

**MEMORANDUM OF UNDERSTANDING**

**BETWEEN**

**THE EUROPEAN COMMISSION  
ACTING ON BEHALF  
OF THE EURO-AREA MEMBER STATES,**

**AND**

**THE HELLENIC REPUBLIC**

## GREECE: MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

### Objectives, Strategy, and Outlook

1. **Greece faces three key challenges.** First, the Greek economy lacks competitiveness. While progress has been made since 2010 in containing unit labor costs, the estimated real effective exchange rate overvaluation still amounts to perhaps 15–20 percent. Second, fiscal sustainability needs to be restored. The primary deficit has been brought down considerably since 2009, but the estimated 2011 outcome, a primary deficit of about 2½ percent of GDP, remains well below the debt-stabilizing surplus. Lastly, the financial sector faces liquidity and solvency issues due to its exposures to the sovereign, deteriorating quality of the domestic loan portfolio, and a steady loss of deposits.

2. **To address these challenges, the government will build on policies laid down in its previous program, but amend the mix of adjustment and financing.** To reduce policy conflicts, the program will continue to place emphasis on ambitious implementation of productivity-enhancing structural reforms in the labor, product, and service markets and to improve the business environment. However, we must be realistic about the ultimate magnitude and timing of their effects, which is inherently uncertain. To rebalance the economy, support growth and employment, restore fiscal sustainability, and secure financial stability, we will thus:

- Place more emphasis on securing reductions in unit labor costs and improvements in competitiveness, through a combination of upfront nominal wage cuts and structural labor market reforms. In unison with the elimination of rigidities in product and service markets, these are expected to lower costs and facilitate the reallocation of resources towards the tradable sectors, stronger growth, and higher employment.
- Smooth the impact of the deep and prolonged recession and deeper structural reforms (and give them time to take effect) by reducing the amount of fiscal adjustment in 2012.
- Fundamentally reduce the footprint of government in the economy through bold structural fiscal reforms and by privatizing public assets. Greece's recovery must come from a vigorous private sector response and this cannot happen with the government controlling access to key assets.
- Strengthen the capacity of the government to implement policies, via a wide ranging administrative reform. We need to improve significantly the quality of public services, the efficiency and effectiveness of the civil service (including in mobilizing structural funds), and its ability to manage economic policy.
- These cost-reducing structural reforms and FDI-encouraging privatization plans, when combined with fiscal retrenchment and gradual arrears clearance, will free up liquidity for the private sector. Together with continued program finance, and liquidity assistance for the banking system, this will help improve the tight financial conditions now affecting the economy.

3. **Nonetheless, the government recognizes that eliminating Greece's large initial imbalances, and achieving a balanced growth path, will take significant time:**

- **Real GDP** is expected to recover to positive quarter-on-quarter growth rates during 2013. The program assumes that over time business sentiment benefits from the successful implementation of the PSI operation, and economic activity and employment growth gather momentum as unit labor costs decline, other productivity-enhancing structural reforms are implemented, and fiscal adjustment is completed. Still in the short-term GDP is projected to contract by another 4–5 percent cumulatively in 2012–13 on account of the worsened external environment, the needed fiscal consolidation, private sector wage adjustment, and adjustments in the banking system.
- **Competitiveness** is programmed to improve at an accelerated pace, supported by upfront labor market reforms and by a comprehensive set of product market reforms. Inflation is projected to drop significantly below the euro area level as cost-reducing reforms and wage reductions filter through to prices. It should be possible to significantly shrink the competitiveness gap relative to trading partners by the end of the program period, and the economic system should continue to adjust for some time thereafter to fully eliminate the gap.
- The **external balance** is projected to adjust only modestly in the remainder of 2012 given the deterioration of global economic conditions. However, as domestic demand continues to contract and competitiveness improves the pace of external adjustment should pick up. Still it is projected to take some time before Greece's current account deficit falls to a level that will allow Greece's external debt to steadily decline.

4. **The government's policy program, assisted by debt relief from private creditors and official support on favorable terms, should put public debt on a sustainable path.** Under our program baseline, public debt will remain high during the program period, but is projected to fall to about 120 percent of GDP by 2020, with continued declines thereafter. Given the lengthy period of elevated debt levels, and Greece's continued vulnerability to shocks, we recognize that full and timely policy implementation will be critical to realize this debt trajectory, notwithstanding the favorable financing we have received. These policies and program financing are discussed in more detail in what follows.

## **Economic Policies**

### **A. Fiscal Policy**

5. **The government is committed to achieve a general government primary surplus of 4½ percent of GDP by 2014.** This is above Greece's debt stabilizing primary balance, and will allow debt to gradually decline (even with small shocks), and it is a level which Greece and many other countries have sustained in the past. Mindful of the initial fiscal position, the potential macroeconomic impact of fiscal tightening, and limitations on the pace at which we can develop and implement structural fiscal reforms, we have adjusted our 2012 fiscal target to a primary deficit of 1

percent of GDP (versus our previous target of a small surplus). We will target an adjustment of 2¾ percent of GDP in the primary balance in both 2013 and 2014, drawing on bold fiscal structural reforms to be defined in the context of the 2012 update of the MTFs, due in June. We would consult with the EC, ECB, and IMF in the event of a significantly deeper than anticipated recession, to evaluate whether the fiscal adjustment path should be extended beyond 2014.

6. **To secure the program's fiscal adjustment path, the government will undertake bold structural spending reforms.** Accounting for the projected pace of recovery, Greece's ongoing problems with tax compliance, and the need to adjust some of our previous measures, additional measures will be needed beyond those already approved in the context of the 2011 MTFs and 2012 budget. We project a need for 1½ percent of GDP in measures in 2012, 1½ percent of GDP in tax administration improvements, and a further 5½ percent of GDP in spending measures in 2013-14 to get to the primary surplus target of 4½ percent of GDP by 2014. The bulk of adjustment will be achieved through expenditure cuts that aim at permanently reducing the size of the state and improving government efficiency, including by closing entities that no longer provide a cost-effective public service and by targeted reductions in public employment. Many of these cuts will need to fall on social transfers, the category of spending which increased most explosively in the post euro accession period, but specific measures will be introduced to protect the core of our social safety net and the most vulnerable segments of the population.

7. **Key reforms, including those defined under the MTFs and 2012 budget, include:**

- **Public sector wage bill reductions.** We intend to bring our general government wage bill into line with the performance of the most efficient OECD countries. This would yield 1½ percent of GDP in savings by 2015, including ¼ percent of GDP in new savings not captured in the existing MTFs. To achieve this objective, we will combine reforms of employee compensation with personnel reductions.
  - **Reform of the public sector employee compensation.** By end-June, we will reform the special wage regimes (that account for about one-third of the public sector wage bill). In line with the principles of the reform initiated in 2011, we will adjust the wage grid for special regimes effective July 1, 2012 (including for judges, diplomats, doctors, professors, police and armed forces), while protecting those at lower pay scales, to realize permanent net savings of about 0.2 percent of GDP on an annual basis. We will also review the new promotion system to ensure that there are appropriate controls against wage drift through such channels.
  - **Personnel reductions.** We remain committed to reduce general government employment by at least 150,000 in the period 2011–15. To achieve this target, we will continue to strictly apply the existing 1:5 hiring to attrition ratio (1:10 for state-owned enterprises) as well as the newly established pre-retirement scheme, reduce contractual employment, and furlough enough redundant public employees into the labor reserve by end-2012 to achieve 15,000 mandatory separations (i.e. once their time in the labor reserve has been exhausted). The planned functional review of public administration (below), and plans to close, merge or shrink general government entities, will help identify redundant public employees.

- **Controls on hiring.** To better control and limit hiring, we will: (i) reduce the annual intake into schools for public sector employees, namely military and police schools and other public academies, to a level consistent with hiring plans; (ii) augment the labor reserve annually; and (iii) eliminate vacant positions in the context of public sector restructuring. If slippages vis-à-vis the targeted personnel reductions emerge, we will immediately enact a hiring freeze.
- **Rationalizing and better targeting of social spending.** Over the last few years, we started reforms to contain the projected increase in pension spending to less than 2½ percentage points of GDP by 2060 (from a projection of 12½ percent of GDP), maintain public health expenditures at about 6 percent of GDP, and to improve the targeting of our social benefits. In our program we intend to bring this work agenda to closure, realize in total around 4 percent of GDP in additional savings, while improving social programs for those who are most in need:
  - **Pension reform.** Given the high share of pensions in Greek government spending, the large remaining fiscal adjustment will necessarily have to involve further pension adjustments. We will do this in a way that protects lower income pensioners. As upfront measures, to generate savings of about €450 million in 2012 (0.2 percent of GDP), we will: (i) reduce with a progressive schedule supplementary pensions above €200 per month; (ii) adopt a framework law to eliminate the structural deficit in supplementary pension funds over time; and (iii) reduce by 12 percent the part for main pensions exceeding €1,300 a month. Looking forward, by end-June, we will introduce reforms to eliminate arrears and deficits in lump sum pension funds.
  - **Health spending.** Our key aims are to bring pharmaceutical spending closer to levels in other European countries, and to continue to reform health system governance. For 2012, we have set a target to reduce public spending on outpatient pharmaceuticals from 1.9 to 1⅓ percent of GDP. Key upfront actions include: promotion of the use of generics (e.g. via compulsory prescription by active substance), reduction by about 15 percent in the maximum price of generic relative to branded medicines, reduction in margins of pharmacists, and extend the coverage of copayments. An automatic claw back mechanism will guarantee that outpatient pharmaceutical spending for 2012–15 will not exceed budget limits. Through the new health fund EOPYY, we will also complete the introductions of new and more cost-effective contracts for physicians and adopt uniform conditions for the purchase of health services. To rationalize the system and exploit economies of scale, we will merge all health funds in EOPYY and move its responsibility to the Ministry of Health.
  - **Other social benefit programs.** Greece’s level of social spending (as a share of GDP) remains well above the euro area average. We will thus continue to reform social benefit programs and the governance of social assistance and social security programs. As an upfront measure, we will improve the targeting of the family allowances by excluding high income earners. Drawing on external assistance, we will also undertake a thorough review of social spending programs with the aim to identify 1½ percent of GDP in additional measures to be taken over 2013-14. The review, to be completed by end-June

2012, will identify programs to be discontinued, and opportunities to rationalize and strengthen core social programs to better support individuals in need, while reducing transfers to individuals who do not require them.

- **Restructuring of government operations.** The Greek public administration is highly fragmented, has overlapping structures, and lacks coordination and adequate IT systems. To address this we will take upfront actions, and identify deeper changes to implement over the course of the program:
  - **Upfront actions.** To help meet our 2012 fiscal target, we will: (i) in anticipation of the forthcoming functional review, curtail operational spending and selected subsidies and transfers at the central government level by an additional 0.2 percent of GDP (compared to the 2012 budget); and (ii) reduce investment subsidies and lower-priority investment projects by 0.2 percent of GDP (compared to the 2012 budget).
  - **Deeper restructuring.** By end-June 2012, we will complete a plan to restructure government operations and achieve additional savings of at least 1 percent of GDP over the period 2013-14. The focus will be on closing and downsizing general government units; identifying opportunities to outsource functions; identifying redundancies, and restructuring both central and local public administrations. The plan will also include the rationalization of defense spending (without compromising defense capabilities).

8. **Tax system reforms will also contribute to the fiscal adjustment through base broadening, and reforms will also aim to facilitate revenue-neutral tax rate reductions.** The strategy involves:

- **Tax reform.** We intend to introduce a budget-neutral tax reform to simplify the tax system, broaden the tax base to allow reductions in selected tax rates, and rebalance the tax burden across tax categories to foster growth and competitiveness. We will define a full schedule of intermediate steps towards adoption of such a tax reform, including initial public consultation, review by the EC/ECB/IMF staff and release of a formal proposal for discussion. This process will be concluded with the presentation to parliament and enactment of reform legislation by end June 2012. The reform package will include: (i) the repeal of the Code of Books and Records and its replacement by simpler legislation, (ii) the elimination of several tax exemptions and preferential regimes; (iii) simplification of the VAT and of the property tax rate structure; (iv) a more uniform tax treatment of individual capital income; and (v) a simplified personal and corporate income tax schedule.
- **Revenue administration reforms.** Given our low tax collection compared to other European countries, our adjustment strategy relies on the introduction of extensive revenue administration reforms (see below). These reforms will facilitate a more equitable distribution of the adjustment burden across taxpayers. For medium-term budget planning purposes, these reforms will be assumed to provide only back loaded gains, limited to 1½ percent of GDP over the period 2011–15 and expected to accrue only from 2013.

9. **We are committed to deliver our fiscal target and stand ready to take corrective measures in the event of underperformance.** Corrective measures, if necessary, would include additional targeted reductions in the public sector wage bill and social transfer expenditures. Likewise, in the event of a sustained over performance that is deemed permanent, we will tighten our deficit targets, but may also consider a reduction in social contribution rates. We intend to maintain the relative tax burden from indirect taxes.

10. **To secure early gains we will implement several prior actions, and to assist with subsequent monitoring of the fiscal adjustment program, we will set several key steps as program benchmarks.** As **prior actions** for the program, we will: (i) fully implement all overdue measures (Annex I); and (ii) enact and implement measures needed to reach the fiscal deficit target in 2012 (Annex II). The adoption of a budget-neutral tax reform by end-June 2012, and the completion of reviews of social spending programs and government functions that identify, respectively, 1½ and 1 percent of GDP in additional measures, are proposed as **structural benchmarks** for end-June 2012. Identification and enactment (where feasible) of all measures necessary to attain the medium-term fiscal target will be an over-arching condition for completion of the first program review.

## **B. Fiscal Institutional Reforms**

11. **Strengthening fiscal institutions is of the utmost importance.** Greece has for many years suffered from a widespread problem of nonpayment of taxes, eroding the fairness of the system and forcing less growth-friendly policy measures, such as high tax rates. Meanwhile, the public sector has had difficulties paying its bills and tax refunds on time, driving up procurement costs and damaging corporate sector liquidity. Putting an end to these practices will require a deep restructuring of the revenue administration and the public financial management system. Of course, these are complex institutional reforms, and gains both in terms of higher revenue and lower spending can only be achieved over time with resolute efforts. Therefore, we are determined to undertake the needed reforms with urgency.

12. **We are committed to reform our revenue administration.** It is not operating at the level Greece requires, and will need to be overhauled completely. We have started this process, and made progress over the past two years, but much more remains to be done:

- **Strengthening of operations is the near-term priority:**
  - **The dispute resolution system.** As upfront actions, we will: (i) approve legislation making it compulsory for large tax cases to exhaust the administrative dispute phase before accessing judicial appeals; (ii) tighten rules for waiving the deposit to access judicial appeals (without prejudice to the independence of the judicial system); and (iii) issue secondary legislation enabling the certification of tax arbitrators, making the arbitration system established in 2011 fully operational.
  - **Making use of additional tools.** We will integrate anti-money laundering tools into our anti-tax evasion strategy. As upfront actions, we will: clarify the Bank of Greece's rules on financial institutions' obligations to detect and report to the Financial Intelligence

Unit (FIU) transactions suspected of being related to the proceeds of tax evasion; and take measures to ensure that complaint reports related to confirmed unpaid tax debts arising from an audit are transmitted to the prosecution services and to the FIU as required under the system in place.

- **Upgrading personnel.** Consistent with our operational plans, by April, we will complete the reassessment and hiring of 1,000 auditors and will gradually bring the numbers of auditors to 2,000 (consistent with public sector attrition and hiring rules). For existing employees, we will establish a formal performance review framework that will specify targets against which to evaluate manager performance. The framework will be operational by June 2012. We intend to replace managers that have underperformed their targets.
- **Anti-corruption measures.** By end-June 2012, we will set up the internal affairs services established in Law 3943/2011 and reform the role of the financial inspection unit so as to limit its focus to the revenue administration. We also plan to improve the system to protect whistle-blowers reporting corruption in the tax administration, introduce procedures for the rotation of managers, and set targets for audits of asset declarations of tax administration officials. By end-September, we will prepare a fully-fledged anti-corruption plan.
- **Over time, we need to restructure the administration** to create an independent but accountable tax administration, with a functional organization centered in a strong headquarters. Towards this end, for 2012 our priorities include:
  - **Establishing key functional units.** The major units have been set up, including the large taxpayer unit, the debt collection unit and the audit department. Looking ahead, our priority is to build capacity in these directorates. In 2012, by end-March we will increase the staff of the debt collection directorate by 50, and by the second quarter, we will complete the doubling of the audit capacity of the large taxpayer unit.
  - **Consolidating tax administration operations.** We plan to close a total of 200 underutilized local tax offices by end-December 2012.
  - **Securing greater control over local tax offices.** By end-March 2012 the GSTC headquarters will set operational targets for local tax offices for core activities including audits, dispute resolution and filing, and performance targets for local managers against which they will be assessed. The GSTC headquarters will be given legal powers to direct how local tax office resources must be used. Additionally, collection of large debts will be placed under direct central control and consolidated in the largest 35 tax offices. Processing of all tax payments in local offices will be discontinued by end-September 2012 and replaced by mandatory bank transfers, and payments at banks.
  - **Steps towards independence.** By end-March, we will appoint as Secretary General of the revenue administration an individual with an impeccable track record of tax compliance and with significant experience in tax matters. To support independent



decision-making, we will delegate from the ministerial to the administrative level, via a ministerial decision, the control over core business activities and human resource management. We will ensure that at the same time activities of the tax administration headquarters will be externally audited.

- **Collection of social security contributions will be strengthened.** We will undertake a thorough review of current collection and enforcement practices, drawing on external assistance. A fully articulated reform plan will be developed by end-September 2012, which will, among other things, lay out a timeline and set of intermediate steps to fully integrate tax and contribution collections. In the near term, to help stem recent deep problems with social security collections, by March 2012 we will expand monthly declarations to a wider range of large taxpayers, unify the collection of tax and social security contribution debts of the largest tax debtors, enact common audits of tax and social security contribution of large taxpayers, increase the number of inspections and establish targets for inspectors.
- **The government undertakes to fully enforce the tax code, and to forego any tax amnesties.** We commit not to implement any new or extend any existing amnesties or incentive schemes for the collection of taxes and social security contributions. Given the importance of making this regime change, we will amend law 4038/2012 to restrict the extension of payment terms for tax debt and overdue social security contributions and the suspension of criminal prosecution and asset freezing, in line with good international practices.

13. **We are determined to secure tighter control over all general government spending and to prevent the accumulation of arrears.** This will require improving every step of our spending process: budgeting procedures; commitment-based spending controls; and fiscal reporting and budget monitoring:

- **Budgeting.** To improve budgeting at both the medium and short term horizons, we will: (i) issue a circular during Q1 2012 regulating the calendar, deadlines, and the role of all institutions in formulating the next MTFS (covering 2012–6); and (ii) adopt legislation and regulations by October 2012 to streamline submission and approval procedures of within-year supplementary budgets.
- **Spending controls.** Once fully established, commitment-based spending controls, and the architecture accompanying them, will help us to prevent units both at the central and decentralized level from overspending their budgets. There are two near-term issues, and a set of next steps for the remainder of the program:
  - **Commitment registers.** By March 2012, we will begin to extend registers to cover the investment budget. By June 2012, we will increase the number of fully functional commitment registers reporting on the e-portal of the Ministry of Finance to 70 percent of spending units, including in local governments, social security funds, extra budgetary funds, and hospitals. We will also consistently enact sanctions (when needed) to improve data reporting from commitment registers, and expand the content of the e-portal reporting system to include the whole expenditure cycle (e.g. cumulative

appropriations released, commitments made, invoices received, and payments made at the end of each month).

- **Accounting officers.** We have appointed permanent accounting officers in all line ministries. The officers will be responsible for line ministries' financial management, including budget formulation, spending controls, and data reporting. The accounting officers will be obliged to adopt and implement new organizational plans for their directorates by end-June 2012.
- **Revised audit procedures.** Looking forward, we will focus on the progressive devolution of financial responsibility to accounting officers and reforming the functions of financial audit offices in line ministries and the Court of Audit. This will involve a shift away from preventive audits towards ex-post quality audits, and reconfiguration of our financial information systems.
- **Fiscal reporting.** More comprehensive, timely, and accurate reports will help us better monitor budget execution and spot problems early. To this end, in 2012 we will: (i) expand our arrears data base to cover tax refunds, and establish standards for their processing and payment (by end-June 2012); (ii) make operational by end-March the inter-ministerial committee to monitor, control, and report on the implementation of the social budget; and (iii) expand the recently piloted information systems to collect more detailed revenue and spending data from general government entities (the new system will cover more than 90 percent of spending by end-June 2012).
- **Clearance of domestic arrears.** We expect to clear our existing domestic arrears in line with available program financing. The 2012 budget includes a budget appropriation, based on the end-2011 outturn, and conditions to access it will include the verification of arrears claims, compliance with basic financial management reforms (as described above), and that line ministries and general government entities requesting access demonstrate that they have not accumulated any further arrears and have reported at least three months of consistent data from commitment registers.

14. **We will further strengthen the Greek statistical agency, El.Stat.** We will revise the statistics law to reform El.Stat's governance arrangements. The law will establish the El.Stat Board as advisory, and clarify the professional authority of El.Stat's president as the institution's chief officer and coordinator of the national statistical system.

15. **We are taking prior actions to secure early gains, and to track progress during the program.** As **prior actions** for the program, we will implement various measures to strengthen tax administration operations, including meeting end-2011 performance targets, reversing a recent amnesty, tightening administrative regulations, and strengthening delegation of powers to the revenue administration (Annex III). Looking ahead, we have set and will monitor targets for quantified quarterly performance indicators for revenue administration and public financial management (see the Technical Memorandum of Understanding for a full description of the indicators; the targets for end-June 2012 and end-December 2012 are proposed as **structural**

**benchmarks**). Beyond these indicators, an additional **structural benchmark** will focus on the completion of the strategy for strengthening social security collections (by end-September 2012).

### C. Financial Sector Policies

16. **The government is committed to provide the support needed to restore confidence in the Greek banking system.** The combination of the deepening recession and government debt restructuring will require significant government support to ensure the soundness of the banking system and to maintain depositor confidence. Well-targeted recapitalization and resolution actions will be needed, alongside legal changes to facilitate the strategy and improve the financial oversight framework. With the actions specified, the Greek authorities intend to support banking system liquidity, and create a viable and well-capitalized private banking sector that can support the economic recovery and sustainable growth. Depositors will be protected.

17. **The financial sector reform strategy comprises several key elements:**

- **An assessment of capital needs.** All banks will be required to achieve a core tier 1 capital ratio set at 9 percent by end-September 2012, reaching 10 percent in June 2013. The BoG, with the support of external consultants, will undertake an assessment of banks' capital needs (**prior action**). 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 end-March 2012.
- **In parallel, a strategic assessment of the banking sector will be carried out.** In consultation with the EC/ECB/IMF, 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); the Bank of Greece's assigned ratings to bank risks; and a sustainable business model. The assessment will be complete by end-March 2012 (proposed as a **structural benchmark**).
- **Agricultural Bank (ATE).** Based on the ongoing work by the commissioned external audit firms, the Ministry of Finance will complete a study on how to address ATE (as a **prior action**). This study will illustrate the legal, operational, and financial aspects of the different solutions and lay out the associated costs.
- **Recapitalization and resolution actions.**
  - **Banks will be given time to raise capital in the market.** Based on an assessment of their viability and capital raising plans, the Bank of Greece will communicate to banks,

by end-April, 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 to end-September—taking into account the regulatory framework and the requirements set by the Hellenic Capital Market Commission.

- **Banks submitting viable capital raising plans** will be given the opportunity to apply for and receive public support in a manner that preserves private sector incentives to inject capital and thus minimizes the burden for taxpayers. Specifically, banks will be able to access capital from the Hellenic Financial Stability Fund (HFSF) through common shares and contingent convertible bonds.
- **We 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 decision in line with EC, ECB and IMF advice shall provide the technical details of the banks' recapitalization framework, embodying these principles, by end-March 2012 (proposed as a **structural benchmark**).
- **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.
- **Follow up.** To ensure that the system remains well-capitalized, the Bank of Greece will by end-June 2013 conduct a new stress test exercise, based on end-2012 data, using a methodology determined in consultation with the EC/ECB/IMF (proposed as a **structural benchmark**).

18. **We will enact legislation to support our strategy for bank recapitalization and resolution (prior action):**

- **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 regulations to phase in the foreseen increases in Core Tier 1 requirements.
- **Technical aspects of bank resolution.** Building on the recent changes in the bank resolution framework and the experiences gained so far, we 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. We will also clarify that resolution should proceed in a manner that minimizes costs to the HFSF. In this context, we will 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. We 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.

- **Recapitalization 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 five years.
- **Resolution framework.** We 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 BoG 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.
- **Framework for managing non-performing loans.** Separate from the prior action, during Q2 2012 we will prepare changes to the legal framework for addressing non-performing loans and those at risk of becoming non-performing, with input from international experts and in line with EC/ECB/IMF advice. Any changes will be guided by several principles, including the need to: target our interventions (and in line with fiscal and financial sector capacity); preserve the payment culture and avoid strategic loan defaults; maximize asset recovery; and facilitate market distinctions between rehabilitation of viable borrowers and the efficient exit from the economy of non-viable borrowers.

19. **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 €50 billion. The timing of transfers to the HFSF will take into account the expected timeline for bank resolution and recapitalization, and requirements for continued ECB liquidity support. Funds received via program disbursements will be deposited in the HFSF's ring-fenced account.

20. **We are committed to preserve continued access to central bank liquidity support.** The Bank of Greece, following Eurosystem procedures and rules, will stand ready to continue disbursing

adequate appropriate emergency liquidity support in a timely manner. Adequate liquidity support in the near term 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.

**21. The government will enact legislation to strengthen governance arrangements in financial oversight agencies (prior action):**

- **Hellenic Financial Stability Fund:**

- The Board of Directors will reorganize the HFSF to introduce legislation 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 BoG, MoF 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.
- We will introduce legislation to changes 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 MoF, and one member nominated by the BoG. 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 MoF and the nominee from the BoG. EC and ECB observers on the Council will be 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 BoG. All members shall be appointed by the Minister of Finance with the approval of the EWG. Staff and officials of the BoG shall not sit on the Board of the HFSF. EC and ECB observers will be present on the Executive Board.

- We, in consultation with HFSF, will adopt regulations to help the HFSF execute its mandate with full autonomy and at the same time coordinate effectively with the MoF. It will cover reporting lines and frequencies, strategic decision-making (and the involvement of the MoF therein), investment mandate and business plan, relationship with the MoF (in its role as shareholder in the HFSF), and remuneration policy.
- **Hellenic Deposit & Investment Guarantee Fund.** We 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. With a view to limiting any real or perceived conflicts of interest we will prohibit HDIGF board membership for individuals who are actively involved in credit institutions and introduce in the law strong conflict of interest rules for Board members.

22. **We will also reform governance arrangements in the Bank of Greece.** In light of the BoG's responsibility for resolution, restructuring, and supervision, we will revise the BoG Statute to provide for collegial decision-making at the level of executives (Governor and Deputy Governors) and ongoing accountability through internal oversight by nonexecutives in the General Council (also including oversight in matters other than ESCB-related tasks). We will also revise the structure and rights of BoG shareholders to eliminate possible conflicts of interest in the Bank of Greece's public policy role (e.g. prohibiting supervised institutions from shareholdings and setting a cap on the number of votes that each or related private shareholders can exercise). We propose that this become a **structural benchmark** for end-December 2012.

#### **D. Privatization**

23. **Under the program, we aim to accomplish a fundamental shift of public assets to private sector control.** Transferring assets in key sectors of the economy (such as ports, airports, motorways, energy, and real estate) to more productive uses through privatization and concessions should help encourage FDI and other private investment, supporting the economic recovery and long-term growth. It will also help to reduce public debt, contributing to improved market sentiment over time and supporting Greece's return to bond markets. The government is determined to overcome the challenges posed by market conditions and clean the assets from technical and legal complexities, and the program defines targets and the steps towards achieving these.

24. **The assets comprising the privatization program have been identified.** The list includes state enterprises, concessions, and real estate (Annex IV) along with any bank assets either previously owned or to be acquired during the recapitalization process. Given the assets targeted for sale, the government anticipates €50 billion in proceeds over the lifetime of the asset sale program, including at least €19 billion through 2015. Because many of these assets are encumbered, and with current poor market conditions, we expect it to take time beyond the program period to realize the full amount of proceeds. We will annually update the expected value of proceeds over the timeframe

in question, and to the extent proceeds fall short of target, we will identify additional assets to be brought into the program, including stakes in public corporations not now included. In light of the need for assets to use in and backstop the privatization program, we will not transfer any public assets to the recently established pension fund SPV (and we will consult with the EC/ECB/IMF staff on a mutually agreed approach to manage this SPV). The program will monitor progress towards objectives via quarterly indicative targets.

25. **The privatization process for each asset is in general expected to comprise several stages.** This includes most prominently transferring the asset to the privatization fund and appointing the advisors. Other steps include, restructuring of the asset, filling in public policy and regulatory policy gaps, design of the tender process, EC clearances (for procurement, competition and state aid), running the tender, and obtaining all of the necessary by-law approvals.

26. **To move the privatization process forward in 2012, we will take a number of steps:**

- **Appointment of advisors.** We expect to appoint by end-March 2012 all remaining advisors for thirteen 2012/13 projects which do not currently have all their advisors.
- **Transfer of assets to the privatization fund (HRADF).** By end-March 2012, all assets included in the MTFS will be transferred, except banking shares and loss making assets which HRADF cannot finance before their privatization (TRAINOSE, ELVO, EAS). Also the remaining balance of the shares of the two large ports (OLP and OLTH) will be transferred. Real estate assets will be transferred at HRADF's request from the Government Real Estate Company (ETAD). Shares already transferred or to be transferred to the HRADF will be provided their voting rights in full so that the HRADF will be able to make all the changes necessary for the swift privatization of each asset.
- **Preparations of state-owned enterprises.** We will work with the EU authorities to obtain clearance for state aid for the lottery, DEPA/DESFA, EAS, OPAP and ODIE, and develop the necessary regulatory frameworks with assistance from the EU Task Force for Greece. Ministries and other public bodies will expedite administrative decisions and/or special legislation to facilitate privatizations.
- **Preparation of real estate assets.** The government will correct legal and technical deficiencies, expedite zoning, and issue required permits for real estate assets. It has requested technical assistance from the Task Force to develop a comprehensive land registry, and in this context, the HRADF will register 3,000 plots by end-June.
- **Policy coordination.** The government will formulate new policies regarding the use of assets (e.g. town planning, REITS) and set up new regulatory authorities and frameworks (e.g. for water, ports, airports, motorways). The Task Force for Greece is expected to support the government through technical assistance.
- **Offer of assets for sale.** We intend to launch some landmark asset sales in the first half of 2012, such as DEPA/DESFA, HELPE, OPAP, EYDAP, EYATH, and IBC, and in the



second half of the year to proceed with tenders for the ports, airports and Egnatia Odos motorway.

27. **We remain committed to a process insulated from political pressures.** The HRADF has been set up to operate under a mandate to privatize assets at prevailing market conditions as soon as technically feasible and in an open and transparent manner. Under the HRADF, assets will be overseen and directed so as to accelerate their transfer to the private sector. The HRADF will not be able to transfer assets back to the general government, and if it is determined by the Board that an asset cannot be sold in its current form, it will be sold in pieces or liquidated. The Fund is able to raise money, on market terms, but cannot grant liens over any of its assets if this might prevent or delay the relevant assets from being privatized. The Fund will return all proceeds received to the government without delay.

### **E. Structural reforms**

28. **As noted above, the government's most pressing priority is to restore competitiveness and economic growth.** We recognize a need to significantly accelerate the implementation of comprehensive and deep structural reforms aimed at boosting employment, output, and productivity growth by liberalizing labor, product, and service markets and removing existing barriers in the business environment. However, as these will likely require some time to fully translate into sustained growth, we will also take upfront measures to allow a reduction in nominal wages to rapidly close our competitiveness gap and lay an earlier foundation for sustained growth.

29. **The government will take actions to improve the functioning of the labor market.** Rigidities in the labor market are preventing wages from adjusting to economic conditions and are pushing labor into the informal sector. To protect employment and close Greece's competitiveness gap more rapidly, the government intends to target a reduction in unit labor costs of about 15 percent during the program period. If the ongoing social dialogue is unsuccessful in identifying concrete solutions, then to achieve this goal the government will take legislative measures in the urgent public interest to allow wage and non-wage costs to adjust as needed. The package of labor market measures that will be implemented includes:

- **Structural measures to level the playing field in collective bargaining.** The key measures we will enact into law (as a **prior action**) include:
  - ***Length of collective contracts and revisions of the 'after effects' of collective contracts.*** Changes will specify that: (i) all collective contracts should have a maximum duration of 3 years; (ii) collective contracts already in place for 24 months or more will expire not later than one year after the law is adopted; (iii) the grace period after a contract expires is reduced from six to three months; and (iv) in the event that a new collective agreement cannot be reached after three months of efforts, remuneration will revert back to the basic wage plus the following general allowances (seniority, child, education, and hazardous). This will continue to apply until replaced by terms specified in a new collective agreement or in new or individual contract.
  - ***Removal of 'tenure' in all existing legacy contracts*** in all companies. The new legal

provision will automatically transform contracts with definite duration (defined as those expiring upon age limit or retirement) into indefinite duration contracts for which standard layoff procedures apply.

- *A freeze of ‘maturity’* provided by law and/or collective agreements (referring to all automatic increases in wages dependent on time) until unemployment falls below 10 percent.
- *Elimination of unilateral recourse to arbitration*, allowing requests for arbitration only if both parties consent. At the same time, we will clarify (by law or circular) that: (i) arbitrators are prohibited to introduce any provisions on bonuses, allowances, or other benefits, and thus may rule only on the basic wage; and (ii) economic and financial considerations must be taken into account alongside legal considerations.
- **Adjustment of wage floors.** This will help ensure that as the economy adjusts, and collective bargaining agreements respond, firms and employees do not find themselves bound at a lower limit (and a limit which is very high in international comparison):
  - We will legislate: (i) an immediate realignment of the minimum wage level determined by the national general collective agreement by 22 percent at all levels based on seniority, marital status and daily/monthly wages; (ii) its freeze until the end of the program period; and (iii) a further 10 percent decline for youth, which will apply generally without any restrictive conditions (under the age of 25) (**prior action**). These measures will permit a decline in the gap in the level of the minimum wage relative to peers (Portugal, Central and Southeast Europe). We expect this measure to help address high youth unemployment, the employment of individuals on the margins of the labor market, and to help encourage a shift from the informal to the formal labor sector.
  - Together with social partners, we will prepare by end-July 2012 a clear timetable for an overhaul of the national general collective agreement. This will bring Greece’s minimum wage framework into line with that of comparator countries and allow it to fulfill its basic function of ensuring a uniform safety net for all employees.
- **Adjustment to non-wage labor costs.** To help reduce non-wage costs and foster employment, we will bring the labor tax wedge in Greece broadly into line with European peers:
  - We will enact legislation to reduce IKA social security contribution rates for employers by 5 percentage points, and implement measures to ensure that this is budget neutral. Rates will be reduced only once sufficient measures are in place to cover revenue losses. The measures to finance rate reductions will be legislated in two steps. First, as a **prior action**, we will enact legislation to close small earmarked funds engaged in non-priority social expenditures (OEK, OEE), with a transition period not to exceed six months. Second by end-September 2012, we will adjust pensions (with protections for low-income pensioners), and broaden the base for contribution collections (proposed as a **structural benchmark**).

- As an additional measure, by end-September we will prepare jointly with social partners an actuarial study of first pillar occupational pension schemes in companies with excessive social security costs (relative to comparable firms or industries covered by IKA) and finalize a list of concrete proposals to eliminate this differential in a fiscally neutral manner.
- **Follow up work.** We will review on an ongoing basis the effects of these measures on the labor market and unit labor costs and, if necessary, are prepared to take additional corrective measures to facilitate collective bargaining, in order to ensure wage flexibility and higher employment. If by end-2012 effects on the labor market remain elusive, we will consider more direct interventions.

30. **The program will, like our previous program, place deep emphasis on product and service market reforms.** The slow response of inflation to the current crisis, even after adjusting for taxation and energy prices, suggests that rigidities remain in such markets. These will need to be addressed in tandem with labor market reforms to facilitate the pass-through from wages to prices. Our strategy will consist of prioritizing and phasing service sector reforms while pushing forward with product market reforms:

- **Service sector reforms.** As a **prior action**, we will abolish restrictions in 20 high value and/or highly restricted professions, from the list of professions and economic activities covered in Annex II of KEPE’s “Second Report on the Impact of Liberalizing Regulated Professions.” We will also publish the ministerial decision establishing the road haulage license price in line with administrative costs. Looking forward, by end-March we will prepare a detailed quarterly timetable for 2012 for the screening and cleaning of existing legislation prioritized according to economic performance, and again drawn from Annex II of the KEPE report (completion of this work by end-2012 is proposed as a **structural benchmark**). Finally, for professions where reinstatement of restrictions is required in line with the principles of necessity, proportionality, and public interest, we will pass the required legislation no later than end-June and upon consultation with the Hellenic Competition Commission and in line with EC/ECB/IMF advice.
- **Product market reforms.** To promote price flexibility, by April 2012 we plan to screen the retail, wholesale, and distribution sectors and prepare an action plan to promote competition and facilitate price flexibility in product markets.

31. **The government is committed to continue with improvements in Greece’s business environment.** A number of reforms initiated in 2011—fast-tracking investments, speeding up licensing procedures and facilitating electronic business registration—will be fully implemented this year. These reforms are key to promoting investment and exports, and will boost growth once the recovery takes hold.

- By end-March, we will enact and publish legislation facilitating investment and exports:
  - We will enact legislation which: (i) improves the functioning of the fast-track investment law (by making the framework available to more projects, lowering fees, and

relaxing financing requirements), and (ii) eliminates the registration requirement in the Export Registry and simplifies export legislation.

- Moreover, we will publish the main secondary legislation required to implement the licensing laws covering technical professions, manufacturing activities, business parks, and environmental licensing.
- By end-March we will also establish timetables with the key steps needed to complete (by end-December) the implementation of an electronic export window, e-customs, and the new electronic environmental register, as well as to fully implement the two licensing laws.

32. **In support of efforts to improve the business climate, we will advance our medium-term reform agenda aimed at improving the efficiency of the judicial system.** Greece's judicial system is highly inefficient, with significant backlogs despite a relatively large number of courts and judges. Complex judicial procedures, cumbersome execution of court decisions, lack of transparency, and disconnect between court performance and budgeting, have negatively affected FDI, other private investment, entrepreneurship, exports, and employment. In this regard, our efforts will focus on:

- ***Addressing the case backlog in the courts.*** We are committed to meet the objectives and implement the measures specified in our January 2012 work plan for the reduction of tax cases backlog through setting semi-annual milestones, including by placing priority on high-value tax cases exceeding €1 million). Regarding the non-tax case backlog, we have commissioned a study to be completed by end-June, on the basis of which we will draw up an action plan (by end-August) with specific targets for the clearance of all backlog cases.
- ***Speeding Up Case Processing:*** We plan to speed up civil and administrative case processing through the adoption (by end-March) of a law aimed at improving the efficiency of administrative court proceedings (including by streamlining procedures for group adjudication of similar administrative cases) and requiring submission of decisions in electronic form by administrative and civil judges.
- ***Improving the Performance and Accountability of Courts:*** To improve the effectiveness of magistrate courts, secondary legislation will be published by end-May, merging existing courts to reduce their number. To improve transparency, at end-March the Ministry of Justice will start publishing detailed court information on its website. This quarterly exercise will initially cover data for tax cases. These actions will help set the stage for the design (by end-September) of a performance framework for all courts, including the development of a dependable data management system, and a workload measurement system.
- ***Reforming the Code of Civil Procedure:*** By end-March, we will establish a task force to review the Code of Civil Procedure so as to bring it in line with international best practices. By end-June, the task force will issue a concept paper identifying the core issues and bottlenecks in the pre-trial, trial, and enforcement stages of civil cases and set out proposed solutions. Following its issuance, we will consult with domestic and international experts, such that, by end-December, a detailed paper can be prepared outlining the main proposals

for amendments to the Code of Civil Procedure.

33. **The government will accelerate efforts to improve structural reform management and monitoring.** To this end, by March we will implement a directorate of planning, management, and monitoring of reforms. Starting with end-March, we will start publishing on a quarterly basis monitoring indicators for each reform initiative on the government's website. Our efforts to carry out our ambitious reform agenda (including for judicial reform, screening of legislation for closed professions, and using the competition toolkit to identify rigidities in product markets) will be supported by the Commission's Technical Assistance Task Force.

## F. Program Financing

34. **Greece will face sizable balance of payments financing needs during the program period.** It is expected to take time for Greece to restore sovereign market access, given the long process of reforms and adjustment ahead, and the projected government debt trajectory. Given the insufficient level of domestic savings to finance these needs (alongside private investment), we expect to face sizable balance of payments financing needs in the period ahead, which we anticipate to be covered through financial support from our European partners, the IMF, and private sector involvement (PSI) in the form of a comprehensive debt restructuring operation.

35. **We expect private sector involvement (PSI) to help Greece achieve debt sustainability and to cover a significant portion of our financing gap.** While the measures outlined above would bring about an improvement in the fiscal accounts, they would not by themselves close the financing gaps and put debt on a sustainable path. Accordingly, with the assistance of our debt advisors, and after consultations with creditors, we have launched a comprehensive debt exchange offer, covering a pool of government debt of €205.6 billion.<sup>1</sup> Our program assumes that the financial contribution of the private sector through the debt exchange, together with the official sector support, will deliver a debt to GDP ratio of 120 percent by 2020 (given anticipated macroeconomic and policy developments). We recognize that this financing is essential to the program and securing it is necessary to give the program financing assurances. We expect the debt exchange offer to be successfully completed prior to the meeting of the IMF Executive Board to consider our request for an Extended Arrangement under the EFF.

36. **Beyond our request to the Fund for a 4 year EFF from (in an amount of SDR 23.7853 billion, or 2,158.8 percent of quota), we have secured additional financial resources from our European partners to fill remaining needs.** Euro area partners have committed a total of €144.7 billion over 2012-14. They have also committed to support Greece for as long as it takes to restore market access, provided Greece implements and adheres to its policy program. Finally, to ensure that this financing places Greece on a sustainable debt trajectory, to deliver a debt-to-GDP ratio of about 120 percent by 2020, with continued declines thereafter, they have committed to: (i) new lending at maturities of 30 years and at close to funding costs, using the EFSF as a financing vehicle; (ii) reduce the margin of the Greek Loan Facility to a uniform 150 basis points; and (iii) for eurozone countries where central banks currently hold Greek government bonds in their investment portfolio,

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<sup>1</sup> See: [www.greekbonds.gr](http://www.greekbonds.gr)

pass on to Greece an amount equal to any future income accruing to their national central bank stemming from this portfolio until 2020.

### **G. Program modalities**

37. Progress in the implementation of the policies under this program will be monitored through quarterly reviews and consultations, as well as via quarterly (and continuous) quantitative performance criteria (PCs) and indicative targets, and structural benchmarks. These are detailed in Tables 1 and 3. The attached Technical Memorandum of Understanding (TMU) defines the quantitative performance criteria, indicative targets, and various benchmarks under the program. Quantitative targets up to end-December 2012 are PCs. Targets for 2013– 15 are indicative and for 2013 will be converted into PCs at the time of the second review. It is expected that the first and second reviews under the Extended Arrangement take place by end-June and end-September 2012. A Memorandum of Understanding (MoU) on specific policy conditionality agreed with the European Commission, on behalf of the euro-area Member States, specifies additional structural policies, and sets a precise time frame for their implementation.

38. In the context of the arrangement, the Bank of Greece will undergo an updated safeguards assessment in accordance with the IMF safeguards policy. Given that Fund disbursements will be deposited into the government's single treasury account at the BoG, the existing Memorandum of Understanding between the Ministry of Finance and the BoG will be updated.

## Annex I: Pending Fiscal Measures

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| <b>From the July MTFS</b>   |
| <ul style="list-style-type: none"><li>• Government to enact a framework law to reform supplementary pensions, to generate savings of 0.4 percent of GDP by 2014 (in line with MTFS estimates)</li><li>• Issue MDs for the implementation of the business tax (Article 31 of Law 3986)</li></ul>   |
| <b>From the end-October implementation bill</b>   |
| <ul style="list-style-type: none"><li>• Issue the 4 pending MDs to fully implement the new wage grid (see TMU)</li><li>• Pass law to establish deadline for implementation of the wage grid reform in the general government and the recovery of wage overpayments since November 1, 2011</li><li>• Issue MD to bring down the transfer time from PPC of the property tax proceeds to 10 days after the end of each month</li></ul> |
| <b>From the November prior actions</b>  |
| <ul style="list-style-type: none"><li>• Issue the pending MDs on the closure/merger of extra-budgetary funds</li><li>• Update the positive list mechanism to deliver the 2012 savings target of €250 million</li></ul>  |

## Annex II. Measures to reach the 2012 deficit target

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| <ul style="list-style-type: none"> <li>• Pass a supplementary budget with a primary deficit target of 1 percent of GDP for 2012 that reflects all of the changes that follow.</li> </ul>  |
| <ul style="list-style-type: none"> <li>• Reduce operational spending of the state by €200 million Adjust other spending by €280 million: election spending, subsidies for remote areas; allocations for the ministry of education, (including for service abroad; staff allowance for universities, alternate teachers in secondary schools; operational spending of high schools); allocation of the ministry of agriculture; and transfers to entities.</li> </ul>  |
| <ul style="list-style-type: none"> <li>• Reduce pensions in OTE, DEI, ETE, ATE, ETVA, Emporiki, Ex-Olympic Airways and in all other main pension funds, above the monthly amount of €1,300, by 12 percent, effective January, 2012. Reduce supplementary pensions between €200–250 by 10 percent, between €250–300 by 15 percent, and above €300 by 20 percent, effective January 1, 2012.</li> </ul>   |
| <ul style="list-style-type: none"> <li>• Eliminate all family allowances for families with annual incomes above €45,000, with the exception for families with 5 or more children, effective January 1, 2012.</li> </ul>   |
| <ul style="list-style-type: none"> <li>• Cut domestic investment spending by €400 million relative to the 2012 budget.</li> </ul>   |
| <ul style="list-style-type: none"> <li>• Implement a 1:10 hiring to attrition rule in the state-owned enterprises for 2012.</li> </ul>  |
| <ul style="list-style-type: none"> <li>• In local governments: (i) reduce wages of all political employees by 10 percent (effective January 1, 2012); and (ii) issue a decision to reduce the number of fixed term contracts, and to limit the number of these paid from the state budget.</li> </ul>   |
| <ul style="list-style-type: none"> <li>• Take actions (all laws, Ministerial Directives (MDs), and circulars) to limit overprescribing of pharmaceuticals and reduce generic costs: <ul style="list-style-type: none"> <li>➤ Pass law and issue MDs to set maximum price of generics to 40 percent and for off-patented products to 50 percent of patented products.</li> <li>➤ Reduce profit margins for pharmacies to below 15 percent and wholesale margins to a maximum of 5 percent. Establish a fixed rate of €30 for all medicine above €200. Increase rebate for pharmacies with turnover above €35,000 by average 1½ percent.</li> <li>➤ Pass law on rebates that will yield €250 million; pass law on an additional rebate covering 2012–15 to be paid if outpatient pharmaceutical spending (including taxes), retroactive to January 1, 2012 exceed €240 million per month.</li> <li>➤ Make compulsory: electronic prescription for all doctors (and only reimburse pharmacies for electronic entries); prescriptions of the cheapest product by active substance; international protocols for 160 diseases, including the 10 most expensive.</li> <li>➤ Update negative list; issue MD to allow for intakes of new brands into the positive list only if they have been included by two-thirds of EU countries.</li> </ul> </li> </ul> |



### Annex III. Upfront Revenue Administration Reforms

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| <b><i>Meeting end-2011 targets</i></b>  |
| <ul style="list-style-type: none"><li>• General Secretariat for Tax and Customs to meet end-2011 revenue administration performance indicators (full scope and VAT audits of large taxpayers).</li></ul>  |
| <b><i>Amnesty reversal</i></b>  |
| <ul style="list-style-type: none"><li>• Amend the recent “Omnibus bill” to repeal/modify articles 3 and 21 (to eliminate the extension of payment terms of tax debt, and eliminate the suspension of criminal prosecution and asset freezing).</li></ul>  |
| <b><i>Regulations</i></b>   |
| <ul style="list-style-type: none"><li>• Amend the Bank of Greece's decisions on the reporting by financial institutions, to the Financial Intelligence Unit, of suspicious transactions linked or related to tax evasion (Decisions 285/2009 and 281/2009) to enhance monitoring and detection mechanisms.</li><li>• Take measures to ensure that complaint reports related to confirmed unpaid tax debts arising from an audit are transmitted to the prosecution services and to the FIU, as required under the system in place.</li><li>• Make it compulsory for large tax cases to exhaust the administrative dispute phase before accessing judicial appeals.</li><li>• Tighten rules concerning suspension of payment of taxes in dispute when accessing judicial appeals (Article 202, Administrative Procedure Code).</li></ul> |
| <b><i>Delegation of powers</i></b>  |
| <ul style="list-style-type: none"><li>• Minister of Finance to issue decisions to delegate from the ministerial to the administrative level the control powers over core business activities and human resource management.</li><li>• Place under direct control and management of GSTC headquarters the collection of large debts, and focus activities in the largest 35 tax offices.</li></ul>   |

## Annex IV. Privatization Program

| Timing of Privatization (launch)            | Project                                  | Transferred to Fund | Advisors contracted | Intermediate steps  |
|---|--|---------------------|---------------------|---|
| <b>I. State-owned enterprise/share sale</b> |  |                     |                     |   |
| 2012 Q1                                     | Public Gas (DEPA)                        | ✓                   | ✓                   | Call for tender launched in February 2012.  |
| Q1  | Public Gas (DESFA)                       | ✓                   | ✓                   | Call for tender launched in February 2012.  |
| Q1  | Football Betting (OPAP)                  | ✓                   | ✓                   | State aid clearance.  |
| Q2  | Hellenic Defense Systems (EAS)           | 1/                  | ✓                   | Clearance by Ministry of Defense. Adopt restructuring law by April 2012. State aid clearance.           |
| Q2  | Hellenic Petroleum (HELPE)               | March 2012 2/       | March 2012          | Sign MoU with Paneuropean by April 2012.  |
| Q2  | Athens Water (EYDAP)                     | ✓                   | March 2012          | Establish regulator and pricing policy by June 2012. Extend concession.                                 |
| Q2  | Horse Racing (ODIE)                      | March 2012 2/       | ✓                   | Adopt restructuring law and establish time-bound concession rights by March 2012. State aid clearance.  |
| Q2  | Athens Water (EYDAP)                     | March 2012          | March 2012          | Establish regulator and pricing policy by June 2012. Extend concession.                                 |
| Q2  | Thessaloniki Water (EYATH)               | March 2012          | March 2012          | Establish regulator and pricing policy by June 2012. Extend concession.                                 |
| Q2  | Mining and Metallurgical Company (LARCO) | March 2012 2/       | ✓                   | Adopt restructuring law by March 2012.  |
| Q2  | Hellenic Post (ELTA)                     | 1/                  | March 2012          | Adopt law determining the public service by February 2012.  |
| Q2  | Casino Mont Parnes                       | 1/                  | March 2012          | State aid clearance.  |
| Q2  | Electricity Company (PPC)                | 1/                  | March 2012          | Restructuring to be decided by June 2012.   |
| Q3  | Hellenic Vehicle Industry (ELVO)         | 1/                  | March 2012          | Adopt restructuring law by June 2012.   |
| Q4  | Railways (Trainose)                      | 1/                  | August 2012         | Ongoing restructuring and last phase of state aid clearance by June 2012.                               |
| Q4  | Athens Airport (AIA)                     | March 2012 2/       | ✓                   | Re-approach Hochtief Airports by June 2012.   |
| <b>II. Concessions</b>                      |  |                     |                     |   |
| 2011 Q4                                     | Hellenic Motorways                       | ✓                   | March 2012          | Complete negotiations. Ratify changes in concession. Establish regulatory framework by end-2012.        |
| Q4  | State Lottery                            | ✓                   | ✓                   | Expected financial offer from the three bidders by April 2012.  |
| 2012 Q2                                     | Egnatia Odos                             | ✓                   | March 2012          | Unbundling into services/motorway rights. Establish regulatory framework by end 2012.                   |
| Q3  | Small ports and marinas                  | 1/                  | ✓                   | Identify policy. First lot of rights transferred by March 2012. Est. regulatory framework by Sept. 2012 |
| Q3  | Regional airports                        | ✓                   | March 2012          | Identify proper policy. Establish regulatory framework by September 2012.                               |
| Q4  | Thessaloniki Port (OLTH)                 | March 2012 2/       | March 2012          | Identify policy. All share voting rights transferred by March 2012. Est. reg. framework by Sept. 2012   |
| Q4  | Piraeus Port (OLP)                       | March 2012 2/       | March 2012          | Identify policy. All share voting rights transferred by March 2012. Est. reg. framework by Sept. 2012   |
| Q4  | Large regional ports                     | 1/                  | March 2012          | Identify policy. All share voting rights transferred by March 2012. Est. reg. framework by Sept. 2012   |
| Q4  | South Kavala Gas Storage                 | ✓                   | March 2012          | Clear legal obstacles by September 2012.  |
| To be determined                            | Mining rights                            | ✓                   |                     |   |
| To be determined                            | Digital dividend                         |                     |                     |   |
| <b>III. Real Estate</b>                     |  |                     |                     |   |
| 2011 Q4                                     | Hellenikon 1                             | March 2012 2/       | ✓                   | Adopt law on land use by March 2012.  |
| 2012 Q1                                     | Sale/repo N buildings                    | ✓                   | ✓                   | Government to sign rental contracts by May 2012. Transfer clean title to the HRADF by May 2012.         |
| Q1  | Real Estate IBC                          | March 2012          | ✓                   | Strategic environmental study. ESCHADA to be issued by June 2012. 3/                                    |
| Q1  | Real Estate/Astir Vouliagmenis           | 1/                  | ✓                   | Negotiations with NBG. ESCHADA to be issued. Process led by NBG by June 2012.                           |
| Q1  | Real Estate/Cassiopi                     | March 2012          | ✓                   | Move NATO radar. ESCHADA to be issued by June 2012.   |
| Q1  | Real Estate lot 1 (Afantou)              | 1/                  | ✓                   | ESCHADA to be issued by June 2012.  |
| Q2  | Real Estate lot 2                        | 1/                  | ✓                   | Identify assets by June 2012.   |
| Q3  | Real Estate lot 3                        | 1/                  | ✓                   | Identify assets by September 2012.  |

Source: HRADF update on projects under development.

1/ Transfer of assets/rights at the point of privatization.

2/ Shares have already been transferred, but not yet voting rights.

3/ ESCHADA = Zoning and land planning permit.

Table 1. Greece: Quarterly Performance Criteria (2012-15 Program)  
(billions of euros, unless otherwise indicated)

|  | 2012      |           |           |           | 2013         | 2014         | 2015         |
|--|-----------|-----------|-----------|-----------|--------------|--------------|--------------|
|  | Mar-12    | Jun-12    | Sep-12    | Dec-12    | Dec-13       | Dec-14       | Dec-15       |
|  | Progr. 1/ | Progr. 1/ | Progr. 1/ | Progr. 1/ | Progr. 3/ 6/ | Progr. 4/ 6/ | Progr. 5/ 6/ |
| <b>Performance Criteria (unless otherwise indicated)</b>   |           |           |           |           |              |              |              |
| 1. Floor on the modified general government primary cash balance   | -2.5      | -6.0      | -6.3      | -7.0      | -0.2         | 8.8          | 8.1          |
| 2. Ceiling on State Budget primary spending  | 13.9      | 29.2      | 44.4      | 60.4      | 52.6         | 43.8         | 43.0         |
| 3. Ceiling on the overall stock of central government debt   | 340       | 340       | 340       | 340       | ..           | ..           | ..           |
| 4. Ceiling on the new guarantees granted by the central government   | 0.0       | 0.0       | 0.0       | 0.0       | 0.0          | 0.0          | 0.0          |
| 5. Ceiling on the accumulation of new external payments arrears on external debt contracted or guaranteed by general government 7/ | 0.0       | 0.0       | 0.0       | 0.0       | 0.0          | 0.0          | 0.0          |
| 6. Ceiling on the accumulation of new domestic arrears by Hospitals and Line Ministries 7/   | 0.0       | 0.0       | 0.0       | 0.0       | 0.0          | 0.0          | 0.0          |
| <b>Indicative Targets</b>  |           |           |           |           |              |              |              |
| 7. Ceiling on the accumulation of new domestic arrears by the general government 7/  | 0.0       | 0.0       | 0.0       | 0.0       | 0.0          | 0.0          | 0.0          |
| 8. Floor on privatization receipts 8/  | 0.03      | 0.03      | 1.20      | 3.2       | 7.5          | 11.0         | 16.0         |

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

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

4/ Cumulatively from January 1, 2014 (unless otherwise indicated).

5/ Cumulatively from January 1, 2015 (unless otherwise indicated).

6/ Indicative targets.

7/ Applies on a continuous basis from program approval.

8/ Calculated on a cumulative basis from January 1, 2012 and applied on a continuous basis from program approval.

Table 2. Greece: Prior Actions

| Measures   | Macro critical relevance  | Status    |
|--|---|-----------|
| <b>Fiscal</b>  |   |           |
| 1. Government to fully implement all overdue MTF5 measures (Annex 1).  | To help restore fiscal sustainability.                                  | Proposed. |
| 2. Government to enact and implement measures needed to reach the fiscal deficit target in 2012 (Annex II).  | To help restore fiscal sustainability.                                  | Proposed. |
| 3. Government to implement measures to strengthen tax administration operations (Annex III).   | To improve tax collection.  | Proposed. |
| <b>Structural</b>  |   |           |
| 4. Government to legislate measures to level the playing field in collective bargaining, including: (i) removal of the 'after effects' of contract expiration; (ii) removal of 'tenure' in all existing legacy contracts; (iii) a freeze of 'maturity' in all private contracts; (iv) elimination of compulsory arbitration.   | To promote competitiveness and employment.                              | Proposed. |
| 5. Government to legislate a realignment of the minimum wage level determined by the national collective agreement by 22 percent; freeze it until the end of the program period, and a further 10 percent decline for youth, which will apply generally without any restrictive conditions.  | To promote competitiveness and employment.                              | Proposed. |
| 6. Government to close small social security funds and reduce other non-priority social security spending to allow a fully-funded reduction in social security contribution rates.   | To promote competitiveness and employment.                              | Proposed. |
| 7. Government to enact secondary legislation establishing license prices for road-haulage in line with administrative costs, and to screen specific service sector legislation and repeal or modify unnecessary and outdated regulations for an additional 20 high value and/or highly restricted professions to ensure full consistency with the law liberalizing restricted professions (3919).  | To effectively deregulate key service sectors.                          | Proposed. |
| <b>Financial</b>   |   |           |
| 8. Bank of Greece to undertake a comprehensive assessment of banks' capital needs.   | Financial stability   | Proposed. |
| 9. Ministry of Finance to complete a detailed study on how to address ATE, based on work by the commissioned external audit firms.   | Financial stability   | Proposed. |
| 10. Government to enact legislation to improve the framework for resolution and recapitalization to: (i) enable the Bank of Greece to set new bank capital standards through regulation, and to use this power to establish new Core Tier 1 requirements; (ii) remove impediments to a flexible management of employment contracts in the context of bank resolutions; (iii) ensure the use of conservative asset valuations for failed banks; (iv) allow the use of contingent convertible bonds in recapitalization; (v) introduce the possibility of restrictions on HFSF voting rights; and (vi) vest resolution responsibilities in a separate department in the BoG and systemic restructuring responsibilities in the HFSF. | To support effective recapitalization of banks                          | Proposed. |
| 11. Government to enact legislation to improve the financial oversight framework. In particular, covering reforms to: (i) establish two departments in the HFSF mandated, respectively, to manage the government's ownership of banks and interim credit institutions; (ii) revise the HFSF's governance structure to include a General Council and an Executive Board; and (iii) address HDIGF funding arrangements, and to eliminate possible conflicts of interest within the HDIGF.  | To strengthen governance arrangements for financial oversight agencies. | Proposed. |

Table 3. Greece: Proposed Structural Conditionality—Structural Benchmarks

| Measures   | Macro critical relevance  | Status    |
|--|---|-----------|
| <b>End-March 2012</b>  |   |           |
| 1. A ministerial decree shall be issued to provide the technical details of the banks' recapitalisation framework  | To strengthen financial sector resilience                                     | Proposed. |
| 2. Bank of Greece to complete a strategic assessment of banks' business plans.   | To strengthen financial sector resilience                                     | Proposed. |
| <b>End-June 2012</b>   |   |           |
| 3. Government to adopt a budget-neutral tax reform package, including: (i) the repeal of the Code of Books and Records and its replacement by simpler legislation; (ii) the elimination of several tax exemptions and preferential regimes; (iii) simplification of the VAT and of the property tax rate structure; (iv) a more uniform tax treatment of individual capital income; and (v) a simplified personal and corporate income tax schedule. | To simplify the tax system, improve its efficiency, and broaden the tax base. | Proposed. |
| 4. Government to complete the reviews of social spending programs to identify 1 percent of GDP in savings, while at the same time making proposals to strengthen core safety net programs.   | To help achieve medium-term fiscal targets.                                   | Proposed. |
| 5. Government to complete the reviews of public administration to identify 1 percent of GDP in savings.  | To help achieve medium-term fiscal targets.                                   | Proposed. |
| 6. Government to meet quantified quarterly performance indicators for revenue administration   | To improve tax collection   | Proposed. |
| 7. Government to meet quantified quarterly performance indicators public financial management.   | To contain arrears  |           |
| <b>End-September 2012</b>  |   |           |
| 8. Government to complete the strategy for strengthening social security collections.  | To improve social security collections.                                       | Proposed. |
| 9. Government to adjust pensions, with protections for low income pensioners, and the social security contribution base, to permit a fully-funded reduction in rates (cumulatively 5 percent from January 1, 2012)   | To improve unit labor costs and competitiveness                               |           |
| <b>End-December 2012</b>   |   |           |
| 10. Government to meet quantified quarterly performance indicators for revenue administration  | To improve tax collection   | Proposed. |
| 11. Government to meet quantified quarterly performance indicators for public financial management   | To contain arrears  |           |
| 12. Government to complete the screening and cleaning of existing legislation covering the list of professions and economic activities covered in Annex II of KEPE's "Second Report on the Impact of Liberalizing Regulated Professions."  | To improve competitiveness  | Proposed. |
| 13. Government to reform the governance of the BoG, to provide for collegial decision-making at the level of executives (Governor and Deputy Governors) and expanded internal oversight by nonexecutives of the existing General Council, and to revise the structure and rights of BoG shareholders to eliminate possible conflicts of interest in the Bank of Greece's public policy role.   | To strengthen financial sector stability                                      | Proposed. |
| <b>End-June 2013</b>   |   |           |
| 14. Bank of Greece will complete an additional assessment of capital needs based on end-2012 data.   | To align capital buffers to banks' individual risk profiles                   | Proposed. |

## GREECE

### **Memorandum of Understanding on Specific Economic Policy Conditionality**

The disbursements of financial assistance to Greece, by the European Financial Stability Facility (EFSF), are subject to quarterly reviews of conditionality for the duration of the arrangement. The release of the tranches will be based on observance of quantitative performance criteria and a positive evaluation of progress made with respect to policy criteria in Council Decision 2011/734/EU of 12 July 2011 (as amended; hereinafter the Council Decision), the memorandum of economic and financial policies (MEFP) and in this Memorandum.

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

Greece commits to consult with the European Commission, the ECB and the IMF staff on the adoption of policies falling within the scope of this Memorandum allowing sufficient time for review. The Government publishes a quarterly report in line with Article 4 of the Council Decision.

In line with the conclusions of the euro-area summit of 26 October 2011, the Government will fully cooperate with the Commission, the ECB and the IMF staff teams to strengthen the monitoring of programme implementation, and will provide the staff teams with access to all relevant data and other information in the Greek administration. However the ownership of the programme and all executive responsibilities in the programme implementation remain with the Greek Government.

## 1 FISCAL CONSOLIDATION

### *Budget implementation*

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.

Proceeds from the privatisation of financial and non-financial assets do not substitute fiscal consolidation efforts and will not be considered when assessing compliance with the annual general government deficit ceilings established in this memorandum and in the Council Decision. The bank recapitalisation-related flows will not be considered in the monitoring of annual general government deficit ceilings irrespective their recording in the ESA accounts by ELSTAT and Eurostat.

**Prior to the first disbursement of the new programme**, 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. (See below section 2.8).
- Reduction in overtime pay for doctors in hospitals by at least EUR 50 million.
- Reduction in the procurement of military material by EUR 300 million (cash and deliveries).
- 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.
- 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.
- Reduction in operational expenditure by local government with the aim of saving at least EUR 50 million.
- 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.
- 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-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 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).

- Cuts in family allowances for high-income households, with the aim of saving EUR 43 million.

**Prior to the 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;
- 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.

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).

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 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.

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**.

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.



## 2 STRUCTURAL FISCAL REFORMS

### 2.1 *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.

All legal, technical and financial advisors for the privatisations planned for 2012 and 2013 will be appointed by end **Q1-2012**.

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.

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]

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**.
- 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 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.

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.

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]

## **2.2 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]

## **2.3 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.

By **June 2012**, the Government will revise the legal values of real estate to better align them with market prices.

#### **2.4 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.

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.

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 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**.

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**]
- 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;
- removes barriers to effective tax administration [**June 2012**], including a formal performance review and replacing managers who do not meet performance targets;
- continues to centralise and merge tax offices; 200 local tax offices, identified as inefficient, will be closed, by **end-2012**;

- centralises the management of tax files related to the taxpayers in the list of big debtors; [**Q1-2012**]
- revises the procedures to write-off tax debts, so that the administrative efforts may focus on effectively collective debts, **by end-2012**;
- 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**]
- starts to publish on the web key performance indicators for the tax department; [**Q2-2012**]
- puts in place a new IT system that interconnects all tax offices.

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**.

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**];
- activate an Internal Affairs Directorate [**June 2012**];
- require the Financial Intelligence Unit to audit annually at least 200 asset statements of tax officials [**June 2012**];
- establish procedures for the rotation of managers on a periodic basis [**June 2012**];
- improve the system to protect whistle-blowers who report corruption [**June 2012**];
- prepare a fully-fledged anti-corruption plan [**September 2012**].

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 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.

The Code of Books and Records is repealed in its entirety and replaced by simpler legislation. **[not later than June 2012]**

### ***2.5 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.

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;
- 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]**
- adopts legislation streamlining the procedure for submission and approval of supplementary budgets, **[October 2012]** and establishes an administrative calendar for the update of the medium-term fiscal strategy. **[Q1-2012]**

### ***2.6 To modernise the public administration***

#### *At the central level*

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.

#### *At the decentralized/regional/local level*

A specific roadmap is created, translating all principles of coherence and efficiency at the central level into the decentralized regional/local level.

**[March 2012]**

#### *Social programmes*

The ongoing 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, as well as on the need to keep a balance between achieving savings and protecting the most vulnerable.

#### *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]**

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.

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.

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]**

#### *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]**

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]**

##### 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]**

The Government presents a pilot version of the e-procurement system. **[Q2-2012]**

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]**

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]**

##### Efficiency of procedures

The Government will move towards more centralised procurement, especially in the field of health procurement, services and supplies:

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]**

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]

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.

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]

Government presents drafts of the necessary legislative and organisational measures to implement the above-mentioned Action Plan to the European Commission. [Q4-2012]

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]

#### *Quality of statistics*

The ongoing 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.

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

**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.

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]**

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]**

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]**

The Government identifies the schemes for which lump sums paid on retirement are out of line with contributions paid, and adjusts the payments. **[Q1-2012]**

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]**

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.

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.

## ***2.8 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.

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**.

More specifically, the following measures are implemented:

#### *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**.

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).

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**]

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 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.

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]

#### *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]

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]

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 below 15 percent.

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.

Starting from Q1-2012, the wholesalers' profit margins are reduced to converge to 5 percent upper limit.

#### *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]
- 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]

- 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 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]**
- 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]**
- 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]**
- 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]**
- 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]**
- 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 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]**
- continuously updates the positive list of reimbursed medicines using the reference price system developed by EOF. **[Q1-2012]**
- 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]**

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]

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]

#### *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. 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]
- 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]
- 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]
- 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]
- 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]
- making it compulsory for physicians to prescribe by international non-proprietary name for an active substance, rather than the brand name. [Q1-2012]
- 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]

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]

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]

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]

#### *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]

The government starts publishing a quarterly report on the prescription and expenditure of diagnostic tests. [Q1-2012]

#### *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.

A first annual report comparing hospitals performance on the basis of the defined set of benchmarking indicators will be published by **end-March 2012**.

*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]

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]

*Accounting and control*

Internal controllers are assigned to all hospitals and all hospitals adopt commitment registers. [Q1-2012]

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]

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]

*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]

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]
- 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]

- 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]
- enforcing the collection of co-payments and implementing mechanisms that fight corruption and eliminate informal payments in hospitals. [Q2-2012]

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]

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]

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]

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]

#### *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]

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]

Government puts in place the procurement monitoring mechanism. [Q1-2012]

#### *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]**

### 3 FINANCIAL SECTOR REGULATION AND SUPERVISION

#### *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**.

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**.

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.

#### *Recapitalization and resolution actions.*

Banks will be given time to raise capital in the market. 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.

Banks submitting viable capital raising plans will be given the opportunity to apply for and receive public support in a manner that preserves private sector incentives to inject capital and thus minimizes the burden for taxpayers. Specifically, banks will be able to access capital from the Hellenic Financial Stability Fund (HFSF) through common shares and contingent convertible bonds.

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**.

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.

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.

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.
- *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.
- *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.

- *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.

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 expected timeline for bank resolution and recapitalization, and requirements for continued ECB liquidity support.

The Bank of Greece is committed to preserve continued access to central bank liquidity support. The Bank of Greece, as a member of the Eurosystem, stands ready to disburse adequate liquidity support in a timely manner. Adequate liquidity support in the near term 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.

**Prior to the disbursement**, the Government will enact legislation to strengthen governance arrangements in financial oversight agencies:

- *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.

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 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.

- *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.

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** .

The Bank of Greece will evaluate, by **Q1-2013**, the capacity of the insurance sector to assume social security/pension schemes. taking into consideration the under development Solvency II regime for institutions for occupational pensions (IORP Directive). In this regard, 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**.

## 4 GROWTH-ENHANCING STRUCTURAL REFORMS

### ***4.1 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.

#### *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.

#### *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.

#### *Measures to foster the re-negotiation of collective contracts*

**Prior to the disbursement**, legislation on collective 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.

#### *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.

- 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.

#### *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.
- 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**].

#### *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 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.

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**].

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.

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**]



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

### *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 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;
- stevedores (loaders for land operations at central markets);
- sworn-in valuers;
- accountants and tax consultants;
- actuaries;
- temporary employment companies;
- private labour consultancy offices;
- tourist guides;
- real-estate brokers.

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**.

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.

#### 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.

#### 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]
- 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]
- 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]
- The Government identifies ways of decoupling taxation, social contributions, distribute funds (if applicable) and payments to the professional associations from legal fees. [April 2012]
- 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]

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]
- 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]

#### 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**.

**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 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.
- 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.

#### *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 (*cf.* the section on business environment). The Government also adopts changes to the remaining sectoral regulation, ensuring full compliance with the directive.

Regulations should:

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

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.
- Law on real estate agents.
- Presidential Decree abolishing the economic test for the opening of slaughter houses.

The Government carries out a proportionality analysis of the restrictions applied on outdoor / ambulant trade for social policy criteria. [Q1-2012]

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]

#### *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]

#### *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]
- 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 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]
- 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]
- 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]
- 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]
- 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]
- 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 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 statutes 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]
- 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]
- 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]
- 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]
- 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]

#### 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]
- Issues the Joint Ministerial Decision on standardised environmental terms for industrial activities provided for in Art. 36.1 of Law 3982/2011. [March 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]
- Issues the Presidential Decrees on preconditions for obtaining a licence for electricians provided for in Art. 4.4 of Law 3982/2011. [May 2012]
- Issues the Presidential Decree on Certified Inspectors provided for in Art. 27.4 of law 3982/2011. [Q2-2012]
- Issues the Joint Ministerial Decision on the process of licencing business parks provided for in Art. 46.6 of law 3982/2011. [March 2012]

#### 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]

- Issues the Ministerial Decisions 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; and ii) in Art. 2.13 of Law 4014/2011 to further specify the procedure and specific criteria for environmental licencing. [Q2-2012]

### 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]

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.

### 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.

The Government completes the revision of the 12 regional spatial plans to make them compatible with the sectoral plans on industry, tourism, aquaculture and renewable energy. [Q4-2012]

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].

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]
- *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.
- *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.
- *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 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.
- *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]
- 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]

*Transport*Road

A report is submitted on the functioning of the regular passenger transport services (KTEL), presenting options for liberalisation. [Q1-2012]

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.

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]

### Ports

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]

### 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 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]

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]

### *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]**

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]**

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.

#### 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]**

The Government starts implementing the measures ensuring the access by third parties to lignite-fired electricity generation. **[Q3-2012]**

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]**

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.

#### 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]**

The Government removes regulated tariffs for all but vulnerable consumers **[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]

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]

The Government pursues implementation of the renewable energy project 'Helios,' through legislation [Q1-2012], facilitation of licencing process [Q2-2012] and cooperation with other EU countries for the export of solar energy.

### 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 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 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.
- 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]

### *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]

The Government adopts the provisions instituting EETT as a One-Stop Shop for the licensing of antennae and base stations. [end-February 2012]

The Law transposing the 2009 Reform Package (*i.e.*, Directive 2009/140/EC and Directive 2009/136) is adopted by Parliament. [Q1-2012]

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]
- completes the studies on the evaluation of the value of the Digital Dividend and on the strategy for the granting of the Digital Dividend (800 MHz band). [Q1-2012].
- 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]
- launches the consultation for the amendment of the frequency and broadcasting plans. [Q2-2012]
- amends the frequency and the broadcasting plans, depending on the outcome/actual state of play of international coordination. [Q3-2012]
- adopts necessary secondary legislation for the assignment of licenses for broadcasting and for the establishment of licensing procedures, antennae specifications, etc. [Q3-2012]
- launch the public consultation on the tender procedure for the assignment of the digital dividend to broadband. [Q4-2012]
- proceed to the tender for the assignment of definitive rights of use for broadcasting transmission. [Q1-2013]
- 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]

#### *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 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.
- 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]**

#### ***4.3 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.

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]**

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

|   | <b>2012</b>       | <b>2013</b>  |
|---|-------------------|--------------|
| European Regional Development Fund (ERDF) and Cohesion Fund | 2,850             | 3,000        |
| European Social Fund (ESF)                                  | 880               | 890          |
| Target of first half of the year                            | 1,231 (*)         | 1,284        |
| <b>Total annual target</b>                                  | <b>3,730 (**)</b> | <b>3,890</b> |

(\*) of which, 5 major project applications

(\*\*) of which, 15 major projects applications

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]

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-eligible expenditure (i.e. land acquisitions) in the framework of the 2007-13 operational programmes. [Q2 2012]

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]

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**.

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]

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.
- 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.
- create a central database monitoring compensation and the time elapsed for the completion of expropriations incurred in the framework of the implementation of projects co-financed by the ERDF and the Cohesion Fund.

#### ***4.4 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]

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

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

- (a) ensures effective and timely enforcement of contracts, competition rules and judicial decisions;
- (b) increases efficiency by adopting organisational changes to courts;
- (c) speeds up the administration of justice by eliminating backlog of court cases and by facilitating out-of-court settlement mechanisms.

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]

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 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.

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]

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]

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.

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]**

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]**

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]**

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**.

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 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]**

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]**

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]**

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 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]**



## 5 MONITORING AND TECHNICAL ASSISTANCE

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.

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.

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.

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**.

## Annex 1: Provision of data

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

These data should be sent to the following e-mail address:

[ecfin-greece-data@ec.europa.eu](mailto:ecfin-greece-data@ec.europa.eu)

This address should also be used for the transmission of other data and reports related to the monitoring of the programme.

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

|   |  |
|---|--|
| <p>Monthly data on staff: number of employees, entries, exits, transfers among government entities; and from and into the labour reserve, per entity.</p> <p><i>(Data compiled by the Ministries of Interior and Finance)</i></p>   | <p>Monthly, 30 days after the end of each month.</p>   |
| <p>Weekly information on the Government's cash position with indication of sources and uses as well of number of days covered.</p> <p><i>(Data compiled by the Ministry of Finance)</i></p>   | <p>Weekly on Friday, reporting on the previous Thursday.</p>   |
| <p>Data on below-the-line financing for the general government.</p> <p><i>(Data compiled by the Ministry of Finance)</i></p>  | <p>Monthly, no later than 15 days after the end of each month; these data should also be included in subsequent transmissions in case of revision.</p> |
| <p>Data on expenditure pending payment (including arrears) of the general government, including the State, local government, social security, hospitals and legal entities.</p> <p><i>(Data compiled by the Ministry of Finance on the basis of basic data from the several line ministries)</i></p>  | <p>Quarterly, within 55 days after the end of each quarter.</p>  |
| <p>Data on use of international assistance loans split among following categories: Financial stability fund, escrow account, debt redemption, interest payments, other fiscal needs, building of cash buffer; per quarter and cumulative</p>  | <p>Quarterly, by the end of each quarter.</p>  |
| <p>Data on public debt and new guarantees issued by the general government to public enterprises and the private sector.</p> <p>Data on maturing debt (planned redemptions per month, split between short-term (Treasury bills and other short-term debt) and long-term (bonds and other long-term) debt).</p> <p>Data on planned monthly interest outflows.</p> <p><i>(Data compiled by the Ministry of Finance)</i></p> | <p>Monthly, within one month.</p>  |

|   |   |
|---|---|
| <p>Data on assets privatised and proceeds collected.</p> <p><i>(Data compiled by the Ministry of Finance)</i></p>   | <p>Monthly.</p>   |
| <p>Data on state-owned enterprises: revenue, costs, payroll, number of employees and liabilities (including maturities of public enterprises' debts)</p> <p><i>(Data compiled by the Ministry of Finance)</i></p>   | <p>Monthly, within three weeks of the end of each month for the ten largest enterprises. Quarterly within three weeks of the end of each quarter for the other enterprises. Quarterly for the maturities of state-owned enterprises' liabilities.</p> |
| <p>Monthly statement of the transactions through off-budget accounts.</p> <p><i>(Data compiled by the Ministries of Finance and Education)</i></p>  | <p>Monthly, at the end of each month.</p>   |
| <p>Monthly statement of the operations on the special accounts.</p> <p><i>(Data compiled by the Ministry of Finance)</i></p>  | <p>Monthly, at the end of each month.</p>   |
| <p>Report on progress with fulfilment of policy conditionality.</p> <p><i>(Report prepared by the Ministry of Finance)</i></p>  | <p>Quarterly before the respective review starts.</p>   |
| <p>Monthly data on health care expenditure by the social security funds with a lag of three weeks after the end of the respective quarter.</p> <p><i>(Data compiled by the Ministries of Labour and Health)</i></p> | <p>Monthly, within three weeks of the end of each month. Starting with data for January 2011 for EOPPY, and from April 2011 on for the other funds</p>  |

**To be provided by the Bank of Greece**

|   |  |
|---|--|
| Assets and liabilities of the Bank of Greece.   | Weekly, next working day.  |
| Assets and liabilities of the Greek banking system - aggregate monetary balance sheet of credit institutions. | Monthly, 30 days after the end of each month.                                    |
| Evolution of the external funding provided by Greek banks to their subsidiaries abroad.                       | Monthly, 15 days after the end of each month.                                    |
| Report on banking sector liquidity situation.   | Weekly, next working day.  |
| Report on the evolution of financial stability indicators.  | Quarterly, 30 days after the publication data of each quarter.                   |
| Report on results from the regular quarterly solvency assessment exercise.                                    | Quarterly, 15 days after the end of each quarter depending on data availability. |
| Weighted average of Loan-to-value (LTV) ratio for new loans with real estate collateral                       | Yearly.  |

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

|  |                           |
|--|---------------------------|
| Detailed report on the balance sheet of the Financial Stability Fund with indication and explanation of changes in the accounts. | Weekly, next working day. |
|--|---------------------------|

**Annex 2: Statistics to be published by the Ministry of Justice or Ministry of Finance**

- (a) *by end-March 2012*, for each administrative tribunal, court of appeal and the supreme administrative court:
- (i) the number of judges and administrative staff, with a breakdown for judges working in tax chambers or dealing primarily with tax cases;
  - (ii) the number of all cases;
  - (iii) the number of cases carried over from 2011;
  - (iv) the number of cases filed in the first quarter of 2012;
  - (v) the number of tax cases, with a breakdown according to case value (up to EUR 10 000, EUR 10 001 to EUR 50 000, EUR 50 001 to EUR 100 000, EUR 100 001 to EUR 500,000, and above EUR 500 000);
  - (v) the number of tax cases carried over from 2011;
  - (vi) the number of tax cases filed in the first quarter of 2012;
  - (vii) the recovery rate for all tax cases, which for the purposes of the MoU, shall mean the ratio of the amount collected by the creditor in enforcement proceedings – following the issuance of an enforceable title – to the amount adjudicated by the court.
- (b) *by end-June 2012*, in addition to the information in (a) above, updated as necessary, for each civil court, court of appeal and the supreme civil court:
- (i) the number of judges and administrative staff;
  - (ii) the number of all cases;
  - (iii) the number of cases carried over from 2011;
  - (iv) the number of cases filed in the first two quarters of 2012;
  - (v) the number of dormant cases, i.e. cases pending before the civil courts in which the relevant court's file records that they have been postponed or never received a hearing date and no party activity for receiving a hearing date has taken place for at least 18 months.
- (c) *by end-September 2012*, in addition to the information in (a) and (b) above, updated as necessary, at the first instance and the appeal level:
- (i) the number of corporate insolvency cases;
  - (ii) the average duration of corporate insolvency cases;
  - (iii) the average cost of corporate insolvency cases;
- (d) *by end-December 2012*, quarterly updates of the information in (a) to (c) above.

## Abbreviations

|        |  |
|--------|--|
| ASEP   | Supreme Council for Staff Selection                        |
| CPB    | Central Purchasing Bodies                                  |
| DEPA   | Public Gas Corporation                                     |
| DRG    | Diagnostic-Related Group                                   |
| DSO    | Distribution System Operator                               |
| ECB    | European Central Bank                                      |
| EEA    | European Economic Area                                     |
| EETT   | Hellenic Telecommunications and Post Commission            |
| EFSF   | European Financial Stability Facility                      |
| EKEVYL | National Centre for Medical Technology                     |
| ELSTAT | Hellenic Statistical Authority                             |
| EOF    | National Organisation for Medicines                        |
| EOPYY  | National Organisation for the provision of Health services |
| EPY    | Health Procurement Commission                              |
| ERDF   | European Regional Development Fund                         |
| ESA    | European System of Accounts                                |
| ESF    | European Social Fund                                       |
| ESY    | National Health System                                     |
| EU     | European Union   |
| GDP    | Gross Domestic Product                                     |
| GEMI   | General Commercial Registry                                |
| HRADF  | Hellenic Republic Asset Development Fund                   |
| IDIKA  | E-governance of social insurance                           |
| IMF    | International Monetary Fund                                |
| KTEL   | Joint Fund for Bus Receipts                                |
| LNG    | Liquefied Natural Gas                                      |
| LTV    | Loan-to-value  |
| MEFP   | Memorandum of Economic and Financial Policies              |
| MTFS   | Medium-Term Fiscal Strategy                                |
| NHS    | National Health System                                     |
| OASA   | Athens Urban Transport Organisation                        |
| OECD   | Organisation for Economic Cooperation and Development      |
| OGA    | Agricultural Insurance Organisation                        |
| OSE    | Railway Organisation of Greece                             |
| OTE    | Hellenic Telecommunication Company                         |
| PPC    | Public Power Corporation                                   |
| PSC    | Point of Single Contact                                    |
| RAE    | Regulatory Authority for Energy                            |
| RSPP   | Radio Spectrum Policy Programme                            |
| SPA    | Single Payment Authority                                   |
| SPPA   | Single Public Procurement Authority                        |
| TAP    | trans-Adriatic pipeline                                    |
| TEN-T  | Trans European Transport network                           |
| TSO    | Transmission System Operator                               |
| WHO    | World Health Organisation                                  |