the minimum wage framework; (ii) easing the degree of employment protection in order to facilitate job mobility and encourage job creation; (iii) less restrictive regulations for the adjustment of working hours to enhance the firm’s efficiency in using labour services; (iv) lower non-wage labour costs by cutting social contribution rates and by abolishing red tape; (v) more efficient approaches to control undeclared work and informality, with a view to enforcing labour laws and contracts and mitigating revenue losses from social contributions evasion; (vi) curtail excessive and costly reporting requirements; (vii) policies to improve the employability of disadvantaged groups among the unemployed (e.g., long-term unemployed).

79. **The wage setting at national level is going through a major reform of the minimum wage framework.** The objective of the reform is to protect those employees and workers with less bargaining power by defining a lower floor for wages and salaries, while not jeopardising job opportunities if setting excessively high minimum wages. Every collective wage agreement or individual contract needs to respect the floor which will be decided by the government after consultation with social partners. A proper consideration of economic developments and prospects before setting the minimum wage rates is also expected, preferably in an institutionalised way, in order to strengthen the economic rationale behind the decisions. Meanwhile, the national general collective labour agreement will only be binding for the signatories.

80. **Excessively expensive statutory severance pay slows down the labour market adjustment and hampers job creation.** This also hinders labour mobility to dynamic sectors and firms as acquired severance payment entitlements would be lost in case of taking up a job elsewhere. Statutory requirements on severance payments, which were visibly higher in Greece compared with other European countries will from now on be capped at 12 months of pay. Employees whose accrued potential entitlements at the moment of this reform had exceeded that cap will see their right preserved up to a monthly value of EUR 2 000 in case of future dismissal. Combining the reduction for severance pay with preservation of entitlements for low and middle income earners should allow the reform to have immediate effects in terms of facilitating hiring – since potential cost of firing of new hires will be lower in case the job matching is considered unsuccessful – without triggering a wave of firings. Notice periods will be reduced to a maximum of four months. Looking forward, this reform is an important complement to the product market reforms of the Programme: as the latter are expected to give rise to more dynamic market entries and exits of firms and thereby of potential employers, proper framework conditions enhancing labour mobility need to be in place.

81. **A reform to reduce social contribution rates will be prepared in 2013.** That will help in reducing non-wage labour costs, also by making taxation less distortive, thereby increasing incentives for employment and improving cost competitiveness. The reform is expected to allow for a revenue-neutral gradual reduction in social contribution rates over the programme period by simplifying and harmonising the rates across the various funds now in place, while at the same time broadening the bases for contributions. Details and exact phasing in of this reform are still to be decided. Efforts to streamline social contribution collection and to fight blatant evasion will also have to be stepped up significantly.

82. **The adaptability of working hours will be increased to facilitate efficiency and productivity gains.** While current limitations on the duration of the working week (including the 40-hours working week as a reference) and of minimum rests due to health reasons for specific categories of workers remain untouched, some more freedom will be given to adjust the working time to sector and firm specific needs. This includes (i) allowing a maximum number of 6 workdays per week in the retail sector as it is already the case for the rest of the economy; (ii) the minimum daily rest; and (iii) the timing of annual leave in seasonal sectors.

83. **Red tape on labour arrangements will be reduced.** The authorities are abolishing pre-approvals of overtime work and streamlining reporting requirements for employers' working hours' arrangements in order to reduce the administrative burden. These requirements, which have so far been in place in order to facilitate checks by the Labour Inspectorate have implied administrative burden that have become disproportionate with the basic requirements for such checks and controls. However, additional ways to improve the efficiency of the Labour Inspectorate’s approach to fostering compliance with labour law and contracts and to controlling undeclared work and informality need to be identified in a more thorough review of its work and functioning.

84. **The fight against undeclared work and informality is being stepped up.** The Government has secured an independent external assessment of the Labour Inspectorate covering its mandate, activities and structure, and the enforcement and penalty structure for infringements of labour arrangements. Subsequent work in 2013 is expected to strengthen the fight against undeclared work and to raise the effectiveness of the Labour Inspectorate.

85. **To make the labour law more transparent and enforceable**, the Government will prepare a single Labour Code by end 2013.

86. **Further action is needed to limit long-term unemployment through active labour market policies.** This requires, first, that the jobless remain attached to the labour market and do not lose

their employability and their primary labour skills. Second, a consistent reform approach is needed aimed at supporting labour market flexibility. This requires a lasting improvement of the benefit system, providing the right incentives and resources to the unemployed to facilitate re-entry to employment after a limited period of job-search. Furthermore, the programme suggests that labour market policies should be strengthened with a view to facilitate the transition of workers across occupations and sectors, to promote the employability of the disadvantaged groups, to contribute to improving the overall level of human capital by better training policies and to mitigate the hardship of unemployment. However, given the fiscal constraints, it will take some time until Greece can afford a more extended publicly-funded social safety net. Nevertheless, first efforts with this aim are reflected in the proposals for a means-tested long-term unemployment assistance to start in 2014.

3.7. CREATING FAVOURABLE CONDITIONS FOR ECONOMIC ACTIVITY

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

3.7.1. Promoting an efficient and competitive business environment

88. **Over 2012, the Government has taken measures to ease company creation and to reduce transaction costs**. These include i) the creation of a new company form, with no minimum capital requirements and flexible rules for internal decision making; ii) the authorisation to the Ministry of Development to issue standardised articles of association for the establishment of various company types and iii) the elimination of the requirement to hire a lawyer for the drawing up of notarial deeds establishing société anonymes and limited liability companies. Other measures to facilitate doing business include the abolition of the mandatory registration in the chamber of commerce's export registry, before a company is allowed to export and the elimination of costly company publication requirements in newspapers.

89. **For the first time since the start of the programme, Greece has improved substantially its performance on international business rankings**. The World Bank Doing Business indicators are a case in point. The 2013 edition shows a year-on-year forward leap by eleven positions, underpinned by improvements in areas such as protecting investors, paying taxes, trading across borders and resolving insolvency. On the less positive side, starting up a company and registering property remains relatively expensive. In addition, there is room to reduce the time and the cost to export and import. These areas need to be targeted as a matter of priority.

90. **However, the gap between Greece and the OECD average in indicators measuring business friendliness is large**. The Government has committed to additional reforms. For example, it has pledged to curb by June 2013 the cost of creating companies and of registering property by 50%. Significant reductions in time to export and import are also targeted as per the October 2012 Trade Facilitation Strategy. Moreover, the time to get licenses for manufacturing activities and for environmental projects is expected to go down after the full implementation of the respective 2011 licensing laws. Furthermore, a systematic screening of legislation through the application

of the OECD toolkit (for competition enhancement in sectors such as tourism, construction materials, retail and food processing) and the Standard Cost Model (for administrative burden reduction in 13 selected sectors) will also be undertaken, with results expected by Q4 2013.

3.7.2. Reforming the judicial system to support economic activity

91. **Further efforts are needed on judicial reform**. The focus is on the production of judicial statistics, the development of e-justice applications, the reduction of tax (and non-tax) case backlog in courts, the promotion of mediation and the revision of the Code of Civil Procedure. Specifically:

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

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

3.8. EFFICIENT NETWORK INDUSTRIES AND SERVICES

3.8.1. Energy policy

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

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

95. **In response to the liquidity crisis, the Government granted in June 2012 emergency funding to PPC and to DEPA through the Loans and Consignment Fund.** The Authorities have also taken measures to reduce the high debt levels in the balance sheet of LAGIE. Lower PV feed-in-tariffs (including for rooftop PV) were approved and the RES levy (i.e., the fee financing feed-in-tariffs through the electricity bill) was raised in August 2012. Moreover, the Hellenic Parliament adopted in November 2012 a temporary –and retroactive- tax (solidarity contribution) on revenues from renewable energy installations.

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

97. **The liquidity tensions in the Greek electricity market also call for other structural measures**, such as the liberalization (and full cost recovery) of end-user prices for low voltage customers, and to allow the entry of new companies in the generation market. The former is envisaged for June 2013; the Government plans to address the latter in the framework of PPC's privatization, the strategy of which remains to be unveiled. Whilst there is political resistance to increase low voltage end-user prices, cost recovery-based electricity tariffs are needed to foster the entry of new generation companies in the market and to help the incumbent electricity company cope with liquidity tensions.

98. **Legislation has also been passed to facilitate fuel distribution**, such as the liberalization of the opening hours of gas stations, easing the opening of gas stations by supermarkets, as well as eliminating unjustified restrictions in the transportation of fuel by independent retailers.

Additional measures will be taken before year-end to ease the import of oil and of oil products (in the context of the transposition of the Directive of Security of Oil Stocks).

3.8.2. Electronic communications

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

3.8.3. Transport

100. **Sizeable and strategic changes are underway in the transport sector.** Land transport is being liberalised, as the restrictions on licenses for both road haulage and occasional passenger transport have been relaxed, providing a leeway for more market access. The simplification of the highly regulated structure of the regular passenger transport is also underway. Progress has been made with the restructuring of the railways sector, including a concrete strategy for privatisation. To reduce transport prices and to strengthen the growth of the tourism sector, the authorities have also committed to remove restrictions on the rental of pickup trucks and vans, chauffeur services and to allow shuttle services by hotels and tour agencies to use small vehicles and tour packages for small vans and off-terrain vehicles.

101. **In maritime activities and ports, as well as in airports, new strategies for growth are being identified.** These sectors are now leading the way in the process for the establishment of an independent regulatory framework, through a clear separation between administrative responsibilities and commercial activities. Given budget consolidation constraints, the authorities are preparing decisive measures to promote more flexible labour agreements and to bring expertise on how to prepare key assets for privatisation, mainly through concessions. Important reforms to strengthen the growth of the tourism sector in domestic maritime transport (such as launching public consultations for routing and labour arrangements in domestic ferry services) are underway. Additional medium-term objectives are in the pipeline to ensure a better intermodal connectivity between different types of transport means, by better prioritising public spending (including EU funds), by creating a hub, and by better exploiting Greece's regional competitive advantage in this vital economic sector.

3.8.4. The Retail Sector

102. **The Greek retail and wholesale sector stands out for having a higher share in value added and employment compared to the euro area average**, lower levels of labour productivity as well as for higher prices in key consumer basket items. A series of reforms extending over the next few quarters are needed to bring the main parameters of the retail sector to the average values in the EU.

103. **The Government adopted in the first half of 2012 two measures specifically aimed at introducing downward price flexibility in the sector**, such as the abolition of the prohibition of selling merchandise at prices below cost and the simplification of the system of submission of wholesale price lists and cost elements to the Ministry of Development. These were favouring price rigidities and collusion in prices from the dissemination / publication of collected data to competing companies. Whilst the simplification introduced to the system of reported prices is a step in the right direction, there remain potential competition policy concerns. These should be

addressed in the on-going review of the Code of Market regulations, which was notified in mid-October 2012 to the Commission Services, as required by Directive 98/34.

104. **In addition, the Government has removed a number of outstanding restrictions in the retail sector.** Prior to the disbursement, it has adopted measures to i) distribute restricted product categories such as baby milk, tobacco, newspapers and magazines in supermarkets (in addition to the regular channels); ii) eliminate the requirement of minimum space for the sale of food products; iii) allow mixed shops to sell goods other than food, subject to hygiene and food and safety standards; iv) sell pre-packaged meat, cheese and fish products in supermarkets; and v) address labour marker issues, by among others, delinking the working hours of employees in retail outlets from the opening hours of the establishment.

105. **Combined, these measures should allow a wider class of goods to be sold by more productive retailers, help reduce the sector's operating costs and eventually feed into higher downward price flexibility**. Looking forward, the Government will look into regulations on pricing, sales and labelling, as well as to the rules on transport applicable to retail outlets.

3.8.5. Regulated professions and professional qualifications

106. **Since the second programme, problems have occurred in liberalising the professions and several slippages in MoU compliance need to be corrected before year-end.** This is the case of the full assessment of the justification and the proportionality of the requirements reserving certain activities to providers with specific professional qualifications. In addition, work needs to be done to de-link fees charged by professionals from taxation, social security contributions and payments to professional associations. Steps have been taken by the engineering profession, but not for lawyers. Such de-linking is a prerequisite for the effective elimination of minimum fees charged for professional services, and hence, for allowing downward price flexibility.

107. **However, since July 2012, the reform of the Greek regulated professions has re-gained momentum.** Renewed emphasis on the reform of the regulated professions is welcome, as it follows a period of political inaction in the first half of the year, explained in part, by the long electoral process. The Government has eliminated unnecessary restrictions in 20 professional activities of high economic importance, as part of the conditionality prior to the disbursement. Compared to the previous review, there have been amendments to sector specific legislation, in various cases, going beyond what is strictly required by law 3919/2011 on professions, as per the opinions of the Hellenic Competition Commission. This is the case of lawyers, customs brokers, tourist guides and tourist offices, real estate brokers, temporary employment agencies, private labour consultancy offices, car-rentals, sworn in valuers and stevedores in ports and for land operators.

108. **Looking forward, the Government has committed to eliminating inconsistencies between the 2011 law and the sector specific legislation of each profession** (other than the abovementioned 20) **before the end of 2012**. The Government has already identified the professions falling under its scope (as these are not explicitly mentioned in the law) as well as the individual inconsistencies. However, there are divergences between the approach planned by the Government and the one recommended by the Commission services. Whilst the Government is seeking to issue instructions (circulars) addressed to the licensing bodies in the administration on the application of the 2011 law, the Commission services have pressed for the amendment of sector-specific legislation, in the interest of legal certainty.

109. **The authorities have also passed legislation easing further the professional recognition of franchised diplomas** (i.e., the recognition of diplomas offered by educational institutions located in Greece, providing (under a franchise agreement) the training program agreed with institutions in other countries). Lastly, the completion of the Point of Single Contact in the coming months, an infrastructure providing information about the procedures on the access to or

exercise of a service activity and allowing for the online completion of those procedures, will also be a powerful complement to the liberalization of the professions.

3.9. INCREASING THE IMPACT OF STRUCTURAL AND COHESION FUNDS

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

3.10. TECHNICAL ASSISTANCE AND MONITORING

111. **Greece is receiving technical assistance coordinated by the Commission's taskforce and provided by the Commission, Member States, the IMF and other sources.** Technical assistance (TA) concerns several areas which are crucial for the success of the programme, such as tax administration and fight against tax evasion, public financial management, the reform of the public administration, as well as in a range of projects improving the business environment. By providing advice based on best practice, TA contributes to enhancing the government's capacity to implement policies. It also helps to increase programme ownership, via the exchange of views and policy options between the government and the TA providers. (For more details on the several TA projects, the reader is referred to the quarterly reports by the Commission's Taskforce for Greece) Greece, the Eurogroup and the Commission have agreed TA should help further strengthening of Greece's institutional capacity in delivering the agreed policies. With this objective in mind, the Commission is significantly strengthening its presence on the ground in Greece. This will bolster its capacity to provide and coordinate technical assistance. Moreover, a continuous monitoring will contribute to the timely and full implementation of the programme.

Annex 1: Assessment of compliance with the Memorandum of Understanding on Specific Policy Conditionality (seventh update, November 2012)

Table A1- Fiscal Consolidation

Fiscal consolidation	
For **2012**, the annual general government primary deficit should not exceed EUR 2 037 million; and for **2013** and **2014** the primary surplus should be at least EUR 3 652 million and EUR 9 352 million, respectively.	**NOT OBSERVED. PROGRESS MADE** Due to a deeper recession the achievement of the primary spending and deficit targets is delayed.
Prior to the first disbursement the Government adopts the following measures, through a supplementary budget, and other legal acts: - Reduction in pharmaceutical expenditure by at least EUR 1 076 million, in 2012 by reducing medicine prices (generics, off-patent and branded medicines), increasing co-payments, reducing pharmacists' and wholesalers' trade margins, application of compulsory e-prescription by active substance and protocols, the update of the positive list of medicines and the implementation of a mechanism of quarterly rebates (automatic claw-back) to be paid by the pharmaceutical industry.	**OBSERVED** - Law 4052/2012 (Official Gazette 41/A/01.03.2012) - Reduce medicine prices: Ministerial Decision YG/151/29.02.2012-Official Gazette 545/B/01.03.2012. - Reduce princes for off patent medicine: Ministerial Decision YG/151/29.02.2012-Official Gazette 545/B/01.03.2012. - Reduce generic prices: Ministerial Decision YG/151/29.02.2012-Official Gazette 545/B/01.03.2012. - Reduce off branded prices: Ministerial Decision YG/151/29.02.2012-Official Gazette 545/B/01.03.2012. - Increasing co-payments: Joint Ministerial Decision F42000oik2555/353/28.02.2012- Official Gazette 497/28.02.2012. - Reduction in pharmacists and wholesalers margins: Ministerial Decision YG/151/29.02.2012-Official Gazette 545/B/01.03.2012. - Compulsory prescription by e- prescription: Ministerial Decision YG/148/29.02.2012 Official Gazette 545/B/01.03.2012 - Compulsory protocols: Ministerial Decision Y4a/29.02.2012 Official Gazette 545/B/01.03.2012 - Only reimburse pharmacists on the basis of electronic prescription: Ministerial Decision YG/148/29.02.2012 Official Gazette 545/B/01.03.2012. - Rebates for positive list: Ministerial Decision YG/151/29.02.2012 Official Gazette 545/B/01.03.2012. - Circulars requesting the update on hospital's and social security funds' budgets . F.80000/5368/1108/06.03.2012 and 22435/06.03.2012 and Joint Ministerial Decision Y10/G.P. oik GY156/01.03.2012. - Claw back: Ministerial Decision GY 150/01.03.2012- Official Gazette 681/B/08.03.2012
- Reduction in overtime pay for doctors in hospitals by at least EUR 50 million.	**OBSERVED** - Reduction in overtime pay for doctors: Law 4051/2012, Official Gazette 40/A/29.02.2012.

	- Implementing circular 2/17589/022/29.02.2012
- Reduction in the procurement of military material by EUR 300 million (cash and deliveries).	**OBSERVED** Reduction in the procurement of military material: Law 4051/2012 Official Gazette 40/A/29.02.2012
- Reduction by 10 percent in the remuneration of elected and related staff at local level and reduction in the number of deputy mayors and associated staff in 2013 with the aim of saving at least EUR 9 million in 2012 and 28 million in 2013 onwards.	**OBSERVED** Reduction by 10% in the remuneration of elected and related staff: Law 4051/2012 Official Gazette 40/A/29.02.2012. The reduction in remuneration is immediate. However the reduction in the number of deputy mayors and associated staff will only become effective on 1 January 2013.
- Reduction in the central government's operational expenditure, and election-related spending, by at least EUR 370 million (compared to the 2012 budget), of which at least EUR 100 million in military-related operational expenditure, and at least EUR 70 million in electoral spending.	**OBSERVED** Reduction in central government's operational expenditure and electoral spending: Law 4051/2012 Official Gazette 40/A/29.02.2012. Although legislative changes have been made, the reduction of expenditure in some categories has been ex-post smaller than originally included in the programme due to the fact that some unexpected spending have not been sufficiently offset by other savings (thus requiring the increase of the appropriation through the contingency reserve).
- Reduction in operational expenditure by local government with the aim of saving at least EUR 50 million.	**OBSERVED** Cuts on subsidies and grants: Law 4051/2012 Official Gazette 40/A/29.02.2012
- Frontloading cuts in subsidies to residents in remote areas, and cuts in grants to several entities supervised by the several ministries, with the aim of reducing expenditure in 2012 by at least EUR 190 million.	**OBSERVED** - Remote areas: Joint Ministerial Decision 1411/25952/05.03.2012 - Grants: Ministerial Decision amending the budget of Ministry of Education F.1/A/137/23741/IB/06.03.2012, amending the implementing budget F.a/A9017022/16.02.2012, on grants to universities on contractual university employees F.a/G23736/IB/06.03.2012, on grants to universities for operational expenditure 1/A/23740/IB/06.03.2012, on grants to universities on expenditure for food for students F.1/B 23738/IB/06.03.2012, on grants to technical schools for contractual employees, operational expenditure and food to students 23734/IB/06.03.2012. - On amended budget to Ministry of Culture and Tourism YPPOT/OIKON/A1/19924/05.03.2012
- Reduction in the public investment budget (PIB) by EUR 400 million: this cut will be implemented through cuts in subsidies to private investments and nationally-financed investment projects. The reduction in the PIB will not have any impact on projects that are co-	**OBSERVED** Reduction in PIB: Law 4051/2012 Official Gazette 40/A/29.02.2012

financed by structural funds (uncompleted project financed by the 2000-06 operational programmes, cohesion fund (2000-06) projects, 2007-13 operational programmes, and non-eligible expenditure related to the above projects, including TEN-T projects).	
- Changes in in supplementary pension funds and pension funds with high average pensions or which receive high subsidies from the budget and cuts in other high pensions, with the aim of saving at least EUR 450 million (net after taking into account the impact on taxes and social contributions).	**OBSERVED** - Changes in supplementary pensions Law 4051/2012 Official Gazette 40/A/29.02.2012. - Joint Ministerial Decision for NAT Official Gazette 499/B/28.02.2012
- Cuts in family allowances for high-income households, with the aim of saving EUR 43 million.	**OBSERVED** Cuts in family allowances Law 4052/2012 Official Gazette 41/A/01.03.2012
Prior to the first disbursement the Government also adopts the following pending acts: - Ministerial Decisions for the implementation of the business tax (minimum levy on self-employed) provided for Article 31 of Law 3986/2011;	**OBSERVED** Business tax: Ministerial Decision POL 1167/02.09.2011
Prior to the first disbursement the Government also adopts the following pending acts: - Ministerial Decisions to complete the full implementation of the new wage grid in all the pertinent entities, and legislation on the modalities for the recovery of wages paid in excess from November 2011 afterwards.	**OBSERVED** - Wage Grid: Law 4051/2012 Official Gazette 40/A/29.02.2012 - Joint Ministerial Decision for staff of ministerial offices 2-16306/0022/23.02.2012 Official Gazette 78/Yo/24.02.2012 - Joint Ministerial Decision for fixed term contracts 2-391/0022/17.02.2012 Official Gazette B 414/23.02.2012 - Joint Ministerial Decision for heavy duty tasks Official Gazette 465/B/24.02.2012 - Joint Ministerial Decision for lawyers Official Gazette 498/B/28.02.2012 - Joint Ministerial Decision for special scientist of independent authorities Official Gazette 498/B/28.02.2012
By **end-June 2012**, the Government will legislate an average reduction by 12 percent in the so-called 'special wages' of the public sector, to which the new wage grid does not apply. This will apply from 1 July 2012 on and deliver savings of at least EUR 205 million (net after taking into account the impact on taxes and social contributions).	**OBSERVED** (see new MoU, Annex 9.6.1, PA) The Government adopted in November the cuts in special wage regimes; they have been included in the omnibus bill (Paragraph C.1/13-39). Although those cuts should have entered into force in June rather than in November, they are made retroactively as of 1 August 2012.
In order to prepare the measures that will be adopted with the 2013 and 2014 budgets and contribute to meet the fiscal targets, the Government initiates, before **end-February 2012**, a review of public spending programmes. This review should be completed by **June**	**ONGOING.** KEPE carried out a review on public spending reflecting concrete results that the Government used as part of the measures adopted in the fiscal package.

2012. The review will draw on external technical assistance and will focus on pensions and social transfers (in a manner that will preserve basic social protection); defence spending without prejudice to the defence capability of the country; and restructuring of central and local administrations.	
By the same date (**June 2012**), a further rationalization of pharmaceutical spending and operational spending of hospitals, and of welfare cash benefits will also be specified.	**OBSERVED**
Preliminary results from the spending review will be included in the update of the medium-term fiscal strategy (MTFS), which will be tabled in Parliament by **May 2012**.	**OBSERVED** (see new MoU, section 1.1, PA) Presentation of MTFS was delayed but it was finally adopted with the omnibus law (Section A, article 1)
The Ministry of Finance ensures a tight supervision of expenditure commitments by the government departments, including extra-budgetary funds, public investment budget, social security funds and hospitals, local governments and state-owned enterprises, and an effective tax collection, in order to secure the programme quantitative criteria. The Government stands ready to define and enact additional measures, if needed, in order to respect the budgetary targets.	**OBSERVED AND ONGOING** The activation of commitment registries is the most important element of this process; this is ongoing but not completed yet.

Table A2-Structural Fiscal Reforms

Asset management and privatisation	
The Government implements the privatisation programme with the aim of collecting EUR 50 billion in the medium term. Cumulative privatisation receipts since June 2011 should be at least EUR 5 200 million by end-2012, EUR 9 200 million by end-2013 and, EUR 14 000 million by end-2014. The Government stands ready to offer for sale its remaining stakes in state-owned enterprises, if necessary in order to reach the privatisation objectives. Public control will be limited only to cases of critical network infrastructure. To ensure that the plan objectives are achieved, the Government will continuously transfer assets to the Hellenic Republic Asset Development Fund (HRADF). In particular, the Government will transfer to the HRADF all the assets that are expected in 2012 and 2013 at the request of the HRADF.	**PARTIALLY OBSERVED** (see new MoU, section 2.1,d-g, PA, and 2.1.11). Expected privatisation receipts have been adjusted. Full transfer of assets still pending, namely regional ports.

All legal, technical and financial advisors for the privatisations planned for 2012 and 2013 will be appointed by end **Q1-2012**.	**PARTIALLY OBSERVED**. (see new MoU, section 2.1.j, PA) Still pending appointment of advisors for EAS.
Privatisation is conducted in a transparent manner and will clearly set out post-privatisation property rights and obligations. For a number of assets, successful privatisation requires a proper regulatory framework ensuring that entry in a competitive market is possible after privatisation, consumers are adequately protected, and privatised assets are deployed in competitive markets. The conditions for sales or concessions shall avoid the creation of unregulated private monopolies, prevent any form of discrimination, facilitate open access, and impose full transparency of accounts. Intermediate steps for privatisation are specified, including clearing all legal titles, securing state-aid approval, unbundling assets, respecting public procurement rules, having a more comprehensive inventory of real estate assets; reallocating land uses; seeking the council of experts' and audit court's approvals.	**ONGOING** (see new MoU, section 2.1.1, DECEMBER 2012 to JUNE 2013)
The Government will neither propose nor implement measures which may infringe the rules on the free movement of capital. Neither the State nor other public bodies will conclude shareholder agreements with the intention or effect of hindering the free movement of capital or influence the management or control of companies. The Government will neither initiate nor introduce any voting or acquisition caps, and it will not establish any disproportionate and non-justifiable veto rights or any other form of special rights in privatised companies. No further special rights will be introduced in the course of future privatisation projects. To ensure compliance with the EU Treaty, **the Government repeals or appropriately amends the existing special rights granted to the State in the process of privatisation. In particular, the Law on Strategic Companies** (Law 3631/2008, Art 11) is repealed or appropriately amended. [Q2-2012]	**OBSERVED** FEK of legislative act is A' 175/07.09.2012
In order to ensure a timely clearance of state-aid issues that could constitute a hurdle for privatisation: - the Government appoints an interlocutor formally designated for ensuring compliance of privatisation with State aid rules by end-Q1 2012.	**NOT OBSERVED** (see new MoU, section 2.6.2, JANUARY 2012) The appointed interlocutor unit has not delivered the expected results and needs strengthening and readjustment.
- the Government, in cooperation with the HRADF, **submits by end-Q2 2012, to the Commission information on the financial situation of each asset that will be privatised in the course of 2012,** whether	**PARTIALLY OBSERVED** (see new MoU, section 2.6.1, PA) Pending issues related to **Casino Mont Parnes** (entrance fees have been adjusted by law, although still not

the privatisation needs to be preceded by restructuring and respective modalities; liabilities to the state which might hinder the privatisation process or the final price; legislation which grants an advantage to the firm (or concessionaire), such as tax discrimination or monopoly status, etc.; conditions that may be imposed on interested buyers, as well as conditions on buyers' eligibility; and the method of privatisation planned (public tender, negotiation with existing shareholders, IPO, etc.). A similar report will be submitted in Q4-2012 for each asset that is expected to be launched for privatisation in 2013.	approved - recovery of illegal State aid still pending, as the authorities need to appeal from the suspension of the recovery orders (or alternatively, ignore the suspension decisions) and **LARCO** (relevant material not submitted yet).
The Government continues compiling and publishing a comprehensive inventory of state-owned assets, including stakes in listed and non-listed enterprises and commercially viable real estate and land. The inventory will be published in successive stages by **mid-2012** and **end-2012** on the Ministry of Finance's website.	**OBSERVED AND ONGOING** (new commitment in new MoU 2.1.g, PA)
The Government accelerates state land ownership registration. For this purpose, the Government (i) prepares a comprehensive asset-inventory (ii) prepares a special law for the land development of the Hellinikon Area (iii) clarifies land-use status for the single assets and/or portfolios of assets that will be assessed and selected for exploitation within 2012. **[Q2-2012]**	**OBSERVED** (see new MoU, section 2.1.j, PA)
Reducing waste in public enterprises and other public entities: Tariffs in OASA, OSE Group and Trainose increase by at least 25 percent, while their business plans are appropriately updated. **[Q1-2013]**	**NOT RELEVANT YET** (see new MoU, section 6.3.4.5, MARCH 2013)
Tax policy	
The Government will prepare a tax reform that aims at simplifying the tax system, eliminating exemptions and preferential regimes, including and broadening bases, thus allowing a gradual reduction in tax rates as revenue performance improves. This reform relates to the personal income tax, corporate income tax and VAT, property taxes, as well as social contributions, and will maintain the relative tax burden from indirect taxes. The reform will be adopted by **June 2012**. In **March 2012**, the Government will announce the full schedule of intermediate steps until the reform is tabled. These intermediate steps will include public consultation and appropriate review by the European Commission, ECB and IMF staff.	**NOT OBSERVED. PROGRESS MADE** (see new MoU, section 2.2.1, DECEMBER 2012) Extensive and detailed discussions on key parameters and budgetary impact of PIT and CIT income tax reform. Draft legislation on PIT, CIT, and sanctions etc circulated and most likely to be enacted end-December 2012.
By **June 2012**, the Government will revise the legal values of real estate to better align them with market	**NOT OBSERVED. PROGRESS MADE** (see new MoU, section 2.2.3. MARCH 2013) According to Bank of Greece, the shortfall of real estate

prices.	prices in 2011 and 2012 reduced de facto the discrepancy between prices and legal values by 80%. Therefore, Authorities focused their efforts on a dynamic process to timely updates legal values towards market prices. The Ministry of Finance has initiated the design and implementation of a standard procedure for revision of legal values. An amendment has been drafted for placing the respective responsibility in the Directory of Capital Taxation. This new process will reduce the political interference in the determination of real-estate prices for taxation purpose.
Revenue administration reforms	
Articles 3 and 21 of Law 4038/2012 are amended **prior to the disbursement.** The suspension of criminal prosecution and asset freezing is eliminated; the conditions to extend the instalment plans for overdue taxes and social contributions are revised so that the instalment plans will only apply to existing overdue amounts below EUR 10 000 for individuals and EUR 75 000 for corporations. Tax payers applying for an extended instalment plan should disclose all their financial statements to the tax authorities. Moreover, during the years covered by the economic adjustment programme, the Government commits not to adopt new tax amnesties, or extend existing amnesties for the collection of taxes and social contributions.	**OBSERVED**
The Government will define 'tax refunds in arrears,' set standards for their processing **[Q1-2012]** and publish on the web **[Q2-2012]** monthly data on these arrears with a lag of 20 days after the end of each month.	**OBSERVED** Ministerial Decision 02.04.2012 POL 1090. While standards for processing tax refunds were set in Ministerial Decision 02.04.2012 POL 1090, tax refunds in arrears were defined in a letter signed by the Deputy Minister of Finance on 07.09.2012 (letter ref. 2/65333/ΔΠΓΚ). The Authorities have published September data in the budget execution bulletin (October).
In line with the anti-tax evasion action plan, the Government will step up audits of large-scale tax payers, high-wealth individuals and self-employed. It will also accelerate the resolution of tax arrears, and better integrate anti-money laundering tools into the strategy. Progress will be monitored by quantitative indicators according to targets set under the anti-tax evasion plan (key performance indicators). These indicators concern completion of full scope and temporary audits of large taxpayers, of risk-based audits of self-employed and high wealth individuals and of non-filers. They also involve collection of assessed taxes and penalties from new audits of large taxpayers, of the existing stock of tax debt, and increase in the number of registered VAT	**PARTIALLY OBSERVED** (see new MoU, section 2.3.2.4, DECEMBER 2012) Of the ten tax administration structural benchmarks, five are seriously lagging their full year targets: 10 percent of new (2012) debts were recovered against a target of 20 percent; EUR 0.7 billion of old debts were recovered against the annual target of EUR 2.0 billion; less than 10 percent of the annual target for full-scope audits and 35 percent of temporary audits for large taxpayers were completed at June 30 while around 25 percent of the annual audit target for HWI is achieved. Achievement of December targets appears to be also at risk.

taxpayers filing returns.	
The achievement of the completion of 75 full-scope audits and 225 VAT audits of large taxpayers, as targets set in the memorandum of 31 October 2011 for end-December 2011, are **prior to the disbursement**.	**OBSERVED**
To advance the reforms of revenue administration, the Government: - increases the staff of the large-taxpayers unit by 40 auditors to step up the fulfilment of audits in progress [end-March 2012]	**OBSERVED** (new MOU 2.3.c, PA). The Authorities took two Ministerial decisions to move auditors (MD 31/10/2012 to transfer 100 auditors to Large taxpayers Unit, and another MD D2A 1157921 16/11/2012 was issued to move more auditors to fill gaps). Staff of LTU has been reported to reach 100 new auditors on 19/11/2012. The management of tax files has been centralised.
- steps up the hiring procedure in order to complete the first wave of auditor reassessment and hiring (1 000 staff), [end-April 2012] with the objective to achieve the target of 2 000 tax auditors fully operational by end-2012 within the overall limits for public hiring;	**NOT OBSERVED. PROGRESS MADE** (see new MoU, section 2.3.2.2, June 2013) A competitive examination took place internally and 235 employees were selected as tax auditors. The rest of the tax auditors were employees selected by the directors of DOY according to qualitative criteria and approved by the Central Mgmt with contracts' signature. A legislative provision is in force that enables the increase of the auditors to the one required although this objective will be reached in mid-2013 rather than at end-2012 (Omnibus law section E article 14).
- removes barriers to effective tax administration [June 2012], including a formal performance review and replacing managers who do not meet performance targets;	**OBSERVED** (see new MoU, section 2.3.2.3, DECEMBER 2012 and 2.3.5.1 , CONTINUOUS) Re-assessment of auditors has proceeded. Following this assessment a few new contracts have been offered to reassessed auditors. The process has been too slow. To reverse this trend, the new Government decided to take actions to bring back the highest number of tax auditors and introducing quarterly performance (Omnibus law section E article 14).
- continues to centralise and merge tax offices; 200 local tax offices, identified as inefficient, will be closed, by end-2012;	**PARTIALLY OBSERVED** (see new MoU, section 2.3.1.3, JUNE 2013) 6 tax offices closures in April (May tax adm monitor) which brings the total of closed offices to 51. By mid-October additional 48 tax offices will be disrupted. Current plan is to close all the local tax office leaving only 90-110 offices in place.
- centralises the management of tax files related to the taxpayers in the list of big debtors; [Q1-2012]	**OBSERVED** The management of tax files has been centralised, but the unit still lacks effective means to do meaningful recovery work

- revises the procedures to write-off tax debts, so that the administrative efforts may focus on effectively collective debts, by end-2012;	**ONGOING** (see new MoU, section 2.3.3.2, FEBRUARY 2013)
- discontinue payments in cash and cheque in tax offices which should be replaced by bank transfers, so that staff time is freed-up to focus on more value added work (audit, collection enforcement and taxpayer advice) [Q2-2012];	**NOT OBSERVED. PROGRESS MADE** (see new MoU, section 2.3.3.3 DECEMBER 2012) The required institutional changes have been identified and the necessary action to complete this task is underway. To be completed by December 2012. Work is in progress to complete the payment of assessed debts through the banking system to be completed by end-October. It will include debts that are under instalment plans (currently the majority due to the crisis).
- starts to publish on the web key performance indicators for the tax department [Q2-2012];	**OBSERVED**
- puts in place a new IT system that interconnects all tax offices.	**ONGOING** (see new MoU, section 2.3.6.2, MARCH 2013)
The preparation of the new IT system involves the following main steps in relation to the new data centre, web-facing and back-office applications: - the new data centre hardware is in place and running by end-March 2012; - 20 more new electronic services and enhancements by end-June 2012. These concern mainly taxes withheld at source; - database and application design and implementation, by end-October 2012; - 8 remaining new electronic services and enhancements by end-December 2012. These concern forms filed late with a fine, real-estate tax, and VAT administration; - system and user tests, user training, and migration of all tax offices to the centralized database: by end-December 2012; - operational use of the new IT infrastructure by all tax offices: 1 January 2013.	**OBSERVED AND ONGOING** (see new MoU, section 2.3.6.3-7 MARCH 2013) The new data centre hardware is in place and running by end-March 2012; According to GSIS secretariat the first major upgrade has been completed. All systems are delivered and operational.
To strengthen the anti-corruption framework for the tax administration, the Government will: - reform the financial inspections' unit, which should focus only on auditing tax collectors and revenue administration issues [June 2012];	**OBSERVED** Further to orders nr GDOE 1140569/10.10.2011 and GDOE 1119710/26.08.2011, whereby Financial Inspectors were instructed to focus on the audit of tax collection, Financial Inspection operations are being reformed through interventions such as: - use of the new custom-made IT application (within IIS Elenxis) to assess risk and perform investigations efficiently - using the Complaints Prioritization Committee to screen information about employee misconduct and focus on serious cases (Ministerial Decision to be signed

	shortly) - setting up a Committee for the Review of Inspection Reports, which aims to provide Financial Inspectors with legal coverage and more freedom in their investigations (Ministerial Decision drafted and expected to be signed shortly) - applying the means of tax audit reviews, to re-examine 3% of tax audits that were completed in the first half of 2012 (order issued 10 Aug. 2012) - relieving Financial Inspection from the burden of financial audits of public entities (legislation drafted and expected to pass shortly). It is expected that a) the training (by the National Centre of Public Administration) of 80 new recruits and b) the structural changes to be legislated by the Ministry of Administrative Reform and E-Government by the end of 2012, shall further enhance Financial Inspection's capacity.
- activate an Internal Affairs Directorate [June 2012];	**PARTIALLY OBSERVED** (see new MoU, section 2.3.2.7 APRIL 2013) Law (ΦΕΚ 811/19-3-2012). However the Internal Affairs Directorate does not have powers to adopt disciplinary actions so far. The anti-corruption strategy should still gain momentum and it should be redirect to tackle the entire public Administration and not only the Tax Administration.
- require the Financial Intelligence Unit to audit annually at least 200 asset statements of tax officials [June 2012];	**NOT OBSERVED. PROGRESS MADE** The Authorities report that the General Auditor for Public Administration has already assessed more than 500 tax officials asset declaration. The Financial Intelligence Unit is involved in Anti Money Laundering activities and its activity has not yet been redirect towards audits of tax auditors.
- establish procedures for the rotation of managers on a periodic basis [June 2012];	**OBSERVED** (see new MoU, section 2.3 lett. d PA) Omnibus Law, E 2 , article 14, number 1.a
- improve the system to protect whistle-blowers who report corruption [June 2012];	**NOT OBSERVED** (see new MoU, section 2.3.2.6 MARCH 2013)
- prepare a fully-fledged anti-corruption plan [September 2012].	**NOT OBSERVED** (see new MoU, section 2.7.1.1.8 FEBRUARY 2013)
Moreover, the Government will define powers to be delegated from the political level to the tax administration. These powers will include control over core business activities and management of human resources. The Government will also tighten the control of local tax offices by central offices, and fill the position of Secretary General of Revenue Administration with an	**OBSERVED** (see new MoU, section 2.3 lett. b PA) Section E, Article 6 omnibus Law

external appointee with appropriate professional experience. [**March 2012**]	
The Government adopts secondary legislation to make arbitration operational and certifies arbitrators by **end-March 2012**. By the same date, legislation will make it compulsory to exhaust administrative dispute phase for large tax cases, before entering the judicial appeals.	**OBSERVED** Laws on Article 70A committee and independent arbitration were enacted and amended several times in 2011-2012, but the outcomes are still poor due to the presence of bottlenecks. A change in legislation is needed and expected to be approved by November.
The Code of Books and Records is repealed in its entirety and replaced by simpler legislation. **[not later than June 2012]**	**OBSERVED** (New MOU 2.3.2.1 PA) The Code of Books and records was abolished and replaced by the Code of tax recording of transactions, by (Omnibus) Law 4093 (Official Journal 222/A/12.11.2012, in 1. of part E1). Amendment in "Minibus" act FEK 229A/19.11.2012 ref. Chapter B, Article 4. MD on issuance of electronic tickets FEK 1208/16.11.2012.
Public financial management reforms	
A plan for the clearance of arrears owed to suppliers by public entities is published by **June 2012** and the Government ensures that the stock of arrears steadily declines. Clearance of arrears of government entities by the state budget will be contingent on progress in relation to the commitment registry, and no additional accumulation of arrears by each public entity. Data on arrears are published **monthly** with a lag of not more than 20 days after the end of each month.	**NOT OBSERVED. PROGRESS MADE** (see new MoU, section 2.4.4) A draft of the plan has been prepared but it will be finally presented by end-November.
To strengthen expenditure control, the Government: - continues the process of establishing commitment registries, which should fully cover the central government by March 2012, and the investment budget and at least 70 percent of general government units [June 2012] and extended to other general government entities;	**OBSERVED AND ONGOING** (see new MoU, section 2.4.3.i. DECEMBER 2012) Circular on commitment registers for the investment budget issued in March. 72% of spending units reported data from commitment registers in July meeting the relevant structural benchmark (the other one concerning discrepancies between data reported through surveys and those by commitment registers was missed by a small margin).
- enforces the obligation of accounting officers to report commitments, including by enacting sanctions to entities not submitting the data and disciplinary action for accounting officers; [June 2012]	**PARTIALLY OBSERVED** (see new MoU, section 2.4.3.iii. CONTINUOUS) Enforcement mechanism has been put in place as cuts in grants for those entities which do not report fiscal data properly. Disciplinary actions were not taken. There is still a lack of staff and the need to provide training in some entities.
- adopts legislation streamlining the procedure for submission and approval of supplementary budgets, [October 2012] and establishes an administrative	**PARTIALLY OBSERVED** (see new MoU, section 2.4.1 FEBRUARY 2013) An administrative calendar for the update of the medium-

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

Table A3 - Pensions

Pensions	
Prior to the disbursement, the Government proceeds, through a framework law, with an in-depth revision of the functioning of secondary/supplementary public pension funds. 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: - the elimination of imbalances in those funds with deficits; - the unification of all existing funds; - reduction of overall operational and payroll costs including an adequate reduction in staff headcount (by at least 30 percent) in the new single fund; - the long-term sustainability of secondary schemes through a strict link between contributions and benefits.	**OBSERVED**
The reform of the secondary/supplementary schemes is designed in consultation with the European Commission, ECB and IMF staff, and its estimated impact on long-term sustainability is validated by the EU Economic Policy Committee. The parameters of the new secondary notional defined-contribution system ensure long-term actuarial balance, as assessed by the National Actuarial Authority. **[Q1-2012]**	**OBSERVED**
The individual pension benefit will be calculated on the basis of (i) a notional rate of return linked to the rate of growth of the wage bill of insured workers; (ii) a sustainability factor that adjust benefits to promptly eliminate any future imbalances should they occur. **[Q1-2012]**	**OBSERVED**
The Government will reduce nominal supplementary pension benefits starting from January 2012 to eliminate deficits. The new single fund sets up in a cost effective way a computerised system of individual pension accounts. **[Q1-2012]**	**PARTIALLY OBSERVED** (see new MoU, section 2.8.2, 1H 2013 to Q4 2013) Supplementary pension have been reduced as of January 2012. However, the new computerised system will start to be implemented only in 2013.
The Government identifies the schemes for which lump sums paid on retirement are out of line with contributions	**NOT OBSERVED (**see new MoU, section 2.8.3, Q4 2012)

paid, and adjusts the payments. **[Q1-2012]**	The technical work to establish an actuarial formula for the calculation of supplementary pensions will be completed in November. A Ministerial Decision will be adopted by December.
The Health Committee set up by Law 3863/2010 will produce a first quarterly report of its activities aimed at revising the disability status and reduce the disability pensions to not more than 10 percent of the overall number of pensions. **[Q1-2012]**	**NOT OBSERVED** (see new MoU, section 2.8.4, Q1 2013) The Ministry of Labour will produce a report based on the activities of Health Committees by early 2013.
The Bank of Greece commits not to grant pension privileges to its staff and to revise the main parameters of its pension scheme, so that they remain aligned to those of IKA.	**OBSERVED**
The Government will ensure that social security's assets, including the liquidity that results from the ongoing debt exchange is invested in government bills, deposits in Treasury, or any other instrument that consolidates in government debt.	**OBSERVED** The Social Security Funds already invest in government paper, through the Bank of Greece. Only a very small amount needed for liquidity is held in other forms.

Table A4 – Public sector modernisation

Public administration	
By December 2012, and in accordance with the roadmap established, the Government has to: i) set up a high-level transformation steering group, chaired by the PM, that will supervise, monitor and ensure the implementation of administrative reforms; **[February 2012]** ii) establish a stable structure for Inter-Ministerial Coordination; **[May 2012]** iii) create basic horizontal structures in each Ministry, implementing the relevant procedures with Budget/Finance **[February 2012]**, Audit, Internal Control, Human Resource Management, acting under common rules. A framework legislation, to be drafted in line with the roadmap agreed and adopted, will provide the legal reference for implementing such a reform.	**OBSERVED AND ONGOING** (new commitment in new MoU 2.7.1.1, OCTOBER 2012 to DECEMBER 2013) (i) observed [Cabinet Office Decision 10 August 2012]; (ii) ongoing; (iii) observed [horizontal structures have been established to all Ministries and General Directors have been placed in every Ministry].
A specific roadmap is created, translating all principles of coherence and efficiency at the central level into the **decentralized regional/local** level. **[March 2012]**	**PARTIALLY OBSERVED** (see new MoU, section 2.7.1.1.4 DECEMBER 2012 to DECEMBER 2013, and Annex 9.6.9, 2013) Roadmap identified next steps in the context of the public administration functional review and of the strengthening mechanisms for local budgets.
The on-going functional review on **social programmes** is finalised by **end-March 2012**. The review report will include recommendations to the Government on the objectives, design and implementation of social policies,	**ONGOING** (new MOU annex 9.6.8) - Fiscal Measure The OECD report on social programmes has not yet been finalised nor agreed with the Greek authorities. Nonetheless, some of its findings were used to change

as well as on the need to keep a balance between achieving savings and protecting the most vulnerable.	policies on social programmes.
Public sector wages and human resource management	
The Government publishes and updates **on a quarterly basis** its medium-term staffing plans per department**,** for the period up to 2015, in line with the rule of 1 recruitment for 5 exits. The recruitment/exit rule applies to the general government as a whole. The staffing plans should be consistent with the target of reducing public employment by 150 thousand in end-2010–end-2015. If necessary, the Government will enact temporary hiring freezes. Staff transferred to the Government from either state-owned enterprises or other entities under restructuring are considered as new recruitments. The same applies to staff in the labour reserve that is transferred to other government entities, after screening of professional qualifications by ASEP under its regular evaluation criteria. The overall intake in the professional schools (e.g. military and police academies) is reduced to a level consistent with hiring plans. The staffing plans per Ministry and each group of public entities will include tighter rules for temporary staff, cancellation of vacant job post and reallocation of qualified staff to priority areas and takes into account the extension of working hours in the public sector. The staffing plans and monthly data on staff movements (entries, exits, transfers among entities) of the several government departments are published on the web. [monthly starting **March 2012**]	**OBSERVED AND ONGOING** (see new MoU, section 2.7.1.1, OCTOBER 2012 to JANUARY 2013) Progress made in collecting and cross-checking data for General Government estimates, aiming at creating a single database to monitor stocks and flows of staff across government entities. Publication of staffing plans to be made consistent. Monitoring of progress will be easier once database is in place. Revision to the intake rules for professional schools is considered within the broader discussion of budgetary savings.
15 000 redundant staff will be transferred to the labour reserve in the course of **2012**, in connection with the identification of entities or units that are closed or downsized. Staff in the labour reserve will be paid at 60 percent of their basic wage (excluding overtime and other extra payments) for not more than 12 months, after which they will be dismissed. This period of 12 months may be extended up to 24 months for staff close to retirement. Payments to staff while in the labour reserve are considered part of their severance payments.	**NOT OBSERVED** (see new MoU, section 2.7.1.2, NOVEMBER 2012 to END 2013)
The Government commissions an expert assessment of the new wage grid. **[Q1-2012]** This assessment will focus on the wage drift that is embedded in the new promotion mechanism. If the assessment reveals any excessive wage drift, the promotion rules are adjusted before **end-2012**. No promotion takes place before the assessment and adjustment to the promotion rules.	**OBSERVED AND ONGOING** Expert assessment completed. Concrete results to be identified.

The Government sets up an electronic automated system linking the census data base with the Single Payment Authority (SPA)'s, which will allow for a more effective coverage, assessment and payment of employees. This system will be coordinated with other ministries. **[Q2-2012]**	**OBSERVED**
Public procurement	
Single Public Procurement Authority (SPPA)	
The Government issues decisions: - to appoint the members of the SPPA. [February 2012] - to provide for the institution and establishment of positions for the SPPA's personnel, as well as for the organization of human resources and services of the Authority in accordance with the provisions of the law on the SPPA. [March 2012] - to provide for the Implementing Regulation of the SPPA. [April 2012]	**NOT OBSERVED. PROGRESS MADE** (new MOU 2.7.2.1.1, DECEMBER 2012) The decisions regarding the appointment of the members of the SPPA board, for the establishment of positions for the SPPA personnel, as well as the Presidential Decrees on the rules of operation of the SPAA (PD 122/2012; FEK A 215/5.11.2012) and on the organization of SPAA (PD 123/2012; FEK A 216/5.11.2012) have all been adopted. The Presidential Decree on the SPPA's financial regulation will be ready in November.
The SPPA starts its operations to fulfil its mandate, objectives, competences and powers as defined in the law on the SPPA and the Action Plan agreed with the European Commission in November 2010. **[April 2012]**	**OBSERVED** The members of the Board have been appointed and 7 staff (5 lawyers, 2 engineers) have been moved to the Authority from various Greek public sector bodies (as of mid-September 2012). The SPPA is currently sharing the premises of the Greek Secretary General of Commerce and will be moved to a new building later in 2012. Also, as of mid-September, the SPPA had adopted 27 negative decisions against the adoption of a negotiated procedure without publication in the healthcare sector.
E-procurement	
The Government presents a detailed plan for the development of the e-procurement platform, including its phased roll-out, communication and training programmes, its target usage levels, and planned revision of the current legislation (if needed). **[Q1-2012]**	**NOT OBSERVED, PROGRESS MADE** (new MOU 2.7.2.3.1, DECEMBER 2012) A timeline for the development of the National Electronic Public Procurement System was submitted to the Commission Services on 1 August 2012. However, it does not qualify as a detailed plan for the development of the e-procurement platform. According to the updated MoU, the Authorities will submit in December 2012 a plan for the development of the e-procurement platform and to gradually extend its use to all public sector bodies in Greece.
The Government presents a pilot version of the e-procurement system. **[Q2-2012]**	**PARTIALLY OBSERVED** (new MOU 2.7.2.3.2, DECEMBER 2012/ 1st HALF 2013) The Government presented in October 2012 to the Commission services the software of the e-procurement platform. According to the new MoU, the platform will be tested between December 2012 and June 2013 on a

	pilot basis.
The e-procurement platform is fully operational and ready for use and a common portal is created for the publication of all procurement procedures and outcomes. The e-procurement framework is placed under the responsibility of the SPPA, which supervises its operations. **[Q1-2013]**	**ONGOING.** (new MOU 2.7.2.3.2, JULY 2013) According to the Authorities' estimates, the e-procurement platform will be fully operational in July 2013.
The whole public sector uses the e-procurement platform **[Q4-2013]** and the government presents results of the monitoring activities covering year 2013 against the target usage levels. **[Q1-2014]**	**NOT RELEVANT YET** (see new MoU, section 2.7.2.3.3.iii, Q4 2015)
Efficiency of procedures	
The Government identifies a number of potential sectoral Central Purchasing Bodies (CPB) at central government level. The first CPBs are fully operational and coordinated by the SPPA. **[Q2-2012]**	**OBSERVED** The identified CPBs are the Health Procurement Committee (HPC) for health supplies and the General Secretariat of Commerce for supplies and services. Given the recent creation of the Single Public Procurement Authority (in April 2012), these CPBs are not yet coordinated by the Single Public Procurement Authority.
The Government establishes centralised purchasing/framework contracts for frequently purchased supplies or services at central government level with the obligation for ministries and central government bodies to source via these contracts and optional use for regional entities. **[Q3-2012]**	**NOT OBSERVED** (new MOU 2.7.2.2.2, DECEMBER 2012)
The Government proposes an Action Plan to establish CPB at regional/local level, at least one per administrative region. **[Q3-2012]** Regional/local CPBs are fully operational and coordinated by the SPPA.	**PARTIALLY OBSERVED** (new MOU 2.7.2.2.1, DECEMBER 2012) A note on CPBs was sent to the Commission in October 2012, and TFGR has presented expertise to the Government to prepare an action plan within the deadline set in the new MOU (December 2012).
The Government undertakes a reform of the public procurement system including works, supplies and services with a view to (a) simplifying, streamlining and consolidating the body of public procurement legislation, and (b) rationalising the administrative structures and processes in public procurement to desired procurement results in terms of efficiency and efficacy. The review starts from an analysis of the state of play (flowcharts, procedural phases, actors involved, timelines, statistics). A first Action Plan for the reform is developed in agreement with the European Commission. **[Q2-2012]**	**PARTIALLY OBSERVED** (new MOU 2.7.2.2.4, JANUARY 2013) A Steering Committee has been set up to coordinate the secretary generals with public procurement responsibilities in Greece. The Committee is chaired by the Deputy Minister of Development. Meanwhile, the EC has outsourced a study to map public procurement legislation, which will be used in the context of the review of Greek public procurement legislation and be ready in December 2012. The new MoU calls the government to agree with the Commission services on an action plan for the reform of the public procurement system by January 2013 and to submit the draft legislation by Q3 2012. The action plan

	will factor in the findings of the EC study on the Greek public procurement system.
Government presents drafts of the necessary legislative and organisational measures to implement the above-mentioned Action Plan to the European Commission. **[Q4-2012]**	**NOT RELEVANT YET** (see new MoU, section 2.7.2.2.5, Q3 2013)
The Government undertakes a thorough review of the system of redress against award procedures with the objective of (1) reducing the significant and frequent delays triggered by excessive use and lengthy processing of redress in public procurement procedures and of (2) assessing the role to confer to the SPPA in this area. The Government proposes an Action Plan in agreement with the European Commission. **[Q2-2012]**	**PARTIALLY OBSERVED** (see new MoU, section 2.7.2.2.5, Q3 2013) The Greek government has submitted data on the Greek redress system to the Commission services, the last time, on 4 October 2012. The information needs to be supplemented with data from the Administrative Courts of Appeals, which have a critical role in the adjudication of actions/interim measures requests against the decisions of the contracting authorities. Looking forward, the review of the redress system will become part of the review of the public procurement legislation.
Statistics	
The on-going strengthening of the European Statistical System includes the introduction of Commitments of Confidence in Statistics, to be signed by all Member States. The Government will sign such a Commitment, which will be endorsed by Parliament, **prior to the disbursement**. This Commitment includes the revision of the Statistical Law to reform the ELSTAT governance arrangements and establish the ELSTAT Board as an advisory body, and to clarify further the professional authority of the ELSTAT President as chief officer and coordinator of the national statistical system.	**OBSERVED** Law 4051/2012 Official Gazette 40/A/29.02.2012

Table A5 – Health sector

To modernise the health care system	
The Government continues to implement the comprehensive reform of the health care system started in 2010 with the objective of keeping public health expenditure at or below 6 percent of GDP, while maintaining universal access and improving the quality of care delivery. Policy measures include reducing the fragmented governance structure, reinforcing and integrating the primary healthcare network, streamlining the hospital network, strengthening central procurement and developing a strong monitoring and assessment capability and e-health capacity.	**ONGOING** (see new MoU, section 2.9, CONTINUOUS) In March Law 4052/2012 was adopted in Parliament bring additional important changes to the system in line with the MoU.

The Government continues the efforts undertaken in 2010-11 and intensifies measures to reach savings in the purchasing (accruals basis) of outpatient medicines of close to EUR 1 billion in **2012** compared to the 2011. This will contribute to the goal of bringing average public spending on outpatient pharmaceuticals to about 1 percent of GDP (in line with the EU average) by **end-2014**.	**ONGOING** (new MOU 2.9, CONTINUOUS) The implementation of the claw back mechanism has been reactivated and the Authorities have legislated contigency measures. To boost compulsory prescription by active substance and compulsory substitution of cheapest product, prior actions in March 2012, the Authorities have published a decree listing the exemptions to INN. The price and the positive lists have been published only and cost-sharing for medicines has been changed which will produce savings in 2012 and 2013.
Governance	
To strengthen health system governance, improve health policy coherence, reduce fragmentation in the purchasing of health services and reduce administrative costs, the Government further concentrates all health-related decision making procedures and responsibilities (including payroll expenditures) under the Ministry of Health by at the latest **June 2012**. In order to do this, the Government prepares a plan and the necessary legislative changes by **end-February 2012**. As part of this concentration process, all health insurance funds are merged into EOPYY and come under the responsibility of the Ministry of Health. EOPYY buys services in a cost effective way from NHS facilities and private providers through contracts. All other welfare / social assistance schemes under the Ministry of Health are moved to the Ministry of Labour by at the latest **June 2012**.	**OBSERVED AND ONGOING** (new MOU 2.9.1.a PA) Following a number of legislative steps since March 2012, all health insurance schemes have now been merged into EOPYY. This will be followed by administrative adjustment processes to smoothen the merging.
From **January 2013** EOPYY will purchase hospital services on the basis of prospective budgets following the development of costing of procedures by treatment/ pathology categories (full absorption cost DRGs).	**ONGOING** (see new MoU, section 2.9.1., JANUARY 2013) Preparations have initiated.
As a result of the concentration process, EOPYY rationalises the number of contracts with private doctors so as to bring down the doctor-to-patients ratio close to the much lower EU average. **[Q2-2012]**	**OBSERVED AND ONGOING** (see new MoU, section 2.9.1.2., DECEMBER 2012 and 2013) Some reduction in the number of contracted doctors has been achieved and the number of EOPYY contracts is lower than the sum of the contracts of the four main funds prior to when they were merged into EOPYY. Currently the ratio of patients to EOPYY doctor is about 1600 patients per doctor. Importantly, EOPYY restricts the number of visits, therefore, independently of the number of doctors, EOPYY controls the total number of visits and therefore the expenditure.
Contributions paid by OGA members are progressively equalised to those of other members of EOPYY, as envisaged in the medium-term fiscal strategy. The process of equalisation of contributions will be completed	**ONGOING (see new MoU, section** 2.9.3.1.6, 2013) New legislation doubled all the contributions, though they remain much below those paid by members of other funds.

in **2013**.	
Controlling pharmaceutical spending	
In order to achieve EUR 1 billion of reduction in outpatient pharmaceutical spending in 2012, the Government will simultaneously implement a set of consistent policies comprising changes in pricing, prescribing and reimbursement of medicines that enhance the use of less expensive medicines, control prescription and consumption and prosecute misbehaviour and fraud. The Government defines a consistent set of incentives and obligations for all participants along the medicines supply chain (including producers, wholesalers, pharmacies, doctors and patients) to promote the use of generic medicines.	**ONGOING** (see new MoU, section 2.9.2 , DECEMBER 2012) On top of the implementation of measures aimed at reducing price and quantity, the target is to be achieved by the implementation of the claw back mechanism.
The Government will revise the co-payment system in order to exempt from co-payment only a restricted number of medicines related to specific therapeutic treatments. **[Q1-2012]**	**OBSERVED** (new commitment in MoU 2.9.2.1, Q4 2012) A ministerial decree was adopted to reduce the number of medicines exempted of co-payments. It defines and reduces the number of the disease categories that are in the two lowest co-payment categories and therefore the co-payment level for the medicines that are associated with the treatment of those diseases. All other medicines not related with the treatment of those diseases have the highest co-payment. In October, authorities have published a ministerial decree with further reductions in the number of medicines in the two lowest co-payment categories.
Pricing of medicines	
The Government continues to update, on a quarterly basis, the complete price list for the medicines in the market, using the new pricing mechanism based on the three EU countries with the lowest prices. **[Q1-2012]**	**OBSERVED AND ONGOING** (see new MoU, section 2.9.2.2.1, CONTINUOUS) The new price bulletin has been published. With the new price bulletin authorities expect a reduction of 12% in prices starting in Q4-2012. The list is updated every quarter.
The Government introduces an automatic claw-back mechanism (quarterly rebate) on the turnover of pharmaceutical producers which guarantees that the outpatient pharmaceutical expenditure does not exceed budget limits. **[Q1-2012]**	**ONGOING** (new MOU 2.9.2.2.2, CONTINUOUS) Following a number of legislative steps and a related decision by the High Court, the mechanism has been re-activated after a deadlock period due to pharmaceutical companies having initiated legal action on some aspects of the system. In addition, the Authorities have legislated contigency measures.
Starting from **Q1-2012**, the pharmacies' profit margins are readjusted and a regressive margin is introduced - *i.e.* a decreasing percentage combined with flat fee of EUR 30 on the most expensive medicines (above EUR 200) - with the aim of reducing the overall profit margin to	**OBSERVED AND ONGOING** (see new MoU, section 2.9.2.2.6, Q1 2013) Law 4052/2012 has been adopted by Parliament. Authorities have removed the 6, 7 and 8% of profit margin of pharmacies for medicines above 200 as in Law 4052/2012 by end of September. As a result only

below 15 percent.	the 30 euro apply to medicines above 200 euro.
Government produces an implementation report on the impact of the new profit margins by **Q1-2013**. If it is shown that this new model to calculate profit margins does not achieve the expected result, the regressive margin will be further revised.	**ONGOING** (see new MoU, section 2.9.2.2.6, Q1 2013)
Starting from **Q1-2012**, the wholesalers' profit margins are reduced to converge to 5 percent upper limit.	**OBSERVED** Law 4052/2012 has been adopted by Parliament.
Prescribing and monitoring	
The Government - takes further measures to extend in a cost-effective way the current e-prescribing to all doctors, health centres and hospitals. E-prescribing is made compulsory and must include at least 90 percent of all medical acts covered by public funds (medicines, referrals, diagnostics, surgery) in both NHS facilities and providers contracted by EOPYY and the social security funds. [Q1-2012]	**OBSERVED AND ONGOING** (see new MoU, section 2.9.2.3.1 Q4 2012 and Q2 2013) Law 4052/2012 and respective Ministerial Decree have been adopted. Coverage of e-prescription stands at 90%+ of prescriptions of pharmaceuticals. The e-prescription system for referrals and diagnostic tests exists but its coverage is still limited and not yet integrated with the other e-prescription system. Authorities are working with Swedish authorities to improve the e-prescription system. Authorities will merge the e-diagnosis into the e-prescription system for medicines by mid-November.
- introduces a temporary and cost-effective mechanism (until all doctors are able to use the e-prescription system) which allows for the immediate and continuous monitoring and tracking of all prescriptions not covered by e-prescription. This mechanism will make use of the web-based e-prescription application established by IDIKA, which allows the pharmacies to electronically register manual prescriptions from a specific doctor to a specific patient. For medicines to be reimbursed by EOPYY (and other funds), pharmacies must register in the web-based application all manual prescriptions. For this service, doctors who prescribe manually will be charged a monthly administrative fee by EOPYY to compensate the pharmacies. The introduction of this temporary mechanism would ensure that all prescriptions are electronically recorded, allowing for the full and continuous monitoring of doctors' prescription behaviour, their compliance with prescription guidelines. [February 2012]	**OBSERVED AND ONGOING** (see new MoU, section 2.9.2.3.2, Q4 2012) IDIKA has developed a software - API - which is to link the pharmacies electronic system with the e-prescription system. With API, pharmacies only have to scan and introduce the dispensing medicine once for the medicine to be registered in the two systems. The system is being piloted in some pharmacies and will be rolled-out at the end of November. Authorities will fully implement this system by end 2012.
- continues publishing prescription guidelines/protocols for physicians. Starting with the guidelines for the most expensive and/or mostly used medicines the government makes it compulsory for physicians to follow prescription guidelines. Prescription guidelines/protocols are defined by EOF on the basis of international prescription	**OBSERVED AND ONGOING** (see new MoU, section 2.9.2.3.3, CONTINUOUS) Law and ministerial decrees have been published. Guidelines exist and are being published and continue to be developed.

guidelines to ensure a cost-effective use of medicines and are made effectively binding. [Q1-2012]	
- enforces the application of prescription guidelines also through the e-prescription system, therefore discouraging unjustified prescriptions of most expensive medicines and diagnostic procedures. [Q1-2012]	**OBSERVED AND ONGOING** (see new MoU, section 2.9.2.3.4, Q2 2013) A link has recently been introduced in the e-prescription system. In addition, authorities are introducing rules in the e-prescription so that some specific medicines are only prescribed to the groups of patients for which they are therapeutically indicated.
- produces (Ministry of Health and EOPYY together with the other social security funds until they merge) detailed monthly auditing reports on the use of e-prescription in NHS facilities and by providers contracted by EOPYY and other social security funds (until they merge). These reports are shared with the European Commission, ECB and IMF staff teams. [Q1-2012]	**OBSERVED AND ONGOING** (see new MoU, section 2.9.2.3.6, CONTINUOUS) EOPYY has now daily access to e-prescription data and are able to produce reports on e-prescription. Authorities have shared a very simple first report in early October.
- implements (Ministry of Health and EOPYY together with the other social security funds until they merge) an effective monitoring system of prescription behaviour. They establish a process to regularly assess the information obtained through the e-prescribing system. [Q2-2012]	**OBSERVED AND ONGOING** (see new MoU, section 2.9.2.3.7, CONTINUOUS) Authorities have presented detailed information on e-prescription and prescription value and volume. They are working with Sweden to continue to improve monitoring and assessment of e-prescription data.
- produces regular reports, at least on a quarterly basis, on pharmaceutical prescription and expenditure which include information on the volume and value of medicines, on the use of generics and the use of off-patent medicines, and on the rebate received from pharmacies and from pharmaceutical companies. These reports are shared with the European Commission, ECB and IMF staff teams. [Q1-2012]	**OBSERVED AND ONGOING** (see new MoU, section 2.9.2.3.8, QUARTERLY) Authorities are producing data and analysing it. Authorities have shared a very simple first report in early October.
- provides **feedback and warning on prescription behaviour to each physician when they prescribe above the average of comparable** physicians (both in NHS facilities and contracted by EOPYY and other social security funds until they merge) and when they breach prescription guidelines. This feedback is provided at least every month and a yearly report is published covering: 1) the volume and value of the doctor's prescription in comparison to their peers and in comparison to prescription guidelines; 2) the doctor's prescription of generic medicines vis-à-vis branded and patent medicines and 3) the prescription of antibiotics. [Q2-2012]	**OBSERVED AND ONGOING** (see new MoU, section 2.9.2.3.9, CONTINUOUS**)** The monitoring system is in place and feedback to doctors is in place.
- enforces sanctions and penalties as a follow-up to the assessment and reporting of misconduct and conflict of interest in prescription behaviour and non-compliance with the EOF prescription guidelines. Continuous or	**OBSERVED AND ONGOING** (see new MoU, section 29.2.2.3.10 CONTINUOUS) According to the law, if doctors do not comply they can lose contract and will not be able to prescribe. Sanctions

repeated non-compliance with the prescription rules will lead to the termination of the contract between the doctor and the EOPYY and the doctor's permanent loss of his/her capability/right to prescribe pharmaceuticals which are reimbursed by the government/EOPYY in the future. [Q1-2012]	have been activated.
- continuously updates the positive list of reimbursed medicines using the reference price system developed by EOF [Q1-2012]	**OBSERVED AND ONGOING** (new MOU 2.9.2.3.11, PA) The positive list was recently published. The number of medicines in the positive list has been reduced and aligned with the experience in other countries. Medicines have been moved to the negative list. In addition, a reference price for reimbursement has been introduced. Authorities expect the measure to result in significant savings. Relatedly, authorities will remove cost-ineffective packages from the list.
- selects a number of the most expensive medicines currently sold in pharmacies, to be sold in hospitals or EOPYY pharmacies, so as to reduce expenditure by eliminating the costs with outpatient distribution margins, and by allowing for a strict control of the patients who are being administered the medicines. [Q1-2012]	**OBSERVED**
If the monthly monitoring of expenditure shows that the reduction in pharmaceutical spending is not producing expected results, additional measures will be promptly taken in order to keep pharmaceutical consumption under control. These include a **prescription budget for each doctor and a target on the average cost of prescription per patient** and, if necessary, across-the-board further cuts in prices and profit margins and increases of co-payments. **[Q2-2012]**	**OBSERVED** (new MOU 2.9.2.1.b, PA) Authorities have legislated contingency measures (entry fee to positive list) to deliver the target in 2012 and 2013.
In compliance with EU procurement rules, the Government conducts the necessary tendering procedures to implement a comprehensive and uniform health care information system (*e-health system*). **[Q1-2012]**	**OBSERVED AND ONGOING** (see new MoU, 2.9.5.3, CONTINUOUS) Tenders were launched but process not yet finalised.
Increasing use of generic medicines	
A comprehensive set of measures is adopted simultaneously to promote the use of generic and less expensive medicines. The aim of these measures is to gradually and substantially increase the share of the generic medicines to reach 35 percent of the overall volume of medicines sold by pharmacies by **end-2012**, and 60 percent by **end-2013**. This will be achieved by: - reducing the maximum price of the generic to 40 percent of the price of the originator patented medicine with same active substance at the time its patent expired.	**OBSERVED AND ONGOING** (see new MoU, section 2.9.2.4.1.i., QUARTERLY) Technical work has been done. The price bulletin, which includes a revision in the price of generics has been published. With the new price bulletin authorities expect a reduction of 12% in the prices of generics compared to the April list.

This is set as a maximum price; producers can offer lower prices, thus allowing an increased competition in the market. [Q1-2012]	
- automatically reducing the prices of originator medicines when their patent expires (off-patent branded medicines) to a maximum of 50 percent of its price at the time of the patent expiry. Producers can offer lower prices, thus allowing an increased competition in the market. [Q1-2012]	**OBSERVED AND ONGOING** (see new MoU, section 2.9.2.4.1,ii QUARTERLY)
- creating dynamic competition in the market for generic medicines through price reductions of at least 10 percent of the maximum price of each generic follower. [Q4-2012]	**NOT RELEVANT YET**
- associating a lower cost-sharing rate to generic medicines that have a significantly lower price than the reference price for reimbursement (lower than 40 percent of the reference price) on the basis of the experience of other EU countries, while increasing substantially the co-payment of more expensive medicines in the reference category and of new molecules. [Q1-2012]	**OBSERVED AND ONGOING** On substance, the cost-sharing is lower for cheapest generics as Law 4052/2012 and ministerial decree indicate that only the cheapest medicine in each INN group would be reimbursed and for the others the patient would pay the price difference. In other words, the price of the cheapest generic is the reference price for reimbursement. Authorities have introduced an internal reference price system at ATC-4 level, together with the publication of the positive list in mid-November.
- deciding about the reimbursement of newly patented medicines (i.e. new molecules) on the basis of objective criteria and, until internal capacity is in place, by relying on best practice health technology assessment of their cost-effectiveness carried out in other member states, while complying with Council Directive 89/105/EEC. [Q1-2012]	**OBSERVED AND ONGOING (see new MoU, section** 2.9.2.4.1.v, CONTINUOUS) So far no new patent medicine has been introduced in the list.
- excluding from the list of reimbursed medicines those which are not effective or cost-effective, also on the basis of the experience of other countries. [Q1-2012]	**OBSERVED AND ONGOING** (new MOU 2.9.2.4.1.iii, QUARTERLY) The positive list has been published and a number of products have been moved to the negative list. A new positive list had been prepared but the authorities have decided to re-examine the proposal in order to reduce the number of medicines in the positive list and align it with the experience of other countries.
- making it compulsory for physicians to prescribe by international non-proprietary name for an active substance, rather than the brand name. [Q1-2012]	**ONGOING** (new MOU 2.9.2.4.1.vii, PA) Although this measure was legislated (law 4052/2012 and ministerial decree) in March 2012 as a prior action in the second adjustment programme, there was strong resistance from doctors and authorities to implement it. Recently, Authorities pledged to implement this measures and have now published the related ministerial decree listing the INN exemptions and requesting

	IDIKA to implement the INN system.
- mandating the substitution of prescribed medicines by the lowest–priced product of the same active substance in the reference category by pharmacies (compulsory "generic substitution"). [Q1-2012]	**ONGOING** (new MOU 2.9.2.4.1.viii, PA) Legislated (law 4052/2012 and ministerial decree) in March 2012, the Authorities will now send a circular to all pharmacies to ensure proper implementation.
The Government takes further measures to ensure that at least 40 percent of the volume of medicines used by public hospitals is made up of generics with a price below that of similar branded products and off-patent medicines. This should be achieved, in particular by making compulsory that all public hospitals procure pharmaceutical products by active substance, by using the centralised tenders procedures developed by EPY and by enforcing compliance with therapeutic protocols and prescription guidelines. **[Q2-2012]**	**ONGOING** (new commitment in new MoU 2.9.2.4.2, CONTINUOUS) Circular sent to all hospitals, Tenders have been launched.
The Government, pharmaceutical companies and physicians adopt a code of good conduct (ethical rules and standards) regarding the interactions between pharmaceutical industry, doctors, patients, pharmacies and other stakeholders. This code will impose guidelines and restrictions on promotional activities of pharmaceutical industry representatives and forbids any direct (monetary and non-monetary) sponsorship of specific physicians (sponsorship should be attributed through a common and transparent allocation method), based on international best practice. **[Q1-2012]**	**NOT OBSERVED** (see new MoU, section 2.9.2.4.4, Q4 2012) There has been some initial work by EOF that was delivered to the MoH by mid-October.
The Government simplifies administrative and legal procedures, in line with EU legal frameworks, to speed up the entry of cheaper generic medicines in the positive list. **[Q2-2012]**	**OBSERVED AND ONGOING** (see new MoU, section 2.9.2.4.5, Q4 2012) However, in order to respect the timetable and deadlines set up by EU legislation, EOF needs additional human resources and IT.
Pricing and use of diagnostic services	
Fees for diagnostic services contracted to private providers are reviewed with the aim of reducing related costs by EUR 45 million in 2012. **[Q1-2012]**	**ONGOING** (new MOU 2.9.3.1, iv, PA) MoH created a committee to revise prices further. This is urgent and necessary now in view of the emerging large deficit of EOPYY in 2012. Authorities have legislated in mid-November substantial increases in co-payments and revision of contractual arrangements with providers leading to substantial cuts in fees and prices.
The government starts publishing a quarterly report on the prescription and expenditure of diagnostic tests. **[Q1-2012]**	**ONGOING** (see new MoU, section 2.9.3.2, QUARTERLY) Authorities are producing data and analysing. A preliminary draft of the report has been received early October, but it needs to be substantially improved.
NHS (ESY) service provision	

The plan for the reorganisation and restructuring is implemented for the short and medium term with a view to reducing existing inefficiencies, utilising economies of scale and scope, and improving quality of care for patients. The aim is to reduce further hospital operating costs by 8 percent in **2012**. This is to be achieved through: - increasing the mobility of healthcare staff (including doctors) within and across health facilities and health regions. - adjusting public hospital provision within and between hospitals within the same district and health region. - revising the activity of small hospitals towards specialisation in areas such as rehabilitation, cancer treatment or terminal care where relevant. - revising emergency and on-call structures. - optimise and balance the resource allocation of heavy medical equipment (e.g. scanners, radiotherapy facilities, etc.) on the basis of need.	**OBSERVED AND ONGOING** (new commitment in MoU 2.9.4.1, 2013) [MINISTERIAL DECREE TO BE PUBLISHED]: the reduction in operational costs is more than 8% in 2012. Hospital reorganisation has started but slowly. Law 4052/2012 legislates several hospital mergers although implementation is due by January 2013. Authorities plan to reduce unnecessary (11000) beds. Minister has adopted the merger of two hospitals. The new hospital map will be published in the gazette in two days. Authorities will have to publish a ministerial decree by end November specifying the new organisational chart of the new 85 hospitals.
A first annual report comparing hospitals performance on the basis of the defined set of benchmarking indicators will be published by **end-March 2012**.	**OBSERVED AND ONGOING** (see new MoU, section 2.9.4.1.2, ANNUAL) Authorities are producing data and analysing. Authorities have provided a first draft report by end September. The structure and content of the report needs to be substantially improved.
Wages and human resource management in the health care sector	
The Government updates the existing report on human resources conducted by the Ministry of Health to present the staff structure according to specialty. This report will be updated annually and will be used as a human resource planning instrument. The 2012 report will also present plans for the allocation and re-qualification of human resources for the period up to 2013. It will also provide guidance for the education and training system and it will specify a plan to reallocate qualified and support staff within the NHS with a focus in particular on training and retention of primary care healthcare professionals and hospital nurses. **[Q3-2012]**	**OBSERVED AND ONGOING** (see new MoU, section 2.9.4.1.3, QUARTERLY) A first report has been submitted and will be updated annually.
The revised payment system used by EOPYY for contracting with physicians, and the efficiency gains in the use of staff (including reduction in overtime costs) will lead to savings of at least EUR 100 million in the overall social security costs associated with wages and fees of physicians in 2012. **[Q4-2012]**	**OBSERVED**
Accounting and control	
Internal controllers are assigned to all hospitals and all hospitals adopt commitment registers. **[Q1-2012]**	**OBSERVED AND ONGOING** (see new MoU, section 2.9.4.2.1 Q4 2012) Most but not all hospitals have been assigned internal

	controllers. A report on their activity should be submitted to the Commission by end-November.
By **end-March 2012**, the Government publishes the monthly report with analysis and description of detailed data on healthcare expenditure by all social security funds with a lag of three weeks after the end of the respective month. This report will make it possible a detailed monitoring of the budget execution, by including both expenditure commitments/purchases (accruals basis) and actual payments (cash basis). The report will also (1) describe performance of entities on execution of budget and accumulation of arrears, (2) highlight any defaulters, and (3) recommend remedial actions to be taken. **[Q1-2012]**	**PARTIALLY OBSERVED** (2.9.4.2.2, DECEMBER 2012) Authorities are producing data and analysing. Authorities have provided a first draft report by end September. The structure and content of the report needs to be substantially improved.
EOPYY and other social security funds (until they merge) start publishing an annual report on medicine prescription. The annual report and the individual prescription reports examine prescription behaviour with particular reference to the most costly and most used medicines. **[Q1-2012]**	**OBSERVED AND ONGOING** (see new MoU, section 2.9.2.3.8, QUARTERLY) Authorities are producing data and analysing. Authorities have provided a first draft report by end September. The structure and content of the report needs to be substantially improved.
Hospital computerisation and monitoring system	
The necessary tendering procedures are carried out by HDIKA to develop the full and integrated system of hospitals' IT systems. **[Q1-2012]**	**OBSERVED AND ONGOING** (see new MoU, section 2.9.5.3, CONTINUOUS) Final steps to awarding a contract should be finalised in coming months.
Throughout 2012, further measures are taken to improve the accounting, book-keeping of medical supplies and billing systems, through: - the introduction of analytical cost accounting systems and the regular annual publication of balance sheets in all hospitals. [Q2-2012]	**ONGOING** (see new MoU, section 2.9.4.2.3.i, CONTINUOUS) Only a minority of hospital have started the analytical cost accounting. Authorities will provide a note on the process for introducing analytical cost accounting by hospital.
- the calculation of stocks and flows of medical supplies in all the hospitals using the uniform coding system for medical supplies developed by the Health Procurement Commission (EPY) and the National Centre for Medical Technology (EKEVYL) for the purpose of procuring medical supplies. [Q1-2012]	**ONGOING** (see new MoU, section 2.9.4.2.3.iv, Q4 2013) EPY now has a monitoring system applied to all hospitals - observe.net - but the coding process for medical devices is still ongoing.
- timely invoicing of full treatment costs (including staff payroll costs) - i.e. no later than 2 months to other EU countries and private health insurers for the treatment of non-nationals/non-residents. [Q2-2012]	**ONGOING** (see new MoU, section 2.9.4.2.3.v, 4Q 2012) Authorities are considering concentrating the billing in one unit in EOPYY and how to bill the full cost of treatment (including personnel costs). They consider this a priority but have not provided a deadline for the full implementation of the measure.
- enforcing the collection of co-payments and	**ONGOING** (see new MoU, section 2.9.4.2.3.vi,

implementing mechanisms that fight corruption and eliminate informal payments in hospitals. [Q2-2012]	CONTINUOUS) Authorities have strengthening internal supervision and a special police has been created to look at ESY facilities. A note on recent developments will be submitted by end-November.
ELSTAT starts providing expenditure data in line with Eurostat, OECD and WHO databases i.e. in line with the System of Health Accounts (joint questionnaire collection exercise). **[Q1-2012]**	**ONGOING** (see new MoU, section 2.9.4.2.4, Q4 2012) But not yet finalised, probably due to shortages of human resources in ELSTAT and not a priority.
The programme of hospital computerisation allows for a measurement of financial and activity data in hospital and health centres. Moreover, the Minister of Health defines a core set of non-expenditure data (e.g. activity indicators) in line with Eurostat, OECD and WHO health databases, which takes account of the future roll-out of DRG (diagnostic-related groups) schemes in hospitals. **[Q1-2012]** The programme of hospital computerisation will continue the development of a system of patient electronic medical records. [**Q3-2012**]	**ONGOING** (see new MoU, section 2.9.4.2.5, CONTINUOUS) There is already a web application ESY.net which is able to compile financial and activity data but some more work needs to be done to align it with DRGs which are still being developed. The first and important steps have been taken but the process needs further improvement.
In all NHS hospitals, the Government pilots a set of DRGs, with a view to developing a modern hospital costing system for contracting (on the basis of prospective block contracts between EOPYY and NHS). To support the development of DRGs, the government develops clinical guidelines and assesses existing international examples of DRG-base schemes, in particular considering observations on DRG costing and proportionality of DRG-based tariffs. DRGs include a detailed item on costs of personnel. **[Q3-2012]**	**ONGOING** (see new MoU, section 2.9.4.2.7, CONTINUOUS) The government has developed a basic set of DRGs. Nevertheless, these need to be further improved and authorities are working with the Ministry of Health in Germany to develop full scale DRGs. This is a long process that will be monitored over the coming years.
An analysis will be made of how hospital accounting schemes integrate DRGs at hospital level in view of future activity-based cost reporting and prospective budgets payment for hospitals **[Q3-2012]**	**ONGOING** (see new MoU, section 2.9.4.2.8, Q4 2012)
Centralised procurement	
Government continues centralised procurement through EPY and regional procurement through the Regional Health Authorities, with the aim of increasing substantially the number of expenditure items and therefore the share of expenditure covered by centralised tender procedures. **[Q4-2012]**	**ONGOING:** (see new MoU, section 2.9.5.1, CONTINUOUS) Several tenders have been launched for medical devices and medicines used in hospitals and can result in important savings.
EPY will undertake a major effort to utilise tender procedures for framework contracts for the most expensive medicines used in the outpatient context so as to substantially reduce the price paid by EOPYY. **[Q4-2012]**	**NOT RELEVANT YET** (see new MoU, section 2.9.5.2, Q4 2012)

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

Table A6 – Financial sector

Assessment of capital needs	
All banks will be required to achieve a core tier 1 capital ratio set at 9 percent by **Q3-2012**, reaching 10 percent in **Q2-2013**. The Bank of Greece, with the support of external consultants, will undertake a comprehensive assessment of banks' capital needs **prior to disbursement**. This assessment will be based on, *inter alia*, the results from the BlackRock loan diagnostic exercise, the PSI impact, and the business plans banks have submitted. In addition, banks' capital needs will be determined on the basis of a requirement to maintain a 7 percent core tier 1 capital ratio under a three-year adverse stress scenario (pillar II requirements), Based on these capital needs identified by the Bank of Greece, banks will revise their business plans and submit capital raising plans by **Q1-2012**.	**OBSERVED** The Bank of Greece has prepared a comprehensive and detailed assessment of capital needs for all banks. The increase in capital ratios to 9% and 10% will be delayed because of the changes in the programme disbursement schedule.
A strategic assessment of the banking sector will be carried out. In consultation with the Commission, ECB and IMF staff, the Bank of Greece will conduct a thorough and rigorous assessment of each bank, using a set of quantitative and qualitative criteria. The criteria will include in non-exhaustive terms: shareholders' soundness and willingness to inject new capital; quality of management and risk management systems; capital, liquidity, and profitability metrics (both forward and backward looking); quality of Bank of Greece's assigned ratings to bank risks; and a sustainable business model. The assessment will be completed by **Q1-2012**.	**OBSERVED** The Bank of Greece has prepared a comprehensive and detailed assessment.
Based on the ongoing work by the commissioned external audit firm, a study will be completed **prior to disbursement** on how to address ATE. The study will illustrate the legal, operational and financial aspects of the different solutions and lay out associated costs.	**OBSERVED** The final report was delivered on 7 March 2012. A letter by Minister of Finance to the EC, the ECB and the IMF on 8 March 2012 has endorsed the study and its conclusions and committed to take a final decision choosing a specific course of action by end March. The bank has now been resolved.
Recapitalization and resolution actions	
Banks will be given time to raise capital in the market.	**ONGOING** (see new MoU, section 3.2.1., Q4 2012 to

Based on an assessment of their viability and capital raising plans, by **end-April 2012**, the Bank of Greece will communicate to banks specific deadlines to raise capital in the market. The deadlines to raise capital will be set for each bank on a case by case basis, with a maximum duration by to **Q3-2012**, taking into account the regulatory framework and the requirements set by the Hellenic Capital Market Commission.	APRIL 2013) Delayed due to the changes in the programme disbursement schedule.
The Government will ensure that Greek banks have business autonomy both *de jure* and *de facto*. The voting rights of the HFSF for the common shares it holds will be strictly limited to specific strategic decisions (unless the private participation in the form of common shares is less than a given minimum percentage of the bank's total capital needs). This percentage will be defined in the amended HFSF law. The shares and/or the voting rights acquired by the HFSF shall not be transferred or sold to any other state-related entity in any form. Private shareholders will be given incentives to purchase HFSF-held shares. A ministerial decree agreed in consultation with the European Commission, ECB and IMF staff shall provide the technical details of the banks' recapitalisation framework, embodying these principles, by **Q1-2012**.	**NOT OBSERVED. PROGRESS MADE** (see new MoU, section 3.2.1., PA) Largely observed. The Ministerial decree delayed due to unexpected complexities.
Banks that do not submit viable capital raising plans and do not raise the capital needed to meet the regulatory requirements within the deadline set by the Bank of Greece will be resolved in an orderly manner and at the lowest cost to the State, in a way that ensures financial stability and which follows the overall strategic plan for resolved banking system assets. Resolution options will include the tools available under the law such as, inter alia, purchase and assumption (transfer order), interim credit institution (bridge banks), and orderly wind down.	**ONGOING** (see new MoU, section 3.3.1, NOVEMBER 2012 to JUNE 2013)
To ensure that the system remains well-capitalized, by **Q2-2013**, the Bank of Greece will conduct a new stress-test exercise, based on end-2012 data, using a methodology determined in consultation with the Commission, ECB and IMF staff.	**ONGOING** (see new MoU, section 3.6.1, Q4 2013)
Legislation will be enacted **prior to disbursement** to support the strategy for bank recapitalisation and resolution: - Capital adequacy requirements. The banking law (3601) will be amended to enable the Bank of Greece to set new bank capital standards through regulation, and the Bank of Greece will introduce regulation to phase in the foreseen increases in Core Tier 1 requirements.	**OBSERVED** Capital adequacy, technical aspects and recapitalisation : Law 4051/2012 Official Gazette 40/A/29.02.2012 and law 4056/2012 Official Gazette 52/A/12.03.2012 Resolution: Law 4052/2012 Official Gazette 41/A/01.03.2012. Decision of the Bank of Greece General Council A GS2/2-20.02.2012

- Technical aspects of bank resolution. Building on the recent changes in the bank resolution framework and the experiences gained so far, the authorities will clarify the procedures and responsibilities for the valuation of assets and liabilities and thus for the opening balance sheet of the interim credit institutions. The authorities will also strengthen the framework to ensure that future resolutions initially use conservative asset valuations of failed banks' assets, based on fair value, and subsequently allowing for a proper due diligence and revaluation followed by complementary asset transfers within a specified time period. The authorities will also identify the legislative impediments to a flexible management of employment contracts in the context of bank resolutions and adopt the needed legislative changes to remove them.	**OBSERVED**
- Recapitalisation framework. The HFSF law will be amended to allow the use of contingent convertible bonds and to provide for restrictions on HFSF voting rights for a 5-year period. The voting rights of the HFSF for the common shares it holds will depend on the size of the capital injection by private investors via common shares. If this injection is below a given minimum percentage of a bank's total capital needs (to be defined in the HFSF law), the HFSF will have full voting rights. The HFSF shall hold its shares for a period of two years, with the possibility to extend for an additional two years for financial and market stability reasons. If instead this private injection is larger than this percentage, the HFSF voting rights will be strictly limited to specific strategic decisions. In this case, the legal framework will be revised to allow the HFSF to hold bank shares for 5 years.	**ONGOING** (see new MoU, section 3.2.1., Q4 to APRIL 2013)
- Resolution framework. The Government and the Bank of Greece will introduce a clear separation of the supervisory, resolution and restructuring functions. In particular, the legal framework shall vest resolution responsibilities in a separate department in the Bank of Greece and restructuring responsibilities (pertaining to management of all temporary credit institutions) in the HFSF. As regards interim credit institutions, the Bank of Greece will continue pursuing its financial stability role, notably via its supervisory authority, while the HFSF will continue aiming at safeguarding its investments.	**OBSERVED**
The Government will ensure that enough financing is available to provide for recapitalization and resolution needs. Total bank recapitalization needs and resolution costs are estimated to amount to EUR xx billion. The phasing will be determined taking into account the	**OBSERVED**

expected timeline for bank resolution and recapitalization, and requirements for continued ECB liquidity support.	
The Bank of Greece, stands ready to disburse adequate liquidity support in a timely manner. Adequate liquidity support must be consistent with plans to reduce banks reliance on exceptional central bank support in the medium term. To this end, medium-term funding plans will be updated after completion of the recapitalization and restructuring exercise to ensure that the gradual unwinding of exceptional liquidity support proceeds at a pace consistent with the program's macroeconomic, fiscal, and financial framework.	**OBSERVED**
Hellenic Financial Stability Fund	
The Government will revise the legal framework to clarify that the HFSF shall have two departments, responsible for separate functions: - A department responsible for managing its ownership interest in banks on behalf of the Government. In this capacity, its mandate shall be to ensure that the banks under its stewardship operate on a commercial basis and are restored to a well-functioning and profitable part of the Greek financial sector, which can eventually be returned to private ownership in an open and transparent manner. - A department for management of interim credit institutions (bridge banks), established following the resolution of non-viable banks. It will undertake this role in a cost-effective manner, based on a comprehensive strategy agreed by the Bank of Greece, Ministry of Finance and HFSF, and in compliance with EU state aid rules. From time-to-time, this function may require funding to accomplish its restructuring role. Such funding will be reduced, either partly or entirely, by a contribution from the HDIGF Depositor Branch to the extent of its obligations for deposit insurance.	**OBSERVED** Law 4051/2012 Official Gazette 40/A/29.02.2012
The Government will revise the HFSF's governance structure to include a General Council and an Executive Board: - The General Council shall have five members: two members, including the Chair, with relevant international experience in banking, one other member, one representative from the Ministry of Finance, and one member nominated by the Bank of Greece. All members shall be appointed by the Minister of Finance with the approval of the Euro Working Group (EWG); other than the representative from the Ministry of Finance and the nominee from the Bank of Greece. European Commission and ECB observers on the Council will be	**OBSERVED** Law 4051/2012 Official Gazette 40/A/29.02.2012 and Law 4056/2012 Official Gazette 52/A/12.02.2012

maintained. - The Executive Board shall have three members: two members—one of which shall be the CEO—with international experience in banking and bank resolution, and one member nominated by the Bank of Greece. All members shall be appointed by the Minister of Finance with the approval of the EWG. Staff and officials of the Bank of Greece shall not sit on the Board of the HFSF.	
The Government, in consultation with the HFSF, will adopt regulations to help the HFSF execute its mandate with full autonomy and at the same time coordinate effectively with the Ministry of Finance. It will cover reporting lines and frequencies, strategic decision-making (and the involvement of the Ministry of Finance therein), investment mandate and business plan, relationship with the Ministry of Finance (in its role as shareholder in the HFSF), and remuneration policy.	**ONGOING** (see new MoU, section 3.7.3, Q1 2013)
Hellenic Deposit and Investment Guarantee Fund	
The Government will strengthen the funding of the HDIGF Depositor Branch by revising the HDIGF Law to: (i) prescribe that fees shall be increased if its funds fall below a certain level of coverage of insured deposits, which should be set taking due account of developments in the financial system; (ii) ensure adequate diversification of re-deposits of HDIGF funds and to gradually eliminate re-deposits in covered banks, as developments with the restructuring of the Greek banking sector permit; and (iii) clarify that the HDIGF's status as privileged creditor does not impinge on claims secured with financial collateral in the sense of the financial collateral directive and follows best practice with respect to secured creditors in general. With a view to limiting any real or perceived conflicts of interest, HDIGF board membership will be prohibited for individuals who are actively involved in credit institutions and introduce in the law strong conflict of interest rules for Board members.	**OBSERVED** Law 4051 Official Gazette 40/A/29.02.2012 and law 4056
The Bank of Greece will carry out a new insurance sector analysis to evaluate insurers' solvency under Solvency I and Solvency II risks of defaults based on the **Q3-2012** results. Clear obligations will be established in law concerning the governance, role and tasks of the Greek Motor Auxiliary Insurance guarantee funds in Greece to ensure that they it can comply with their its obligations related to compensation of car accidents' victims, by **Q2-2012** .	**NOT OBSERVED**
The Bank of Greece will evaluate, by **Q1-2013**, the capacity of the insurance sector to assume social	**ONGOING**

security/pension schemes taking into consideration the under development Solvency II regime for institutions for occupational pensions (IORP Directive). In this regard, the Bank of Greece will establish a list of additional changes in legislation/structure of Greek insurance industry and the relevant legislation will be adopted by **Q2-2014**.	

Table A7- Growth enhancing structural reforms

Transport	
Road	
A report is submitted on the functioning of the regular passenger transport services (KTEL), presenting options for liberalisation. **[Q1-2012]**	**OBSERVED**
The transitional period established in Law 3887/2010 for the reduction in costs for issuing new road transport operator licences has been brought to an end in January 2012. **Prior to the disbursement**, the necessary secondary legislation as foreseen in that law (Article 14(11)) is published, specifying the cost for issuing new road transport operator licences. This cost is transparent, objectively calculated in relation to the number of vehicles of the road transport operator and does not exceed the relevant administrative cost.	**OBSERVED** [Government Gazette 249B, 13/02/2012].
In line with the policy objectives of Law 3919/2011 on regulated professions, the Government removes entry barriers to the taxis market (in particular, restrictions on the number of licences and price of new licences), in line with international best practice. **[Q1-2012]**	**OBSERVED** [Law 4070/2012].
Port	
The Government defines a strategy to integrate ports into the overall logistics and transport system, specifying the objectives, scope, priorities and financial allocation of resources. The strategy will ensure the implementation of the TEN-T priorities and the establishment of the foreseen corridors. It will also ensure the efficient use of the assigned Structural and Cohesion Funds **[Q2-2012]**	**OBSERVED AND ONGOING.** (see new MoU, section 6.3.2, OCTOBER 2012 to MARCH 2013) Completed comprehensive background document for the national port strategy. Working document to be edited and finalized based on progress underway for the regulatory framework and the privatisation of small and large ports.
Aviation	
The Government submits a policy paper, indicating how 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. **[Q2-2012]** After ensuring that regional airports are economically viable, the Government launches an	**OBSERVED AND ONGOING.** (see new MoU, section 6.3.3, DECEMBER 2012 to JANUARY 2013) Draft policy paper submitted, more information required on projections and regulatory framework.

effective transaction strategy leading to their privatisation. **[Q4-2012]**	
Railways	
The rail regulatory authority establishes the procedures for issuing licenses and decisions affecting non-discriminatory access of EU railway undertakings to Greek rail infrastructure. It identifies the benchmarking data on the cost effectiveness of the infrastructure manager. The authority conducts on its own initiative procedures and respects the legal time lines for such decisions set out in the EU railway Directives, including cases on international traffic. All operators are awarded licenses and safety certificates. [**Q2-2012**]	**OBSERVED** [Ministerial Decision FEK B 56/25.01.2012]. Interested companies have submitted applications and are waiting for new licences to be issued. TRAINOSE (rail operator) has already been licensed; STASY S.A. (urban transport subsidiary) to be licensed early-Oct.
The Government establishes independent award authorities for passenger services by rail that can organise competitive tenders. Contracts concluded in 2014 or later will generally be awarded by means of competitive tender. The rolling stock that is not used/needed by Trainose should be transferred to a body which leases it on market conditions, including to winners of such tenders. The documentation for calls for a first bundle of services is ready, general rules on the ticket prices are established and a decision on the provision of rolling stock is taken. [**Q4-2012**]	**NOT RELEVANT YET** (see new MoU, section 6.3.4.4, JANUARY to APRIL 2013)
Energy	
Unbundling of network activities	
The Government ensures that network activities are effectively unbundled from supply activities. In particular, for electricity: - all the necessary transfers of staff and assets of the transmission system operator (TSO) are completed; the TSO management, its supervisory body and the compliance officer are appointed in accordance with the Electricity Directive 2009/72/EC. [February 2012] - all necessary transfers of staff and assets to the legally unbundled distribution system operator (DSO) are completed. [Q1-2012] - the unbundled TSO is certified by the Greek energy regulator. [Q2-2012]	**OBSERVED** Staff and assets have been transferred to ADMIE, the new electricity TSO in February 2012. The draft decision for the certification of ADMIE by RAE, the Greek energy regulator, was submitted to the European Commission in August 2012. The unbundling of electricity DSO has been completed by decision taken in PPC's general assembly of 29 March 2012. All necessary transfer of staff and assets to the electricity DSO, DEDDIE, have been done. No certification by RAE is required for the DSO under EU law.
For gas: - unbundling is implemented as provided for in Art. 9 of Directive 2009/73/EC on common rules for the internal market in natural gas. [Q1-2012] - the unbundled TSO is certified by the Greek energy regulator. [Q3-2012]	**NOT OBSERVED. PROGRESS MADE** (new MOU 6.1.1.1, NOVEMBER 2012) The Parliament has adopted legislation providing for the details of the ITO-option for gas TSO (Cfr. section J4 of the Law on the approval of the medium-term fiscal policy framework 2013-2016 and on urgent implementation measures for law 4046/2012 and for the medium-term fiscal policy framework 2013-2016, as amended). Following the approval by Parliament of the draft provisions, DESFA will apply before RAE for

	certification.
The Government commits to launch the privatisation of PPC and DEPA following the unbundling of the TSOs in line with the commitments of this memorandum and monitors the process to ensure competition in the market. The Government undertakes that whichever the outcome of the privatisation process the gas industry structure will be fully compliant with Directive 2009/73/EC.	**NOT OBSERVED** (see new MoU, section 6.1.1. and 6.1.2, NOVEMBER 2012 to Q1 2013) DEPA's privatisation was launched in February 2012, but halted due to political cycle. It is open whether DEPA will be privatised as a vertically integrated company or DEPA and DESFA, the Greek gas TSO, will be privatised separately. In any case, DESFA has not yet been unbundled from DEPA, so the condition has not been observed. The privatisation procedure for PPC has not started yet.
The Government undertakes that whichever the outcome of the privatisation process the gas industry structure will be fully compliant with Directive 2009/73/EC.	**NOT RELEVANT YET** (see new MoU, section 6.1.2.2 CONTINUOUS)
Measures to increase competition on the generation of electricity	
The Government finalises the remedies to ensure the access of third-parties to lignite-fired electricity generation. **[Q1-2012]**	**OBSERVED** The Greek authorities agreed in March 2012 with the Commission services on a list of measures to grant third parties access to lignite fired electricity generation.
The Government starts implementing the measures ensuring the access by third parties to lignite-fired electricity generation. **[Q3-2012]**	**NOT RELEVANT** This follows the ECJ judgements in cases T-169/08, PPC v Commission, and T-421/09, PPC v Commission, by which the General Court annulled the Commission decisions of 2008 and 2009 in case 38700 – (i.e., the Greek Lignite case).
The implementation of the measures to ensure access by competitors of PPC to lignite-fired electricity generation is completed. Third parties can effectively use lignite-fired generation in the Greek market. **[November 2013]**	**NOT RELEVANT** This follows the ECJ judgements in cases T-169/08, PPC v Commission, and T-421/09, PPC v Commission, by which the General Court annulled the Commission decisions of 2008 and 2009 in case 38700 – (i.e., the Greek Lignite case).
In the context of the privatization of PPC, the Government takes the necessary steps to be able to sell hydro capacity and other generation assets to investors. That sale is separate from the divestiture of lignite capacity provided for in the Commission's decision on the Greek lignite case. Nevertheless, investors may be given the possibility to buy hydro capacity / other generation assets jointly with the lignite capacity provided for in that decision. The sale of hydro capacity will i) not delay the sale of lignite assets beyond the time frame provided for in the relevant Commission Decision and ii) not prevent the sale of lignite assets without a minimum price.	**NOT RELEVANT YET** (see new MoU, section 6.1.2.1, NOVEMBER 2012)
Regulated tariffs	

Further measures are adopted to ensure that the energy component of regulated tariffs for households and small enterprises reflects, at the latest by June 2013, wholesale market prices, except for vulnerable consumers. **[Q2-2012]**	**NOT OBSERVED** The increase in 2012 end user prices amounted to 3% and was below RAE's recommendation of an increase of 12%. Further increases of end user prices should, ideally, have taken place at the end of Q2-2012 to avoid a one-off sharp increase in prices for low voltage consumers once end user prices are removed in July 2013. The Government has announced that it will increase electricity low voltage end -user prices in January 2013.
The Government removes regulated tariffs for all but vulnerable consumers **[Q2-2013]**	**NOT RELEVANT YET** (see new MoU, section 6.1.3.1,iii Q2 2013)
Renewables	
The Government completes the transposition and the implementation of the renewable energy Directive (2009/28/EC) and submits the progress report required by the Directive. **[Q1-2012]**	**OBSERVED** Greece has notified the transposition of Directive 2009/28/EC. The Progress Report submitted to the European Commission on 26/04/2012.
The Government prepares a plan for the reform of the renewable energy support schemes such that they are more compatible with market developments and reduce pressures on public finances. The plan should contain: - a timetable scheduling meetings and stakeholder discussions on the reform of the support scheme. - options for reform of the support scheme, including a feed in premium model, and specifying in each option the method of tariff calculation and the means of avoiding possible over compensation. - current and expected trends in costs for all relevant technologies. - consideration of the option of automatic tariff digression. - measures for the development of wind and solar energy resources. [Q1-2012]	**PARTIALLY OBSERVED** (see new MoU, section 6.1.5.4, Q4 2012) YPEKA has published a report on its website on options to reform renewable energy support schemes. The report was commissioned to a working group to assess the state of play of the RES framework and explores measures to remedy potential deficits, on the basis of which the government would define measures. The report benefited from the input of industry stakeholders as well as other experts in the field such as CRES. The report explores suggestions for improvement. However, YPEKA is not the formal author of the document, although its findings will help /have helped the government elaborate its plan for reform (as required by the MoU) as well as measures adopted in August 2012 to stabilise the financial situation of the renewable energy support scheme (consisting of a reduction of FiT for Photovoltaic (PV) and for rooftop PV as well as an increase in the RES levy).
The Government pursues implementation of the renewable energy project 'Helios,' through legislation [**Q1-2012**], facilitation of licensing process [**Q2-2012**] and cooperation with other EU countries for the export of solar energy.	**OBSERVED** Completed by law 4062/2012, adopted on 29/03/2012.
Other measures	
The Government ensures that its regulatory framework for the energy sector fully complies with the provisions in the Electricity and Gas Regulation, in particular concerning transparency, congestion management and non-discriminatory and efficient allocation of capacity on gas and electricity networks. In particular, the	**OBSERVED** The Ministry of Environment, Energy & Climate Change has communicated the actions taken to the European Commission (EC). The EC intends to close the infringement case as the grievances raised there are complied with, however, further work has to be done by

Government commits to resolve all open issues regarding the infringement case 2009/2168 for non-compliance with the Electricity Regulation. This resolution will include the adoption by the Independent Regulatory Authority (RAE) of a modified electricity market code and establishing cross-border electricity trading procedures for the interconnectors with Bulgaria in line with the provisions of Regulation (EC) 714/2009 and its annexes. **[Q1 2012]**	the Greek authorities to fully comply with the Electricity Regulation.
The Government undertakes to: - Establish a One-Stop Shop for the licensing and permitting of the following classes of infrastructure projects [Q4-2012]: LNG installations, natural gas storage and transmission pipeline projects and electricity transmission lines.	**NOT RELEVANT ANYMORE**
The Government undertakes to: - Establish an LNG code, approved by RAE, which ensures transparency and non-discriminatory access to the Revithoussa LNG plant and the efficient allocation of unused capacities. [Q3 2012]	**NOT RELEVANT ANYMORE**
Electronic communications	
The Government adopts the Common Ministerial Decision on "Base stations and antennae constructions that are exempted from authorisation" provided for in Art. 31.8 of Law 3431/2006 and in Art. 29.9 of the draft law on the Regulation of the functioning of the postal market, matters of electronic communications and other provisions. **[end-February 2012]**	**OBSERVED** Ministerial Decision 13913/319/20.03.2012, GG B/862/20.03.2012
The Government adopts the provisions instituting EETT as a One-Stop Shop for the licensing of antennae and base stations. **[end-February 2012]**	**OBSERVED** Law 4053/2012, GG A44/07.03.2012
The Law transposing the 2009 Reform Package (*i.e.*, Directive 2009/140/EC and Directive 2009/136) is adopted by Parliament. **[Q1-2012]**	**OBSERVED** Law 4070/2012, GG A82/10.04.2012
Regarding the Digital Dividend, the Government (and/or EETT): - defines a legal framework in primary law that envisages a mandatory date for switch-off of analogue broadcasting for 30/06/2013 and a technologically neutral utilisation of the 800MHz band after the switch off, taking also into account the provisions of the draft Radio Spectrum Policy Programme (RSPP). [Q1-2012]	**PARTIALLY OBSERVED.** (see new MoU, section 6.2.1.v, MARCH 2013) The Greek authorities have requested a derogation from the deadline provided by Article 6(4) of the Radio Spectrum Policy Program (RSPP) and communicated to the Commission services a draft ministerial decision with a tentative date for the switch off.
- completes the studies on the evaluation of the value of the Digital Dividend and on the strategy for the granting	**OBSERVED** The study by Analysis Mason (on the value of the digital

of the Digital Dividend (800 MHz band). [Q1-2012].	dividend) was put on public consultation in March 2012. The strategy was presented on 5 April 2012.
- resolves cross-border coordination issues with neighbouring countries. If difficulties on international coordination make this date unfeasible, the frequency and broadcasting plans might indicate alternative channels for re-location of broadcasters, while continuing negotiations with third countries in view of the final assignment of frequencies to broadcasters and mobile operators. [Q2-2012]	**ONGOING** (new MOU 6.2.1.4, CONTINUOUS) Greece should continue its efforts to resolve any cross-border coordination problems as soon as possible. In the digital map put under public consultation (see MoU item below), the Digital Divided band is free from any broadcasting.
- launches the consultation for the amendment of the frequency and broadcasting plans. [Q2-2012]	**OBSERVED** The public consultation for the broadcasting plan finished on 23 September 2012.
- amends the frequency and the broadcasting plans, depending on the outcome/actual state of play of international coordination. [Q3-2012]	**NOT OBSERVED. PROGRESS MADE** (see new MoU, section 6.2.1.i, NOVEMBER 2012)
- adopts necessary secondary legislation for the assignment of licenses for broadcasting and for the establishment of licensing procedures, antennae specifications, etc. [Q3-2012]	**NOT OBSERVED. PROGRESS MADE** (see new MoU, section 6.2.1.ii, MARCH 2013)
- launch the public consultation on the tender procedure for the assignment of the digital dividend to broadband. [Q4-2012]	**NOT RELEVANT YET** (see new MoU, section 6.2.1.iii, DECEMBER 2012) The new deadline may be amended according to the decision of the Commission on the request for derogation from the deadline provided by the Radio spectrum policy programme submitted by the Government in May 2012.
- proceed to the tender for the assignment of definitive rights of use for broadcasting transmission. [Q1-2013]	**NOT RELEVANT YET** (see new MoU, section 6.2.1.vi, MARCH 2013)
- proceed to the tender procedure for the assignment of frequencies of the digital dividend, allocating and authorising the use of the digital dividend (800 MHz band) to Electronic Communications Services in line with EC Decision 2010/267/EU and in respect of the deadlines and procedures of the RSPP. [Q2-2013]	**NOT RELEVANT YET** (see new MoU, section 6.2.1.vii, DECEMBER 2012) The new deadline may be amended according to the decision of the Commission on the request for derogation from the deadline provided by the Radio spectrum policy programme submitted by the government in May 2012.
R&D and innovation	
The Government pursues an up-to-date and in-depth evaluation of all R&D and on-going innovation actions, including in various operational programmes and existing tax/subsidy incentives with their costs and benefits. It presents a strategic action plan for policies aimed at enhancing the quality and the synergies between public and private R&D and innovation, as well as tertiary education. This action plan identifies a clear	**OBSERVED**

timetable for relevant measures to be taken, taking the budgetary impact into account and harmonising these actions with other relevant initiatives in these areas, in particular the investment law. **[Q1-2012]**	
Better regulation	
Legislation is adopted to improve regulatory governance [Q1-2012], 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. - the requirement that the government produces an annual plan with measurable targets for administrative burden reduction, deregulation and other policies for the simplification of legislation. 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 assessments. - an independent authority and the Central Better Regulation Unit carry out quality checks of impact assessments; the independent authority also gives an opinion on progress made on the governments' better regulation agenda. - the Central Better Regulation Unit delivers its opinion on the quality of impact assessments before draft legislation is sent to the Cabinet.	**OBSERVED** Cfr. Law No 4048 on regulatory governance: principles, procedures and tools of good law-making, published on the GG of 23 February 2012.

- the Central Better Regulation Unit consults the Hellenic Competition Commission when formulating and drafting the guidelines to be implemented by the ministries' better regulation units. - impact assessments are published. Under no circumstances will this law impede the passing of urgent legislation during the duration of the programme.	
The Government will set a deadline for the completion of measurements in each of the priority areas, for the identification of proposals to reduce burdens and for the amendment of the regulations. This policy initiative should reduce administrative burdens by 25 percent (compared with the baseline year 2008) in the 13 priority areas. **[February 2012]**	**OBSERVED** The government will apply the Standard Cost Model to identify unnecessary administrative burdens. The OECD will assist the Government in delivering results. The technical assistance project will run over a 10 months' period and is expected to be completed in September 2013. The contract between the Greek government and the service provider (OECD) was signed in the second week of September 2012.
To raise the absorption rates of structural and cohesion funds	
The Government meets targets for payment claims and major projects in the absorption of EU structural and cohesion funds set down in the table below. Compliance with the targets shall be measured by certified data.	**ONGOING** (see new MoU, section 7.1. Q4 2012) The target for the first half of the year has not been observed. The Greek authorities have submitted payment of claims of EUR 732.62 million; EUR 200 million have been suspended from the claim (due to the development law and state aid clearance on infrastructure projects); EUR 167 million of realised expenses cannot be claimed (as it has exceeded the budget limit, until revision of OPs). This realised expenditure is pending approval by the EC services, for which the payment claim can go to EUR 1,099.62.
In meeting absorption rate targets, recourse to non-targeted state aid measures is gradually reduced. The Government provides data on expenditure for targeted and non-targeted *de minimis* state aid measures co-financed by the structural funds in 2010 and in 2011. **[Q1-2012]**	**OBSERVED**
Legislation is adopted, and immediately implemented, to shorten deadlines and simplify procedures on contract award and land expropriations, including the deadlines needed for the relevant legal proceedings. **[Q1 2012]**	**PARTIALLY OBSERVED** (see new MoU, section 7.5, Q1 2013) Legislation has only been adopted on the expropriation [Law 4070/2012]
The Government earmarks amounts to: - complete unfinished projects included in the 2000-06 operational programme closure documentation (ca. EUR 260 million). [Q2 2012] - complete the implementation and closure of the 2000-06 cohesion-fund projects. [Q2 2012] - cover the required national contribution, including non-	**OBSERVED** Funding is ensured. The Ministry has asked all Managing Authorities to send payment requests for all unfinished projects. Managing authorities are submitting their requests and the Ministry has allocated the relevant funds.

eligible expenditure (i.e. land acquisitions) in the framework of the 2007-13 operational programmes. [Q2 2012]	Ibid. Funding is ensured: the Ministry has asked all Managing Authorities to send payment requests for the implementation and completion of the 2000-06 cohesion-fund projects. The Ministry allocated relevant funds to cover the national contribution including non-eligible expenditure
The Government identifies the necessary amounts from ERDF within the 2007-13 operational programmes for the first allocation to the guarantee mechanism for small and medium-sized enterprises. **[Q1 2012]**	**OBSERVED** The Ministry identified the necessary amounts for the first allocation to the guarantee mechanism
The Government ensures that the web-based monitoring tool of procedures for the approval of project proposals and for the implementation of public projects is available to the public by **February-2012**.	**OBSERVED**
Based on the assessment of the measures adopted since May 2010 to accelerate the absorption of structural and cohesion funds, the Government takes measures to speed up absorption and to simplify project implementation by i) mapping responsibilities and removing unnecessary steps; ii) consolidating management capacities where appropriate (e.g. waste treatment) in accordance with existing management and control systems. **[Q2-2012]**	**OBSERVED** - Simplification of tax and social security of NSRF project beneficiaries - Law 4072 Official Gazette 86/A/11.04.2012 - Possibility of advance payment in co financed public projects - Law 4072 Official Gazette 86/A/11.04.2012 - Expropriations - Law 4070 Official Gazette 82/A/10.04.2012 - Financing of ineligible VAT - Common Ministerial Decision 26931 Official Gazette 1968/B/18.06.2012 - Abolishment of further specialisation of selection criteria for the Monitoring Committees - Circular 31695/13.07.2012 - Abolishment of non necessary steps in the procedure of non significant modification of a selection decision - Circular 31693/13.07.2012
To accelerate the absorption of EU financing and following the increase in the EU co-financing rates, Government will, by **Q1-2012**: - establish appropriate monitoring tools for priority projects. These projects should be operational by 2015 at the latest.	**OBSERVED** A detailed monitoring system for the priority projects has been adopted.
- report to the Commission the final results of the activation or elimination of sleeping projects (i.e. projects already approved in the operational programmes but not yet contracted within the timeframes defined at the national level). For retained projects, the Government indicates the conditions that must be met to keep the co-financing.	**OBSERVED** The Ministry reports to the Commission on the removal of sleeping projects in NSRF OPs.
- create a central database monitoring compensation and the time elapsed for the completion of expropriations	**OBSERVED** New database – Monitoring Tools of Expropriations- was

incurred in the framework of the implementation of projects co-financed by the ERDF and the Cohesion Fund.	created after the adoption of Law 4070/2012 on expropriations. The database is an extension of the existing MIS database.

Table A8 – Education

To upgrade the education system	
The Government implements the Action Plan for the improvement of the effectiveness and efficiency of the education system and regularly reports (twice a year) on the progress of its implementation, including an indicative planning of self-evaluations and external evaluations of Higher Education institutions in compliance with the new Law 4009/2011 on Higher Education. [**Q2-2012**]	**OBSERVED AND ONGOING** (see new MoU, section 2.10.1 DECEMBER 2012; 2.10.2 MARCH 2013; 2.10.3 MARCH 2013) While the action plan has been improved, progress on implementation still needs proper monitoring through credible enforcement mechanisms. ADYP now operational, since recent appointment of its President.

Table A9 – Judicial system

To reform the judicial system	
Specifically, the Government submits the draft law addressing issues of fair trial and denial of justice to the Greek Parliament, which *i.a.* encompasses an amendment of Law 1756/1988 on the organisation of courts and the situation of court officials, and dissuasive measures against non-cooperative debtors in enforcement cases, with a view to having it adopted during the current parliamentary term. **[Q1-2012]**	**OBSERVED** Law 4055/2012 on fair trial and denial of justice was adopted by the Hellenic Parliament on 6 March 2012.
The Government establishes a task force, which is broadly representative of the legal community, including but not limited to academia, practising lawyers, in-house lawyers, and lawyers from other EU Member States established or offering their services in Greece. This taskforce reviews the Code of Civil Procedure to bring it in line with international best practice on, *inter alia*, i) judicial case management, including the possibility of removing dormant cases from court registers; ii) relieving judges from non-adjudicatory work, such as pre-mortgaging of immovable property, formation and dissolution of incorporated entities and consensual/non-litigious family law applications, iii) the enforcement of decisions and of orders to pay, in particular small claims cases with a view to reducing the role of the judge in these procedures, and iv) enforcing statutory deadlines for court processes, in particular for injunction procedures and debt enforcement and insolvency cases. For the purposes of this Memorandum, judicial case	**OBSERVED** The government has appointed nine Greek experts, who started operating on 10 April 2012. Two international experts have been appointed (with the assistance of the TFGR). The Ministry of Justice expects that a new draft Code of Civil Procedure will be ready by the end of 2013. The draft will then be submitted to the Parliament and voted following the fast track procedure for codified legislation.

management means the possibility of judges to be involved early in identifying the principal factual and legal issues in dispute between the parties, require lawyers and litigants to attend pre-hearing conferences and manage the conduct of proceedings and the progression of the case to achieve the earliest and most cost-effective resolution of the dispute. **[Q1-2012]**	
In order to facilitate the work of the existing task force mandated to design a performance and accountability framework for courts, the Government will compile and publish the information indicated in Annex 2.	**PARTIALLY OBSERVED** (see new MoU, Annex 9.4, CONTINUOUS) The MoJ has submitted statistical data on administrative and on civil courts. However, there is no information on recovery rates for tax cases and no breakdown according to case value. Statistical information can be found on the MoJ's website -the Authorities explained that courts cannot gather data on recovery rates, as they do not have information of what happens after a judge rules on the case. Data on recovery rates on tax / customs cases can be gathered by the Ministry of Finance. So far, the process of collecting data is based on manual contributions from judges, thus involving a time gap between collection and publication of such data. The development of e-justice applications is expected to improve the efficiency of court data compilation. Cooperation between ELSTAT (Hellenic Statistical Authority) and the MoJ on judicial statistics should also be improved, in particular as regards the special service in the Ministry of Justice dealing with statistics which has been set up. The taskforce in charge of designing a performance and accountability framework submitted its final report, which was passed to the EC/IMF/ECB during the technical meeting of 30 July 2012.
The Government presents a qualitative study on recovery rates in enforcement proceedings, evaluating the success rates and the efficiency of the various modes of enforcement. **[Q2-2012]**	**OBSERVED** The Ministry of Justice submitted the study to the Commission services on 14 September 2012.
The Government decides on the date by when it will open the access to the regulated profession of mediator to non-lawyers in line with the conditionality on regulated professions and presents an action plan ensuring that non-lawyers may offer mediation services starting from that date. **[Q1-2012]**	**NOT OBSERVED** (see new MoU, section 5.2.7.3, DECEMBER 2013) No date has been fixed so far. The government only intends to consider the date for opening access by the end of 2013. However, this is contrary to the wording of the MoU and the Ministry's communication of 6 April 2012. The Ministry of Justice has shown reservations to the opening of mediation activities to non-lawyers, citing unsuccessful past experiences. According to the MoJ, the support of the legal profession (which would be lost if lawyers lost the exclusivity in mediation services) is critical to ensure a seamless development of mediation in

	Greece.
Following on the submission of the work plan for the reduction of the backlog of tax cases in all administrative tribunals and administrative courts of appeal in January 2012, which provides for intermediate targets for reducing the backlog by at least 50 per cent by end-June 2012, by at least 80 per cent by end-December 2012 and for the full clearance of the backlog by end-July 2013, the Government presents by **end-May 2012** and **thereafter once a quarter, updated and further refined work plans** (ensuring that priority is placed on high value tax cases –i.e., exceeding €1 million-) and takes remedial action in case of anticipated or actual deviations.	**PARTIALLY OBSERVED.** (new MOU 5.2.3, CONTINUOUS) The update was presented on 5 July 2012. The Q2 2012 50% reduction target has not been met. Whilst at appeal court level the 50 per cent target has been reached in seven out of nine cases, at first instance level the average backlog reduction is 34 per cent (with 26 out of 30 courts having missed the 50 per cent reduction target). The Authorities attribute the slippage to the April-June 2012 electoral period, to the lawyers' strikes and above all, to the lack of administrative support staff for judges (with the ratio of administrative staff to judges being one of the lowest in the EU). The Authorities find it imperative to recruit 300 new staff (including secretaries, clerks, and IT specialists) promptly, to increase the productivity of judges.
The task force mandated to review the Code of Civil Procedure to bring it in line with international best practice will prepare a concise concept paper which will identify the core issues and bottlenecks at the pre-trial, trial and enforcement stages of civil cases, examples of which are outlined above, and set out proposed solutions in general terms. **[Q2 2012]**	**OBSERVED** The concept paper was received on 16 July 2012.
As publicly announced, the Government adopts a Presidential Decree providing for the rationalisation and reorganisation of the magistrates' courts and the allocation of appropriate human resources and infrastructure for the new structure of magistrates' courts resulting from this reform. **[Q2 2012]**	**OBSERVED** The Presidential Decree on the rationalisation and reorganisation of the magistrates' courts was published on the Government Gazette on 15 October 2012.
The Government prepares a strategy on the active promotion of pre-trial conciliation, mediation, and arbitration, with a view to ensuring that a significant amount of citizens and businesses make use of these modes of alternative dispute resolution. **[Q2-2012]**	**OBSERVED** Law 4055/2012 introduced court based mediation. The courts have appointed judges who will act as mediators. First indications from courts appear to be encouraging and show that the system has started working. Meanwhile, the MoJ has prepared an application to obtain funding to promote mediation under the operational programme Human Resource Development managed by the Ministry of Labour and Social Security. Initiatives fall under the following three categories: i) training activities for certified trainers; ii) awareness campaigns on mediation; iii) day events and seminars, involving businessmen and lawyers. These actions will be carried out throughout the next three years, with the first actions under ii) and iii) already envisaged for autumn 2012; action i) will start at a later stage.

Starting from **end-June 2012**, Government updates and further refines every quarter the e-justice work plan of December 2011 for the use of e-registration and e-tracking of the status of individual cases in all courts of the country and for e-filing. The updates will contain deadlines for the evaluation and completion of pilot projects and information regarding the extension of e-registration and e-tracking to all courts by **end-2013**.	**OBSERVED** (see new MoU, section 5.2.3, CONTINUOUS) An updated version of the e-Justice action plan was submitted to the EC/IMF/ECB on 12 July 2012. The MoJ has expressed its commitment to develop e-Justice applications before end-2015 - the last year of the current National Strategic Reference Framework programing period. On e-filing, the MoJ has granted 500 signatures to date within the framework of the pilot project at the Athens Court of First Instance. The Athens Bar Association should increase efforts to promote e-signature and e-filing, and provide training to applicants.
By **end-August 2012**, Government presents, based on the study of the backlog of non-tax cases in courts conducted jointly with an external body of experts and to be presented by **end-June 2012,** an action plan with specific measures for a reduction of such backlog of at least 50 per cent by **end-July 2013** and starts implementing the action plan. The study has not been sent to the Commission services to date.	**NOT OBSERVED** (see new MoU, section 5.2.4, OCTOBER 2012 and JANUARY 2013) The Ministry of Justice has requested an extension for the delivery of the external study of the backlog of non-tax cases in courts until the end of September and corresponding extensions for the implementation of measures linked to this study. The extension does not affect the originally agreed deadline of end-July 2013 to reduce the backlog of non-tax cases by at least 50 per cent. The submission of the study is cumulating delays.
The Government holds a series of workshops to discuss the findings and recommendations in the concept paper prepared by the task force on the review of the Code of Civil Procedure. These workshops will allow for broad consultation of domestic stakeholders and participation from recognised international experts in the field of civil procedure. **[Q3-2012]**	**NOT OBSERVED** (see new MoU, Annex 9.3, MAY 2013)
The Government conducts an assessment of whether the enactment of Law 3898/2010 on mediation in civil and commercial matters has delivered the results which the legislation had set out to do, and presents data and analysis concerning costs, time and success rates associated with the enforcement of agreements arising from alternative dispute resolution as compared with the enforcement of judicial decisions. **[Q4-2012]**	**NOT INITIATED / NOT RELEVANT YET** (see new MoU, section 5.2.7.2, SEPTEMBER 2013)
The task force on the review of the Code of Civil Procedure prepares a detailed paper outlining the main proposals for amendments to the Code of Civil Procedure. **[Q4-2012]**	**NOT INITIATED / NOT RELEVANT YET** (see new MoU, Annex 9.3, MARCH 2013)
The Government implements the Presidential Decree on the reform of the magistrates' court by creating their new structure, filling vacant positions with graduates from the National School of Judges and redeploying judges and administrative staff on the basis of existing resources available within Greece's judiciary and public	**NOT INITIATED / NOT RELEVANT YET** (see new MoU, section 5.2.5, Q1 2013)

administration. **[Q4-2012]**	
The Government launches, jointly with an external body of experts, a study on the costs of civil litigation, its recent increase and its effects on workload of civil courts, with recommendations due by end-December 2013. **[Q2-2013]**	**NOT INITIATED / NOT RELEVANT YET** (see new MoU, section 5.2.8.4, Q2 2013)

Table A10 – Labour market

To ensure a rapid adjustment of the labour market and strengthen labour market institutions	
Given that the outcome of the social dialogue to promote employment and competitiveness fell short of expectations, the Government will take measures to foster a rapid adjustment of labour costs, fight unemployment and restore cost-competitiveness, ensure the effectiveness of recent labour market reforms, align labour conditions in former state-owned enterprises to those in the rest of the private sector and make working hours arrangements more flexible. This strategy should aim at reducing nominal unit labour costs in the business economy by 15 percent in 2012-14. At the same time, the Government will promote smooth wage bargaining at the various levels and fight undeclared work.	**OBSERVED AND ONGOING** (see new MoU, section 4) Significant progress in the reduction of wage labour cost to date, with evidence of sizeable declines in wages in the private sector possibly to lead to a reduction of 15% in unit labour costs in the private sector by 2014. Major measures to fight undeclared work are still to be taken.
Exceptional legislative measures on wage setting	
Prior to the disbursement, the following measures are adopted: - The minimum wages established by the national general collective agreement (NGCA) will be reduced by 22 percent compared to the level of 1 January 2012; for youth (for ages below 25), the wages established by the national collective agreement will be reduced by 32 percent without restrictive conditions. - Clauses in the law and in collective agreements which provide for automatic wage increases, including those based on seniority, are suspended.	**OBSERVED** Law 4046/2012 Official Gazette 28/A/14.02.2012 A cabinet act Official Gazette 38/A/28.02.2012 Joint Ministerial Decision 3800/359/01.03.2012 Official Gazette 565/B/02.03.2012 Circular 4601/304/12.03.2012
Reforms in the wage-setting system	
The Government will engage with social partners in a reform of the wage-setting system at national level. A timetable for an overhaul of the national general collective agreement will be prepared by **end-July 2012**. The proposal shall aim at replacing the wage rates set in the NGCA with a statutory minimum wage rate legislated by the government in consultation with social partners.	**ONGOING / INITIATED** (see new MoU, section 4.1.a) This was done with the adoption of the Omnibus Law, which represents a delay compared with the deadline.
Measures to foster the re-negotiation of collective contracts	
Prior to the disbursement, legislation on collective	**OBSERVED**

agreements is amended with a view to promoting the adaptation of collectively bargained wage and non-wage conditions to changing economic conditions on a regular and frequent basis. Law 1876/1990 will be amended as follows: - Collective agreements regarding wage and non-wage conditions can only be concluded for a maximum duration of 3 years. Agreements that have been already in place for 24 months or more shall have a residual duration of 1 year. - Collective agreements which have expired will remain in force for a period of maximum 3 months. If a new agreement is not reached, after this period, remuneration will revert to the base wage and allowances for seniority, child, education, and hazardous professions will continue to apply, until replaced by those in a new collective agreement or in new or amended individual contracts.	Law 4046/2012 Official Gazette 28/A/14.02.2012 Cabinet Act Official Gazette 38/A/28.02.2012 Circular 4601/304/12.03.2012
Raising the potential of recent labour market reforms	
Prior to the next disbursement, legislation is revised so that arbitration takes place when agreed by both employees and employers. The government will clarify that arbitration only applies to the base wage and not on other remuneration, and that economic and financial considerations are taken into account alongside legal considerations.	**OBSERVED** Law 4046/2012 Official Gazette 28/A/14.02.2012 Cabinet Act Official Gazette 38/A/28.02.2012 Circular 4601/304/12.03.2012
Moreover, by **October 2012**, an independent assessment of the working of arbitration and mediation shall be prepared, with a view to improve the arbitration and mediation services in order to guarantee that arbitration awards adequately reflect the needs of wage adjustment.	**NOT RELEVANT ANYMORE** Assessment delayed. Authorities have contacted ILO for the undertaking of the assessment of OMED. However, issue is now less urgent as Arbitration is very little used since laws have been changed in February 2012.
Legacy issues and special labour conditions	
Prior to the disbursement, clauses on tenure (contracts with definite duration defined as expiring upon age limit or retirement) contained in law or in labour contracts are abolished.	**OBSERVED** Law 4046/2012 Official Gazette 28/A/14.02.2012 Cabinet Act Official Gazette 38/A/28.02.2012 Circular 4601/304/12.03.2012
The Government carries out an actuarial study of first-pillar pension schemes in companies where the contributions for such schemes exceed social contribution rates for private sector employees in comparable firms/industries covered in IKA. Based on this study, the Government reduces social contributions for these companies in a fiscally-neutral manner **[Q3-2012].**	**NOT OBSERVED** (see new MoU, section 4.3.3-4, Q2 to Q4 2013) Results of the studies should be published by Q2 2013 and measures taken by Q4-2013.
Non-wage labour costs, fighting undeclared work and social contribution evasion	
The Government will enact legislation to reduce social contributions to IKA by 5 percentage points and implement measures to ensure that this is budget neutral. Rates will be reduced only once sufficient measures are	**PARTIALLY OBSERVED AND ONGOING** (see new MoU, section 4.3.1-2, Q4 2013) Law 4046/2012 closed OEK and OEE and Cabinet Act 6/2012 of 28.02.2012 specified that there will not be any

in place to cover revenue losses. The measures to finance rate reductions will be legislated in two steps. First, as a **prior action**, legislation will be enacted to close small earmarked funds engaged in non-priority social expenditures (OEK, OEE), with a transition period not to exceed 6 months. Second, by **end-September 2012**, the government will adjust pensions (with protections for low-income pensioners), and adjust the base for contribution collections.	new programmes subsidies by OEK and OEE. Existing programmes were shifted to OAED. Social contribution rates were reduced by 1.1 percentage point with adoption of the November 2012 Omnibus Law. The cut of the remaining 3.9 percentage points will be taken within a broader reform of social contributions that should be prepared in 2013 and phased in as of 2014.
An independent assessment on the effectiveness of the Labour Inspectorate structure and activities will be carried out. Corrective actions to tackle the ineffectiveness found in that assessment will be presented. These may include changes in the organisation and work of the Labour Inspectorate, reinforced anti-fraud and anti-corruption mechanisms and reinforced monetary and legal penalties for infringement of law and labour regulations and for social contribution evasion. Quantitative targets on the number of controls of undeclared work to be executed will be set for the Labour Inspectorate **[Q2-2012]**.	**INITIATED** (see new MoU, section 4.4.b, PA) The authorities have agreed with the ILO on this assessment. Assessment has started and should be ready by end Q4-2012, meaning the original deadline was missed.
A fully articulated plan for the collection of social contribution will be developed by **end-September 2012**. Already by **end-March 2012**, the collection of taxes and social contributions of the largest tax debtors is unified, and there will be common audits of tax and social contributions for large payers.	**PARTIALLY OBSERVED** (see new MoU, section 2.3.3.5 MARCH 2014) An action plan was just finalised and is expected to be confirmed soon through a circular (should lead to an assessment of 'observed' for the action plan). The unification of tax and social contributions collection is not expected to take place before 2014. The unification of the collection of taxes and social contributions of the largest tax debtors for large tax debtors was not unified by March 2012 as previously agreed.
The Labour Card is progressively introduced as of **March 2012** and every firm in specific sectors will be obliged to use it by end-2012. For those firms using the labour card, the simultaneous payment by electronic means of wages, withheld payroll taxes and social contributions will be made compulsory. **[Q2-2012]**	**NOT OBSERVED** No progress on Labour Card, which may be less relevant looking forward, as there are many practical problems and concerned reactions with this initiative. Payment of wages, withheld taxes and social contributions by electronic means expected to be made compulsory soon.

Table A11 – Professions

Regulated professions	
Implementation of Chapter A of Law 3919/2011	
Prior to the disbursement, the Government screens and makes the necessary changes to ensure that the regulatory framework (e.g., laws, presidential decrees, ministerial decisions, circulars) of the following professions and economic activities is fully in line with chapter A of law	**OBSERVED** (new MOU, Annex 9.2.1, PA) Cfr. section L3 of the Law on the approval of the medium-term fiscal policy framework 2013-2016 and on urgent implementation measures for law 4046/2012 and for the medium-term fiscal policy framework 2013-

3919/2011: - private providers of primary care services i.e., i) private providers of primary health care (private doctors and dentists' practices; private group doctors' and dentists' practices; private diagnostic centres; private centres for physical medicine and rehabilitation); ii) chronic dialysis units other than in hospitals and clinics; iii) dental laboratories; iv) shops for optical use and contact lenses; v) physiotherapy centres; vi) beauty salons; vii) slimming/dietary businesses;	2016.
- stevedores (loaders for land operations at central markets);	**OBSERVED** (new MOU, Annex 9.2.1, PA) Cfr. section K7 of the Law on the approval of the medium-term fiscal policy framework 2013-2016 and on urgent implementation measures for law 4046/2012 and for the medium-term fiscal policy framework 2013-2016, as amended.
- sworn-in valuators;	**OBSERVED** (new MOU, Annex 9.2.1, PA) Cfr. section E6 of the Law on the approval of the medium-term fiscal policy framework 2013-2016 and on urgent implementation measures for law 4046/2012 and for the medium-term fiscal policy framework 2013-2016.
- accountants and tax consultants;	**OBSERVED** (new MOU, Annex 9.2.1, PA) Cfr. section H5 of the Law on the approval of the medium-term fiscal policy framework 2013-2016 and on urgent implementation measures for law 4046/2012 and for the medium-term fiscal policy framework 2013-2016, as amended.
- actuaries;	**OBSERVED** (new Commitments in new MOU, Annex 9.2.1, PA) Cfr**.** Circular ADA B4PPH-X1F However, interpretative circulars should eventually be confirmed by the adoption of formal amendments to the sector specific legislation. Moreover, in its opinion no. 14/VI/2012, the Hellenic Competition Commission recommended to review the regulatory framework governing the examination process so as to prevent the Hellenic Actuarial Society (HAS) from determining indirectly the number of successful candidates in the examinations in the inters of the incumbents. Draft legislation accommodating the opinion of the Hellenic Competition Commission was submitted to the Commission services on 12 September 2012.
- temporary employment companies;	**OBSERVED** (new MOU, Annex 9.2.1, PA) Cfr. section K8 of the Law on the approval of the medium-term fiscal policy framework 2013-2016 and on urgent implementation measures for law 4046/2012 and

	for the medium-term fiscal policy framework 2013-2016.
- private labour consultancy offices;	**OBSERVED** (new MOU, Annex 9.2.1, PA) Cfr. section K9 of the Law on the approval of the medium-term fiscal policy framework 2013-2016 and on urgent implementation measures for law 4046/2012 and for the medium-term fiscal policy framework 2013-2016.
- tourist guides;	**OBSERVED** (new Commitments in new MOU, Annex 9.2.1, PA) Cfr**.** section N1 of the Law on the approval of the medium-term fiscal policy framework 2013-2016 and on urgent implementation measures for law 4046/2012 and for the medium-term fiscal policy framework 2013-2016, as amended.
- real-estate brokers.	**OBSERVED** (new Commitments in new MoU, Annex 9.2.1, PA) *Cfr*. Arts. 198-204 of law 4072/2012 (Business Friendly Greece law) as amended by section H1.11-13 of the Law on the approval of the medium-term fiscal policy framework 2013-2016 and on urgent implementation measures for law 4046/2012 and for the medium-term fiscal policy framework 2013-2016.
The Government publishes on its website a report [**Q1-2012]** on the implementation of Law 3919/2011, including: - the list of all professions/economic activities falling under the scope of that law. - a timetable to screen and eliminate inconsistencies between Chapter A of Law 3919/2011 and the regulations (i.e., laws, presidential decrees, ministerial decisions and circulars) of professions and economic activities falling under that chapter. The timetable specifies the list of professions and economic activities prioritised by economic importance that will be assessed every quarter with a view to finalizing this exercise by end-2012.	**OBSERVED** (see new MoU, 6.5.1.3, CONTINUOUS) A progress report was submitted by the MoF on 6 July 2012. The report updates the list of regulated professions/ economic activities falling under law 3919/2011. In addition, the progress report includes a timeline for the revision of the regulatory framework of regulated professions of high economic importance.
For professions where reinstatement of restrictions is required in line with the principles of necessity, proportionality and public interest, the Government will pass the required legislation no later than **end-June 2012** upon consultation with the HCC and the Commission, IMF and ECB staff teams.	**NOT OBSERVED. PROGRESS MADE** (see new MoU, section 6.5.1.2, DECEMBER 2012) Draft legislation reintroducing justified restrictions in specific regulated professions (following the opinion of the Hellenic Competition Commission on whether these restrictions are justified and proportionate) was submitted to the Commission services on 12 September 2012. The authorities have announced that they will include provisions in that piece of legislation to increase transparency in professional bodies -see below- and to

	empower the Ministry of Finance to review legislation on regulated professions coming from other ministries before it is enacted.
Measures for regulated professions falling under chapter B of law 3919/2011	
The Government also adopts legislation **[Q2-2012]** to: - reinforce transparency in the **functioning of professional bodies** by publishing on the webpage of each professional association the following information: - the annual accounts of the professional association. - the remuneration of the members of the Governing Board broken down by function. - the amounts of the applicable fees broken down by type and type of service provided by the professional association as well as the rules for their calculation and application. - statistical and aggregate data relating to sanctions imposed, always in accordance with the legislation on personal data protection. - statistical and aggregate data relating to claims or complaints submitted by consumers or organisations and the reasons for accepting or rejecting the claim or the complaint, always in accordance with the legislation on personal data protection. - any change in the professional codes of conduct, if available. - the rules regarding incompatibility and any situation characterised by a conflict of interests involving the members of the Governing Boards.	**NOT OBSERVED. PROGRESS MADE** (see new MoU, section 6.5.1.4, DECEMBER 2012) The MoJ has introduced some transparency requirement for lawyers and the former Ministry of Infrastructure has done the same for engineers. However, for the legal profession it has not been specified what information should be provided by the Bar association and for the engineers, the transparency requirements do not cover all the items listed in the Memorandum. In any case, the transparency requirement, covering all professional associations, will be included in the legislation prepared by the government to reintroduce justified restrictions (see MoU requirement above).
Additional measures on regulated professions	
On fixed fees applied by the main regulated professions: - The Government amends Art. 10 of Presidential Decree 100/2010 on the authorization process and applicable fees for energy inspectors, to repeal the minimum fees for energy inspection services provided for thereof and to replace the fixed fees per square meter by maximum fees. [Q2-2012]	**OBSERVED.** (new MOU Annex 9.2.1, PA) Cfr. section J1 of the Law on the approval of the medium-term fiscal policy framework 2013-2016 and on urgent implementation measures for law 4046/2012 and for the medium-term fiscal policy framework 2013-2016, as amended.
- For the legal profession, the Government issues a Presidential Decree, which sets prepaid amounts for each procedural act or court appearances (i.e., it sets a system of prepaid fixed/contract sums for each procedural act or appearance by a lawyer which is not linked to a specific ‘reference amount’). [Q1-2012]	**NOT OBSERVED** (see new MoU, section 6.5.1.5, NOVEMBER 2012) There is a draft Presidential Decree ready for the Minister of Justice's signature. However, its signature is cumulating delays.
- The Government carries out an assessment regarding the extent to which the contributions of lawyers and architects to cover the operating costs of their professional associations are reasonable, proportionate and justified. [Q1-2012]	**OBSERVED**

- The Government identifies ways of decoupling taxation, social contributions, distribute funds (if applicable) and payments to the professional associations from legal fees. [April 2012]	**PARTIALLY OBSERVED** (see new MoU, section 6.5.1.5, DECEMBER 2012) For lawyer's court appearances, this requirement would be fulfilled if the PD setting prepaid amounts for each procedural act or court appearances (see above) was enacted. Regarding the fees for contracts, the situation remains unchanged. For engineers, legislation has been passed de-linking the payment of contributions to the Technical Chamber of Greece from legal fees (see section H6.4 of the Law on the approval of the medium-term fiscal policy framework 2013-2016 and on urgent implementation measures for law 4046/2012 and for the medium-term fiscal policy framework 2013-2016. In the context of the tax reform, taxation will be de-linked from legal fees / reference amounts.
- The Government defines contributions of lawyers and engineers to their professional associations that reflect the operating costs of the services provided by those associations. These contributions are paid periodically and are not linked to prices charged by professions. [Q3-2012]	**NOT OBSERVED** (see new MoU, section 6.5.1.5, DECEMBER 2012)
Revision of the areas of reserve of activities of regulated professions: - The Government presents the results of screening of the regulations of the professions to assess the justification and the proportionality of the requirements reserving certain activities to providers with specific professional qualifications. [Q2-2012]	**PARTIALLY OBSERVED** (see new MoU, section 6.5.1.6.i, NOVEMBER 2012) The Government has submitted information regarding the engineering profession. The information on other relevant professions, such as the legal profession, is missing.
- The Government modifies the unjustified or disproportionate requirements reserving certain activities to providers with specific professional qualifications, starting from the main regulated professions. [Q3-2012]	**NOT OBSERVED** (see new MoU, section 6.5.1.6,ii, Q1 2013)
Reform of the Code of Lawyers	
In the context of the Government's initiative to revise the Code of Lawyers, the Government amends the terms of entry and re-entry as well as the conditions for the exercise of the profession. Draft legislation is presented to the European Commission by **end-February 2012** and is adopted by **end-June 2012**.	**NOT OBSERVED** (new MOU 6.5.1.7.ii, NOVEMBER 2012) The Authorities have communicated to the Commission services that they will submit the draft Code of Lawyers to the EC by end-October, though no document has been submitted so far.
Before end-June 2012, legislation is adopted to: - amend or repeal provisions on pricing and on access to, and exercise of, professional or economic activities that are against Law 3919/2011, EU law and competition principles. In particular, legislation: - repeals Art. 42.1 of Legislative Decree 3026/1954, regarding the mandatory presence of a lawyer for the	**OBSERVED** (new MOU 6.5.1.7.i, PA) Cfr. section M1.8. a-c of the Law on the approval of the medium-term fiscal policy framework 2013-2016 and on urgent implementation measures for law 4046/2012 and for the medium-term fiscal policy framework 2013-2016, as amended.

drawing up of documents before a notary for a series of legal transactions; - repeals Arts. 92.2 and 92A of Legislative Decree 3026/1954 providing for the minimum amounts and for the scale of minimum monthly amounts that are due to lawyers that are only remunerated for services rendered with a fixed periodic fee. This is without prejudice to having fee regulations for trainee lawyers.	
Recognition of professional qualifications	
All the necessary measures are taken to ensure the effective implementation of EU rules on the recognition of professional qualifications, including compliance with ECJ rulings (inter alia, related to franchised diplomas). In particular, the Government: - keeps updating the information on the number of pending applications for the recognition of professional qualifications, and sends it to the European Commission.	**OBSERVED** (see new MoU, section 6.5.2.2, CONTINUOUS on a quarterly basis)
- presents draft legislation by end-March 2012, to be adopted by Q2-2012, in order to remove the prohibition to recognise the professional qualifications derived from franchised degrees. Holders of franchised degrees from other Member States should have the right to work in Greece under the same conditions as holders of Greek degrees.	**OBSERVED** (new MOU 6.5.2.3, NOVEMBER 2012) Cfr. section I.16 of the Law on the approval of the medium-term fiscal policy framework 2013-2016 and on urgent implementation measures for law 4046/2012 and for the medium-term fiscal policy framework 2013-2016, as amended.
Services Directive	
The Government completes the adoption of changes to existing sectoral legislation in key services sectors such as retail (e.g. open air markets and outdoor trade), agriculture (e.g. slaughter houses), employment (employment agencies), real estate services and technical services (cfr. the section on business environment). The Government also adopts changes to the remaining sectoral regulation, ensuring full compliance with the directive. In particular, the following pending regulations are adopted by **Q1-2012**: - Law providing for the possibility of having secondary establishment for private employment agencies, eliminating fixed maximum rates, abolishing the requirement of having a minimum number of employees and allowing for the cross border provision of services of private employment agencies.	**OBSERVED** (new Commitments in new MoU, Annex 9.2.1, PA) *Cfr*. Arts. 98-115 of law 4052/2012) on private employment agencies, which remove the restrictions referred to in the MoU.
- Law on real estate agents.	**OBSERVED** (new Commitments in new MOU, Annex 9.2.1, PA) Cfr. Arts. 197-204 of law 4072/2012; see comments above.

- Presidential Decree abolishing the economic test for the opening of slaughter houses.	**OBSERVED** (*cfr*. PD 8/2012, FEK 11A/31.1.2012)
The Government carries out a proportionality analysis of the restrictions applied on outdoor / ambulant trade for social policy criteria. **[Q1-2012]**	**NOT OBSERVED** (see new MoU, section 6.4.2, DECEMBER 2012) The study submitted on 10 October 2012, whilst describing the regulation on outdoor trade in Greece, does not qualify as a proportionality analysis.
The Government also ensures: - that the Point of Single Contact (PSC) is fully operational in all sectors covered by the Services Directive; - that the PSC distinguishes between procedures applicable to service providers established in Greece and those applicable to cross-border providers (in particular for the regulated professions); - that there is adequate connection between the PSC and other relevant authorities (including one-stop shops, professional associations and the recognition of professional qualifications). [Q1-2012]	**NOT OBSERVED. PROGRESS MADE** (see new MoU, section 6.5.3, DECEMBER 2012) Whilst the IT infrastructure supporting the PSC is ready, there are some procedures missing in areas such as the technical professions, for which, the new legislative framework is currently being revised. The completion of all procedures needed for the recognition of professional qualifications is pending (given requirements to submit original certificates to the Ministry of Education). These missing actions are expected to be completed before the end of the year.

Table A12 – Business environment

To improve the business environment and enhance competition in open markets	
Studies on price flexibility	
The Government screens the main service sectors (including retail and wholesale distribution) and prepares an action plan to promote competition and facilitate price flexibility in product markets. **[April 2012]**	**OBSERVED** Whilst there has not been a submission of an action plan on retail *per se* by the Greek government, the Ministry of Development has been monitoring the implementation of the recommendations issued in the study on the Greek retail sector by McKinsey. In addition, on wholesale, the Ministry of Development submitted a study to the Commission services in April 2012.
Business environment	
Package of reform measures to improve the business environment	
The Government adopts a package of measures to improve the business environment to: - review and codify the legislative framework of exports (i.e., Law 936/79 and Law Order 3999/59), abolish the obligation of registration with the exporters' registry of the Chamber of Commerce and set the framework for the introduction of a single electronic export window. [Q1-2012]	**OBSERVED** cfr. Art.232 of law 4072/2012 "the Business Friendly Greece" law). However, the law delayed the implementation of this provision for 6 months, which means that *de facto*, the obligation to publish company data on newspapers will cease in 2013 (as companies normally publish their financial data in the first semester of each year).
- amend Arts. 26.2, 43B, 49.1, 49.5, 69.3 and 70.1 of Law 2190/1920, the corresponding articles in Law 3190/1955 and any other legal provisions to lift the requirement to publish company information in any	**OBSERVED** (*cfr*. Art.232 of law 4072/2012 "the Business Friendly Greece" law). However, the law delays the implementation of this provision for 6 months, which

kind of newspapers for companies with a website. This is without prejudice to the publication of company information in the Official Gazette / GEMI. [Q1-2012]	means that *de facto*, the obligation to publish company data on newspapers will cease in 2013 (as companies normally publish their financial data in the first semester of each year).
- repeal Art. 24 of Law 2941/2001, prohibiting the sale of merchandise at prices below the cost of purchase. This is without prejudice to Art. 2 of Law 3959/2001 on abuse of dominance in the form of predatory pricing and to Law 149/14 on unfair competition. [Q1-2012]	**OBSERVED.** (new MOU 6.4, PA) cfr. section H3 of the Law on the approval of the medium-term fiscal policy framework 2013-2016 and on urgent implementation measures for law 4046/2012 and for the medium-term fiscal policy framework 2013-2016, as amended.
- lift constraints for retailers to sell restricted product categories such as baby food provided for in Law 3526/2007 and its implementing legislation. [Q1-2012]	**OBSERVED** (see new MoU, section 6.4, PA) *Cfr*. section H3 of the Law on the approval of the medium-term fiscal policy framework 2013-2016 and on urgent implementation measures for law 4046/2012 and for the medium-term fiscal policy framework 2013-2016.
- repeal Art. 9 and 12 of Ministerial Decision A2-3391 concerning the submission of wholesale price lists, cost elements and contracts to the Ministry of Development, Competitiveness and Shipping. [Q1-2012]	**PARTIALLY OBSERVED** (see new MoU, section 6.4.3, FEBRUARY 2013) (*cfr*. MD A2-493 of 11 April 2012). The new MD provides that companies falling under its scope must submit data on the sales in 2011 broken down by the code of the product, merchandise or service to the Market Surveillance Agency at the Ministry of Development, Competitiveness and Shipping. Those companies must determine, after the closing of any subsequent financial year, their accounting data on the sales of the last closed financial year broken down by code of the product, merchandise or service if requested by the Special Secretary of the Market Surveillance Agency. The Commission services are concerned about potential competition policy concerns from the dissemination / publication of collected data to companies which are in competition which each other (retailers, producers). The concerns should be accommodated in the on-going review of the Code of Market regulations which was notified in mid-October to the EC.
- amend Art. 22 law 3054/2002 regulating the market of oil products and other clauses as well as its implementing ministerial decision to fully liberalize petrol station opening hours, with parallel application of the current system of compulsory night opening, on a rotating basis, on a certain number of petrol stations per prefecture outside the normal opening hours. [Q1-2012]	**OBSERVED** (*cfr*. Art. 37 of law 4062/2012)
- amend Art. 11(1) of law 3897/2010 to i) reduce the minimum distance provided for thereof between a petrol station and a place where more than 50 people may gather; ii) repeal the requirement to have an independent traffic connection for petrol stations within	**OBSERVED** (*cfr*. Art. 185 of Law 4070/2012)

the area of a hypermarket provided for in Article 11(1) of Law 3897/2010 and iii) amend Art. 11(6) of the same law to allow EEA citizens to open a petrol station in Greece. [Q2-2012]	
- repeal Art. 12.2 of Law 3853/2010, providing that draft model company statues will be first proposed by the chambers of notaries and lawyers before the Ministry of Development, Competitiveness and Shipping can issue the relevant common ministerial decision provided thereof. [Q1-2012]	**OBSERVED**. (new MOU 5.1.2.1.iii, DECEMBER 2012) cfr. section H1.10 of the Law on the approval of the medium-term fiscal policy framework 2013-2016 and on urgent implementation measures for law 4046/2012 and for the medium-term fiscal policy framework 2013-2016.
- cease to earmark the 0.15 percent surcharge (provided for in the Joint Ministerial Decision 25323/1960 and in Art. 64 of law 1249/1982) levied on the CIF value of imported goods from non-EU countries in favour of the Assistance Account of Foreign Trade. Government allocates the aforementioned amounts to the 2013 State budget. [Q2-2012]	**OBSERVED**
- cease to earmark the 0.5 percent charge provided for in the Emergency Statute 788/48 and in Law 3883/1958 on the value of all imported merchandise in favour of the National Technical University of Athens, the University of Thessaloniki, the Athens Academy and for the promotion of exports. Government allocates the aforementioned amounts to the 2013 State budget. [Q2-2012]	**OBSERVED** (new MOU 5.1.1.2,i, NOVEMBER 2012) The Authorities have implemented this measure in the 2013 fiscal budget (Law 4093/2012, Θ.1.2a and b).
- cease to earmark the non-reciprocating charge paid via the power public corporation bill in favour of the executive work provided for in No. T. 4363/1236. Government allocates the aforementioned amounts to the 2013 State budget. [Q2-2012]	**OBSERVED**
- cease to earmark the non-reciprocating charge calculated on the fuel price in favour of Mutual Distribution Fund of the Oil-Pump Operators of Liquid Fuel. Government allocates the aforementioned amounts to the 2013 State budget. [Q2-2012]	**OBSERVED** (new MOU 5.1.1.2,ii, NOVEMBER 2012) The Authorities have implemented this measure in the 2013 fiscal budget (Law 4093/2012, IA14 / 4a)..
Implementation of law 3982/2011 on the fast track licensing procedure for technical professions, manufacturing activities and business parks and other provisions	
The Government: - Issues the Joint Ministerial Decision of degrees of nuisance provided for in Art. 20.9 of 3982/2011. [March 2012]	**OBSERVED** The Joint Ministerial Decision was published on the Government Gazette FEK B: 1048/4-4-2012
- Issues the Joint Ministerial Decision on standardised environmental terms for industrial activities provided	**OBSERVED** The Joint Ministerial Decision published on the

for in Art. 36.1 of Law 3982/2011. [March 2012]	Government Gazette FEK B: 1275/11-4-2012
- Issues the Presidential Decrees on preconditions for obtaining a licence for industry technicians, plumbers, liquid and gaseous fuel technicians, cooling technicians and machine operators in constructions provided for in Art. 4.4 of Law 3982/2011. [March 2012]	**OBSERVED** (see new MoU, section 5.1.2.3.i, DECEMBER 2012) The PDs for industry technicians (PD 115 / FEK A 200/ 17-10-2012), plumbers (PD 112/ FEK A 197/17-10-2012) and liquid and gaseous fuel technicians (PD 114/ FEK A 199/17-10-2012) have been published in the Government's Gazette.
- Issues the Presidential Decrees on preconditions for obtaining a licence for electricians provided for in Art. 4.4 of Law 3982/2011. [May 2012]	**NOT OBSERVED. PROGRESS MADE** (new MOU 5.1.2.3.ii, FEBRUARY 2012) The PD on electricians has been sent to the Council of State for comments. The EC/ECB/IMF technical team provided written comments on the draft PD for electricians in the first half of October. Further adjustments are needed to simplify the conditions for licensing of electricians.
- Issues the Presidential Decree on Certified Inspectors provided for in Art. 27.4 of law 3982/2011. [Q2-2012]	**NOT OBSERVED. PROGRESS MADE** (new MOU 5.1.2.3.iii, FEBRUARY 2012) A draft Presidential Decree on certified inspectors was submitted to the Commission services in October 2012.
- Issues the Joint Ministerial Decision on the process of licencing business parks provided for in Art. 46.6 of law 3982/2011. [March 2012]	**OBSERVED** The Joint Ministerial Decision published on the Government Gazette FEK B: 583/2-3-2012.
Implementation of Law 4014/2011 on environmental licensing of projects and activities	
The Government: - Issues the Ministerial Decision provided for in Art. 2.7 of Law 4014/2011 on environmental licensing of projects and activities, laying down requirements for the content of the decision approving the environmental conditions according to the type of project or activity. [Q2-2012]	**OBSERVED** Cfr. Government Gazette no 2703/B/05.10.12
The Government: - Issues the Ministerial Decision provided for i) in Art. 8.3 of Law 4014/2011 on environmental licensing of projects and activities (other than industrial activities), laying down the standard environmental commitments of projects and activities in category B; The Government: - Issues the Ministerial Decision provided for in Art. 2.13 of Law 4014/2011 to further specify the procedure and specific criteria for environmental licensing. [Q2-2012]	**NOT OBSERVED. PROGRESS MADE** (new MOU 5.1.2.4, Q4- 2012 - Q1 2013) The Standard Environmental Commitments (SEC) for industrial activities are completed and published on the Government Gazette no 1275/B/12. The SEC for mobile telephony antennas, are completed and published on the Government Gazette no 1510/B/12. The SEC for projects and activities of category 6, (i.e. tourist activities, buildings, urban development projects) and category 10 (Renewable Energy Sources) are expected to be completed in December 2012. All of the above categories represent the 75% of total activities regulated by Standard Environmental Conditions (SEC). The remaining 25% (such as mines, infrastructure projects, poultry facilities etc.) shall be tendered out in October and

	expected to be completed before end-March 2013. The MD provided for in Art. 2.13 of law 4014/2012 is expected to be completed before the end of 2012.
Business-Friendly Greece	
The Government publishes on its website a plan for a Business-Friendly Greece, tackling remaining restrictions to business activities, investment and innovation not covered elsewhere in this memorandum. **[end-February 2012]**	**OBSERVED** The plan can be found on http://www.mindev.gov.gr/?page_id=6506
The Government implements the Business-Friendly Greece Action plan. **[Q1-2012]** The plan includes measures, among others, in order to: - complete the setting-up of the General Commercial Registry (GEMI) by promptly taking measures for the completion of the GEMI database, the further development of web services and use of electronic signatures, the interconnection of GEMI to the Chamber's information systems and to the PSC, in order to ensure access to online completion of procedures both for company formation and for any administrative procedures necessary for the exercise of their activities. **By July 2012, all companies established in Greece should be able to publish all relevant company data through GEMI.** - simplify environmental, building and operating permits. - develop a "single electronic window" centralizing standardized trade-related information and simplifying the number of documents needed to export. - address restrictions in the transport sector, including the transport of empty containers and of non-hazardous waste.	**OBSERVED**
Land registry and spatial planning	
The Government accelerates the completion of the land registry, with a view to: - tendering out all remaining rights (ca. 15 million) and awarding cadastral projects for 7 million rights. [Q4-2012] - 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.	**NOT RELEVANT YET** (see new MoU, section 5.1.2.7.iii, DECEMBER 2012 to 2015)
The Government completes the revision of the 12	**NOT RELEVANT YET** (see new MoU, section

regional spatial plans to make them compatible with the sectoral plans on industry, tourism, aquaculture and renewable energy. **[Q4-2012]**	5.1.2.7.ii, DECEMBER 2012 to DECEMBER 2013)
The Government adopts legislation to (i) simplify and reduce time needed for town planning processes; (ii) update and codify legislation on forests, forest lands and parks. **[Q3-2012]** It also adopts legislative measures for the **management of industrial hazardous waste** [**Q2-2012**] and licenses at least two disposal sites for hazardous waste by [**Q4-2012**].	**PARTIALLY OBSERVED** (see new MoU, section 5.1.2.7.i, JUNE 2013) Q2 deadline completed.
Other measures to improve the business environment	
- *Quasi fiscal charges*: the list of non-reciprocating charges in favour of third parties presented to the Commission services in November 2011 is further refined by i) identifying beneficiaries, ii) specifying the legal base of each contribution and by iii) quantifying contributions paid by consumers in favour of those beneficiaries, with a view to rationalize these contributions and/or channel those through the State budget. **[Q2-2012]**	**OBSERVED** (new MOU 5.1.1.1, NOVEMBER 2012) The updated list of quasi fiscal charges with the additional requested information was submitted to the Commission services in November 2012.
- *Market regulations*: the revision of Ministerial Decision A2-3391/2009 on market regulations, as well as any other related legislation, is completed **[March 2012]**. This exercise is carried out in cooperation with the Hellenic Competition Commission, with a view to identifying administrative burdens and unnecessary barriers to competition and developing alternative, less restrictive, policies to achieve government objectives. The revised Ministerial Decision on market regulations is adopted in **April 2012**.	**OBSERVED** (new Commitment in new MOU 6.4.3, FEBRUARY 2013) The draft code of market regulations has been submitted to the Commission services in October 2012 following the procedure provided for in Directive 98/34.
- *Screening of business restricting regulations*: The Government completes a structured analysis of how regulation in areas such as permits and licences, health and safety rules, urban planning and zoning, can unnecessarily restrict business and competition in important sectors such as food processing, retail trade, building materials, manufacturing or tourism. Similarly, the government seeks to simplify business regulations in areas such as new business registration and regulation of accounting. **[Q3-2012]** Within 6 months of the completion of the analysis, the Government will take the necessary legislative or other actions to remove disproportionate regulatory burdens.	**NOT OBSERVED** (see new MoU, section 5.1.3, DECEMBER 2012 to SEPTEMBER 2013) The application of the OECD Toolkit project is expected to commence in December 2012.
- *Planning reform*: The Government reviews and amends general planning and land-use legislation ensuring more flexibility in land development for private investment and the simplification and	**NOT RELEVANT ANYMORE**

acceleration of land-use plans. [**Q3-2012**]	
- *Development of an integrated and simplified process for export and customs formalities*. By **end-March 2012**, the e-customs system supports the electronic submission of export declarations. By **end-December 2012**, (i) the e-customs system supports the electronic submission of import declarations; (ii) pre-customs procedures (i.e., certificates, licenses as well as steps and actors involved in the processes) are streamlined according to EU regulations and best practices; (iii) legislation is aligned with EU regulations and the common rules for customs procedures at export and import, including the local clearance procedure; (iv) the level (number) of customs' controls (both physical and documentary) are also aligned with best practices; (v) the electronic single-window of exports is launched after the simplification of the pre-customs procedures and it is interlinked with e-customs to provide a single entry point for the exporters.	**PARTIALLY OBSERVED** (new MOU 5.1.2.5, OCTOBER 2012 to SEPTEMBER 2013) ICISnet was launched in April 2012, enabling the submission of electronic declarations for exports. The tool needs improvements, however: i) some ICT issues prevent the system from being fully operational; ii) the tool does not resolve the bureaucracy of the customs, as the percentage of physical documentary/controls is still very high, and given that the Greek customs still request original documents to be shown during the controls; iii) not all functionalities of the tool are in place: the attachment of scanned documents or payments on line (both to avoid physical presence of operators in the customs offices) are expected to be ready by end Q2 2013. Meanwhile, the Authorities have published the National Trade Facilitation Strategy in October 2012 which proposes concrete actions and timing for reducing time of exports by 50% and costs by 20% in 2015. The Authorities should proceed with the appointment of the steering committee for the Trade Facilitation Strategy.
- *Security stocks of crude oil and petroleum products:* The Government transposes Directive 2009/119 imposing an obligation on Member States to maintain minimum stocks of crude oil and /or petroleum products. **[Q4-2012]**	**NOT RELEVANT YET** (new MOU 6.1.7.1, Q4 2012)
- An *ex post* impact assessment is presented in order to evaluate Law 3853/2010 on the simplification of procedures for the establishment of companies in terms of savings in time and cost to set up a business, as well as to verify that all secondary legislation is in force. **[Q3-2012]**	**NOT RELEVANT ANYMORE**

Table A13 – Reform Monitoring and Technical Assistance

Actions in the Memorandum of Understanding on specific policy conditionality	
The Ministry of Finance's directorate of planning, management and monitoring becomes operational with the aim of improving reform management and oversight. By **end-March 2012**, it starts publishing quarterly monitoring indicators for each of the key structural reform initiatives**.**	**ONGOING** Completion of the notice and collected 170 applications. Ongoing selection of the Evaluation Committee of the candidates.

The Government will request technical assistance to be provided by the EU Member States, the European Commission the IMF or other organisations in priority areas. These technical assistance actions will be coordinated by the Commission's Task Force for Greece according to its mandate. The Greek administration will ensure continuity of technical assistance launched.	**ONGOING** Several projects are benefiting from technical assistance (more details in the Commission's Task Force for Greece second quarterly report).
In line with the conclusions of the euro-area summit of 26 October 2011, and the Eurogroup Conclusions of 21 February 2012, the Government will fully cooperate with the Commission, the ECB and the IMF staff teams to strengthen the monitoring of programme implementation, and will provide the staff teams with access to all relevant data and other information in the Greek administration.	**ONGOING**
The Government will **promptly** put in place a mechanism that allows better tracing and monitoring of the official borrowing and internally-generated funds destined to service Greece's debt, by paying an amount corresponding to the coming quarter's debt service directly to a segregated account of Greece's paying agent. By **end-April 2012**, the Government will introduce in the Greek legal framework a provision ensuring that priority is granted to debt servicing payments. This provision will be introduced in the Greek Constitution **as soon as possible**.	**OBSERVED AND ONGOING** (see new MoU, section 2.5.2) Segregated account set up in Spring 2012. Constitutional changes not yet accomplished

Annex 2: Macroeconomic forecast

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

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

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

Annual % change	2011	2012	2013	2014	2015	2016
1. Private consumption expenditure	-4.6	-6.7	-7.6	-2.0	1.6	3.5
2. Government consumption expenditure	-11.0	-8.9	-9.6	-4.4	-3.5	-3.0
3. Gross fixed capital formation	-19.4	-13.6	-4.3	6.2	9.7	13.3
4. Final domestic demand	**-8.1**	**-8.0**	**-7.5**	**-1.3**	**2.0**	**4.1**
5. Change in inventories + net acquisition of valuables						
6. Domestic demand	**-7.1**	**-8.8**	**-7.5**	**-1.3**	**2.0**	**4.1**
7. Exports of goods and services	5.7	3.9	2.6	5.8	6.2	5.7
7a. - of which, goods	12.6	3.9	2.6	5.8	6.0	5.7
7a. - of which, services	-0.4	3.9	2.6	5.8	6.4	5.7
8. Final demand	-5.0	-6.4	-5.4	0.3	3.0	4.5
9. Imports of goods and services	-1.3	-6.3	-5.4	0.7	2.6	3.5
9a. - of which goods	0.7	-6.3	-5.4	0.7	2.6	3.4
9a. - of which, services	-8.8	-6.3	-5.4	0.5	2.4	3.8
10. Gross domestic product at market prices	**-6.1**	**-6.5**	**-5.4**	**0.2**	**3.2**	**4.9**
11. Gross national income	**-6.2**	**-5.9**	**-5.9**	**-0.4**	**3.7**	**5.5**
12. Compensation of employees	-9.0	-13.1	-8.8	-0.3	1.3	4.2
13. Gross operating surplus and mixed income	-4.8	-2.7	-2.1	0.4	3.5	4.0
14. Gross value added at basic prices	**-6.5**	**-6.8**	**-4.6**	**0.1**	**2.8**	**4.1**
14a. - of which, labour costs, including self-employed	-8.8	-14.2	-8.8	0.2	1.9	4.8
15. Taxes net of subsidies	-5.7	-2.9	-9.7	1.7	6.6	10.5
16. - taxes on products	-5.7	-2.8	-9.5	1.8	6.5	10.3
17. - subsidies on products	-7.9	2.6	2.6	2.6	2.6	2.6
20. Gross domestic product at market prices	**-6.1**	**-6.5**	**-5.4**	**0.2**	**3.2**	**4.9**

Table A3: COSTS AND PRICES

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

Table A4: LABOUR MARKET AND LABOUR COST

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

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

levels	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
1. Private consumption expenditure	163.1	155.6	145.2	134.1	131.3	133.4	138.1
2. Government consumption expenditure	40.7	36.2	33.0	29.8	28.5	27.5	26.7
3. Gross fixed capital formation	39.2	31.6	27.3	26.1	27.7	30.4	34.5
4. Final domestic demand (1+2+3)	**243.0**	**223.4**	**205.5**	**190.0**	**187.6**	**191.4**	**199.3**
5. Change in inventories + net acquisition of valuables as % of GDP	-0.2	2.0	0.0	0.0	0.0	0.0	0.0
6. Domestic demand (4+5)	**242.8**	**225.4**	**205.5**	**190.0**	**187.6**	**191.4**	**199.3**
7. Exports of goods and services	49.4	52.2	54.3	55.7	59.0	62.7	66.2
7a. - of which, goods	23.3	26.3	27.3	28.0	29.7	31.5	33.2
7a. - of which, services	26.1	26.0	27.0	27.7	29.3	31.2	33.0
8. Final demand (6+7)	**292.2**	**277.7**	**259.8**	**245.7**	**246.6**	**254.1**	**265.6**
9. Imports of goods and services	70.0	69.1	64.8	61.2	61.6	63.2	65.4
9a. - of which goods	55.1	55.5	52.0	49.2	49.6	50.9	52.6
9a. - of which, services	14.9	13.6	12.7	12.0	12.1	12.4	12.8
10. Gross domestic product at market prices (8-9)	**222.2**	**208.5**	**195.0**	**184.5**	**185.0**	**190.9**	**200.1**
11. - of wich, external balance of goods and services	-26.5	-20.6	-16.9	-10.5	-5.5	-2.7	-0.6
12. Balance of primary income with rest of the world	-6.2	-6.0	-4.4	-5.1	-6.1	-5.4	-4.5
13. Gross national income at market prices (10+12)	**216.0**	**202.5**	**190.6**	**179.4**	**178.8**	**185.5**	**195.6**
14. Compensation of employees	80.5	73.3	63.7	58.0	57.8	58.6	61.1
15. Gross operating surplus and mixed income	117.1	111.4	108.4	106.1	106.5	110.3	114.7
16. Gross value added at basic prices	**195.2**	**183.1**	**170.4**	**162.2**	**162.3**	**166.7**	**173.5**
16a. - of which, labour costs, including self-employed	122.2	111.4	95.7	87.3	87.4	89.1	93.3
17. Taxes net of subsidies (18-19)	26.93	25.39	24.7	22.3	22.7	24.2	26.7
18. - taxes on products	27.4	25.8	25.1	22.7	23.1	24.6	27.1
19. - subsidies on products	0.4	0.4	0.4	0.4	0.4	0.4	0.5
20. Gross domestic product at market prices (16 + 17)	**222.2**	**208.5**	**195.0**	**184.5**	**185.0**	**190.9**	**200.1**

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

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

Table B3: EXTERNAL BALANCE

levels	2010	2011	2012	2013	2014	2015	2016
1. Exports of goods (fob)	23.3	26.3	27.3	28.0	29.7	31.5	33.2
2. Imports of goods (fob)	55.1	55.5	52.0	49.2	49.6	50.9	52.6
3. Trade balance (goods, fob/fob) (1-2)	**-31.8**	**-29.3**	**-24.7**	**-21.2**	**-19.9**	**-19.4**	**-19.3**
3a. p.m. (3) as % of GDP	*-14.3*	*-14.0*	*-12.7*	*-11.5*	*-10.8*	*-10.2*	*-9.7*
4. Exports of services (a)	26.1	26.0	27.0	27.7	29.3	31.2	33.0
5. Imports of services (a)	14.9	13.6	12.7	12.0	12.1	12.4	12.8
6. Services balance (a) (4-5)	**11.2**	**12.4**	**14.3**	**15.7**	**17.2**	**18.8**	**20.1**
6a. p.m. 6 as % of GDP	*5.0*	*5.9*	*7.3*	*8.5*	*9.3*	*9.9*	*10.1*
7. External balance of goods & services (3+6)	**-20.6**	**-16.9**	**-10.5**	**-5.5**	**-2.7**	**-0.6**	**0.8**
7a. p.m. 7 as % of GDP	*-9.3*	*-8.1*	*-5.4*	*-3.0*	*-1.4*	*-0.3*	*0.4*
8. Balance of primary incomes and current Transfers	-7.8	-7.6	-5.7	-6.0	-6.9	-6.0	-4.9
8a. - of which, balance of primary income	*-6.2*	*-6.0*	*-4.4*	*-5.1*	*-6.1*	*-5.4*	*-4.5*
8b. - of which, net current Transfers	*-1.6*	*-1.6*	*-1.3*	*-1.0*	*-0.8*	*-0.6*	*-0.4*
8c. p.m. 8 as % of GDP	*-3.5*	*-3.7*	*-2.9*	*-3.3*	*-3.8*	*-3.1*	*-2.5*
9. Current external balance (7+8)	**-28.5**	**-24.5**	**-16.2**	**-11.6**	**-9.6**	**-6.6**	**-4.2**
9a. p.m. 9 as % of GDP	*-12.8*	*-11.7*	*-8.3*	*-6.3*	*-5.2*	*-3.4*	*-2.1*
10. Net capital transactions	3.9	4.1	4.2	4.4	4.6	4.6	4.7
11. Net lending (+)/ net borrowing (-) (9+10)	**-24.5**	**-20.4**	**-11.9**	**-7.2**	**-5.1**	**-1.9**	**0.6**
11a. p.m. 11 as % of GDP	*-11.0*	*-9.8*	*-6.1*	*-3.9*	*-2.7*	*-1.0*	*0.3*

C1: FISCAL ACCOUNTS AND FORECAST

	2009	2010	2011	2012	2013	2014	2015	2016
				Levels (in EUR billion)				
Total revenue	**88.6**	**90.2**	**88.2**	**84.5**	**78.7**	**79.2**	**79.3**	**83.0**
Indirect taxes	26.2	27.3	26.6	25.0	23.6	23.4	23.9	25.5
Direct taxes	19.1	17.5	18.0	19.4	17.4	18.4	18.7	19.3
Social contributions	29.5	29.8	27.5	24.4	23.0	22.9	23.4	24.4
Sales	5.5	6.1	5.3	5.0	4.7	4.9	5.1	5.4
Other current resources	5.1	4.9	5.8	5.8	5.1	4.9	5.0	5.4
Capital transfers received	3.2	4.6	5.0	4.9	4.9	4.7	3.2	2.9
Total expenditure	**124.7**	**114.0**	**107.9**	**97.9**	**88.7**	**87.6**	**88.6**	**90.5**
Intermediate consumption	17.1	13.7	9.9	8.9	8.4	7.7	7.6	7.9
Compensation of employees	31.0	27.8	25.9	23.4	21.2	20.5	20.0	19.9
Social transfers other than in kind	49.0	47.2	47.2	45.3	39.5	39.1	39.6	40.4
Interest	12.0	12.9	14.9	10.5	10.0	11.1	12.2	12.9
Subsidies	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other current expenditure	3.6	3.4	2.6	2.2	1.9	1.8	1.9	2.0
Gross fixed capital formation	7.3	5.0	3.4	3.6	3.6	3.3	3.3	3.3
Other capital expenditure	4.7	3.9	3.9	3.9	3.9	3.9	3.9	4.0
General Government balance	**-36.1**	**-23.7**	**-19.7**	**-13.4**	**-10.0**	**-8.3**	**-9.3**	**-7.5**
Primary balance	**-24.1**	**-10.9**	**-4.8**	**-2.9**	**0.0**	**2.8**	**3.0**	**5.4**
Primary target balance				**-2.9**	**0.0**	**2.8**	**5.7**	**9.0**
Measures to be identified				*0.0*	*0.0*	*0.0*	*-2.8*	*-3.6*
				% of GDP				
Total revenue	**38.3**	**40.6**	**42.3**	**43.3**	**42.7**	**42.8**	**41.5**	**41.4**
Indirect taxes	11.3	12.3	12.8	12.8	12.8	12.7	12.5	12.7
Direct taxes	8.3	7.9	8.7	10.0	9.4	9.9	9.8	9.6
Social contributions	12.7	13.4	13.2	12.5	12.5	12.4	12.2	12.2
Sales	2.4	2.7	2.6	2.6	2.6	2.7	2.7	2.7
Other current resources	2.2	2.2	2.8	3.0	2.7	2.6	2.6	2.7
Capital transfers received	1.4	2.1	2.4	2.5	2.7	2.5	1.7	1.5
Total expenditure	**54.0**	**51.3**	**51.7**	**50.2**	**48.1**	**47.3**	**46.4**	**45.2**
Intermediate consumption	7.4	6.2	4.7	4.6	4.6	4.2	4.0	3.9
Compensation of employees	13.4	12.5	12.4	12.0	11.5	11.1	10.5	9.9
Social transfers other than in kind	21.2	21.3	22.6	23.2	21.4	21.2	20.7	20.2
Interest	5.2	5.8	7.1	5.4	5.4	6.0	6.4	6.5
Subsidies	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0
Other current expenditure	1.5	1.5	1.2	1.1	1.1	1.0	1.0	1.0
Gross fixed capital formation	3.1	2.3	1.6	1.8	1.9	1.8	1.7	1.7
Other capital expenditure	2.0	1.7	1.9	2.0	2.1	2.1	2.0	2.0
General Government balance	**-15.6**	**-10.7**	**-9.4**	**-6.9**	**-5.4**	**-4.5**	**-4.8**	**-3.8**
Primary balance	**-10.5**	**-4.9**	**-2.3**	**-1.5**	**0.0**	**1.5**	**1.5**	**2.7**
Primary target balance				**-1.5**	**0.0**	**1.5**	**3.0**	**4.5**
Measures to be identified				*0.0*	*0.0*	*0.0*	*-1.5*	*-1.8*

C2: GOVERNMENT DEBT

	2010	2011	2012	2013	2014	2015	2016
			levels (EUR billion)				
Debt	**328.6**	**355.8**	**344.7**	**349.4**	**351.5**	**352.8**	**352.0**
Change in debt	29.1	27.2	-11.1	4.7	2.1	1.3	-0.8
Government deficit (level)	**-23.7**	**-19.7**	**-13.4**	**-10.0**	**-8.4**	**-9.1**	**-7.8**
Stock-flow adjustment	**5.3**	**7.5**	**-24.5**	**-5.3**	**-6.3**	**-7.8**	**-8.5**
			% GDP				
Debt	**147.9**	**170.6**	**176.8**	**189.4**	**190.1**	**184.7**	**175.7**
Change in the ratio	18.6	22.7	6.2	12.6	0.7	-5.4	-9.0
Contributions:							
Primary balance (+ is a deficit)	**-4.9**	**-2.3**	**-1.5**	**0.0**	**1.5**	**3.0**	**4.5**
"Snow-ball" effect	**21.1**	**21.4**	**20.2**	**15.5**	**2.6**	**-4.3**	**-9.2**
Stock-flow adjustment	**2.4**	**3.6**	**-12.6**	**-2.9**	**-3.4**	**-4.1**	**-4.3**

Annex 3: Updated programme documents

Letter of Intent

Memorandum of Economic and Financial Policies

Memorandum of Understanding on Specific Economic Policy conditionality

Technical Memorandum of Understanding